

關連資料 1 : 和文 PDM

プロジェクト要約 4	指標	入手手段	外部条件
<p><u>(上位目標)</u> マレーシア、特に BPIMB におけるインフラ金融に係るキャパシティが強化される</p>	<ul style="list-style-type: none"> 案件形成時における BPIMB の検討案件数 金融機関として政府にフィードバックを行った回数 	<ul style="list-style-type: none"> プロジェクトスクリーニング記録 政府提出文書 	
<p><u>プロジェクト目標</u> BPIMB のインフラ金融業務におけるプロジェクト管理システムおよびリスク管理システムが改善され融資能力が向上する</p>	<ul style="list-style-type: none"> リスクスコアリングを実施したプロジェクト数および割合 現状および将来のタイプ別プロジェクト数の推移 	<ul style="list-style-type: none"> リスクスコアリング記録 タイプ別融資プロジェクト記録 	<p>-改善した与信リスク管理システムが維持・更新され、継続して利用される。 -上位機関に BPIMB の機能強化が認知される</p>
<p><u>(成果)</u> 1 BPIMB のインフラ金融におけるリスク管理システムのキャパシティが強化される 2 BPIMB のプロジェクトリスク評価のノウハウが蓄積・共有化される 3 BPIMB のインフラ金融関連部門の人材育成能力が強化される 4 BPIMB のインフラ金融に係る組織改善の能力が高まる 5 マレーシアのインフラ金融における BPIMB の役割の方向性についての理解が深まる</p>	<ol style="list-style-type: none"> BPIMB のインフラ金融関連部門全体のリスク管理システム改善計画が策定される 体系化されたプロジェクトリスク管理のノウハウデータベース、主要サブセクターごとのファイナンシャルモデル、リスク評価マニュアルが整備される 養成された研修指導者の数、内部指導者によるセミナー実施回数および参加人数、研修参加者の理解度 BPIMB のインフラ金融に係る組織改善計画が策定される BPIMB のインフラ金融業務の方向性についての役職員の認識が収斂する 	<ol style="list-style-type: none"> BPIMB のインフラ金融関連部門全体のリスクマネジメントシステム改善計画 体系化されたノウハウデータベース、ファイナンシャルモデリング(FM)、マニュアル 研修実施記録、理解度測定結果(アンケートを実施) インフラ金融に係る組織改善計画 アンケート結果 	<p>-整備されたノウハウが実務に活用される</p>
<p><u>(活動)</u> (成果1の活動要約 BPIMB のインフラ金融関連部門全体のリスク管理改善策を検討する) 1-1 BPIMB のインフラ金融関連部門全体の企業評価/審査能力の現状を評価する 1-2 総合的なリスク管理のため融資方針、マニュアル類等の改善策を検討する 1-3 資産負債総合管理(ALM)およびリスク管理に係る計画およびシステムの改善策を検討する 1-4 資金調達および所要の情報公開改善策を検討する 1-5 政策金融機関としてのリスク管理体制整備プロセス、ノウハウ充実プロセスおよび融資リスク判断の実際についてのセミナーを実施する (成果2の活動要約 BPIMB のプロジェクトリスク評価ノウハウ蓄積システムを整備する) 2-1 融資プロジェクト事例とレッスンを整理する 2-2 ファイナンシャルモデリングを改善する 2-3 リスク評価マニュアルを改善する 2-4 ノウハウ共有のしくみを整備する 2-5 プロジェクトファイナンスノウハウのレピュートレーニングを実施する (成果3の活動要約 BPIMB のインフラ金融関連部門の研修制度を整備・充実する) 3-1 研修制度を整備・充実する(OJT/集合研修、階層別、分野別) 3-2 研修指導者を育成する 3-3 インフラ金融についての研修/セミナーを実施する (成果4の活動要約 BPIMB のインフラ金融に係る組織の見直しをする) 4-1 プロジェクトファイナンスの組織構造改善策を検討する 4-2 コンプライアンスおよびモニタリングに係る組織体制強化策を検討する (成果5の活動要約 BPIMB のインフラ金融の業務戦略を策定する) 5-1 BPIMB を取り巻く制度環境面の問題点を把握する 5-2 インフラ金融業務戦略を策定する幹部(役員およびシニアマネジャーを含む)を対象にセミナーを実施する 5-3 DFI ACT 施行後の外部環境の変化に対応した業務戦略(インフラ金融に関する明確な役割、方針等)を検討する</p>	<p style="text-align: center;"><u>(投入)</u></p> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <p style="text-align: center;"><u>マレーシア側</u></p> <ul style="list-style-type: none"> -タスクフォース (カウンターパートメンバー、ワーキングチームメンバー) -BPIMB 内部での作業用機材/スペース -適切な予算 -国内他機関との調整 </td> <td style="width: 50%; vertical-align: top;"> <p style="text-align: center;"><u>日本側</u></p> <p style="text-align: center;"><u>専門家</u></p> <ul style="list-style-type: none"> -短期専門家 -DBJ 研修講師 <p style="text-align: center;"><u>研修員受け入れ</u></p> <ul style="list-style-type: none"> -マレーシア側スタッフの日本研修/セミナー <p style="text-align: center;"><u>その他</u></p> <ul style="list-style-type: none"> -JICA Net 活用 -ローカルコンサルタントを活用したケーススタディの実施 </td> </tr> </table> <p><u>(前提条件)</u> BPIMB のインフラ業務に係る制度的フレームに変更がない</p>	<p style="text-align: center;"><u>マレーシア側</u></p> <ul style="list-style-type: none"> -タスクフォース (カウンターパートメンバー、ワーキングチームメンバー) -BPIMB 内部での作業用機材/スペース -適切な予算 -国内他機関との調整 	<p style="text-align: center;"><u>日本側</u></p> <p style="text-align: center;"><u>専門家</u></p> <ul style="list-style-type: none"> -短期専門家 -DBJ 研修講師 <p style="text-align: center;"><u>研修員受け入れ</u></p> <ul style="list-style-type: none"> -マレーシア側スタッフの日本研修/セミナー <p style="text-align: center;"><u>その他</u></p> <ul style="list-style-type: none"> -JICA Net 活用 -ローカルコンサルタントを活用したケーススタディの実施
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關連資料 2 : 事前評估調查 Minutes of Meeting

**MINUTES OF MEETING BETWEEN
THE JAPANESE PRELIMINARY STUDY TEAM
AND
BANK PEMBANGUNAN DAN INFRASTRUKTUR MALAYSIA BERHAD
ON JAPANESE TECHNICAL COOPERATION
FOR
THE PROJECT ON THE INSTITUTIONAL CAPACITY BUILDING ON
INFRASTRUCTURE FINANCE IN MALAYSIA**

The Japanese Preliminary Study Team (hereinafter referred to as "the Team") organized by the Japan International Cooperation Agency (hereinafter referred to as "JICA") stayed in Malaysia from December 7 to December 18, 2003 for the purpose of working out the details of the technical cooperation project, namely "The Institutional Capacity Building on Infrastructure Finance Project in Malaysia" (hereinafter referred to as "the Project").

During its stay in Malaysia, the Team exchanged views and held a series of discussions with the Bank Pembangunan dan Infrastruktur Malaysia Berhad (hereinafter referred to as "BPIMB") and the authorities concerned in Malaysia with respect to measures to be taken by both Governments for the successful implementation of the above-mentioned Project.

As a result of the discussions, the Team and BPIMB mutually consented to recommend to their respective Governments the matters referred to in the document attached hereto.

Kuala Lumpur, December 18, 2003

勝又 晋

Mr. Susumu Katsumata
Leader,
Japanese Preliminary Study Team,
Japan International Cooperation
Agency



Dato' Haji Abdul Rahim Bin Mohd Zin
Managing Director/CEO,
Bank Pembangunan dan Infrastruktur
Malaysia Berhad

ATTACHED DOCUMENT

I. Purpose of the Preliminary Study

The purpose of the Preliminary Study is to identify the purpose, expected outputs and activities of the Project through discussions among the Team, BPIMB and the authorities concerned in Malaysia.

II. Background of the Project

BPIMB has been striving to improve its system and organization in order to play a significant role in the development of the country's infrastructure under the Eighth Malaysia Plan, ever since it was entrusted in 1999 by the Government to finance infrastructure projects, in addition to its primary role as a Development Financial Institution (DFI) to finance small and medium Bumiputera enterprises.

Japan, corresponding to this new development, has placed the technical cooperation project for BPIMB under JICA's Financial Sector Human Resources Development Program, which is in line with Japan's aid principles for Malaysia such as strengthening of economic competitiveness and human resources development. So far JICA has dispatched a financial advisor between 2000 and 2002 for assisting BPIMB establishing its infrastructure finance operation, and three infrastructure sector financial advisors in 2003 for identifying issues to be addressed regarding BPIMB's infrastructure finance operation. JICA has also conducted a training course on project finance techniques every once a year between 2001 and 2003, to each of which BPIMB sent two employees.

In the past few years, the Government of Malaysia has taken up various reform measures to strengthen DFI capacities. In March 2001, the Government mapped out the Financial Sector Master Plan (FSMP) with a view to strengthening the financial sector as an institutional infrastructure that is sound enough to promote the country's further economic growth. FSMP was especially determined to strengthen DFIs' operation system as a part of financial system for the country as a whole. With the Development Financial Institutions Act (DFIA) coming into effect in February 2002, all the DFIs including BPIMB, operationally separated from the government, were recommended by BNM effective implementation of their mandated roles, efficient provision of financial services and obtainment of a sound financial footing as a financial institution.

Although four years have passed since its inception of infrastructure finance operation, BPIMB's infrastructure finance sector faces urgent needs to further strengthen staffs' capacities and to establish an efficient financing mechanism, as this sector requires a quite different expertise from the conventional financing skills for SMI. In addition, BPIMB has become further pressed to implement its reform measures ever since the DFIA came into effect. Under this context, BPIMB requested the Government of Japan to continue the dispatch of experts

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and to provide BPIMB the continuous support for its human resources development and for strengthening its credit risk management capacities by individual infrastructure projects and by the Bank as a whole.

III. Fact Finding for the Formulation of the Project

1. Results of interviews with the authorities concerned in Malaysia

Through discussions with BPIMB and the authorities concerned in Malaysia, the Team analyzed the institutional framework related to BPIMB as well as the current situation of BPIMB's infrastructure finance operation, and confirmed that mainly the following five issues need to be addressed, in order to enhance institutional capacity of BPIMB's infrastructure finance operation.

- Exposure to financial risks for Infrastructure Banking Sector of BPIMB is yet to be clarified. The Government leads the decision-making at the project formation and investment stages, leaving less scope for BPIMB to make its own financial decisions. In spite of receiving the Government support letter for infrastructure projects, the extent of BPIMB's financial responsibility is still ambiguous.
- Risk management capacity of Infrastructure Banking Sector is required to be reinforced so as to strengthen its financial discipline under the DFIA. BPIMB must gather speed in adopting further reforms from the viewpoint of strengthening institutional soundness under the DFIA.
- Systematic compilation of the know-how on long-term credit analysis, which provides the basis for infrastructure finance, in BPIMB is yet to be developed. There is a remarkable difference between the know-how of BPIMB's conventional lending to indigenous SMI and that of long-term credit analysis, which provides the basis for infrastructure and project finance that BPIMB aims to establish. Since the latter requires an effective risk management system of the Bank as a whole as well as the know-how of company management and project appraisals, BPIMB must improve its risk management system as well as build up the basic know-how of long-term credit analysis.
- Infrastructure and project finance operation system can still be significantly enhanced. Four years has passed since the inception of Infrastructure Banking Sector in BPIMB, but it still needs to learn and master new financial methods and practices that differ from the conventional ones. Accordingly, operational structure and institutional capacities of BPIMB will require much more time to build up.
- BPIMB has not established regular training programs on the continuous human resource development for infrastructure and project finance.

2. Draft Project Design Matrix

JICA and BPIMB will collaborate on the Project. Based on this confirmation, the Team and BPIMB cooperated to prepare a draft of the Project Design Matrix (hereinafter referred to as the "PDM") described in Annex I. The PDM presents the Project components, namely, the overall goal, project purpose, outputs, activities, necessary inputs, as well as the important assumptions and the pre-conditions of the Project.

IV. The Outline of the Project

The Tentative Master Plan of the Project based on the PDM draft is as follows:

1. Project Title

The Team and BPIMB agreed the Project title as "The Institutional Capacity Building on Infrastructure Finance Project in Malaysia".

2. Beneficiaries of the Project

(1) Direct Beneficiary

Bank Pembangunan dan Infrastruktur Malaysia Berhad (BPIMB)
(Infrastructure Banking Sector's senior managers, managers and officers)

(2) Other beneficiaries

Bank Pembangunan dan Infrastruktur Malaysia Berhad (BPIMB) (Board Of
Directors and Senior Management)

Ministry of Finance (MOF)

Bank Negara Malaysia (BNM)

Economic Planning Unit (EPU)

3. Overall Goal

Infrastructure finance capacity in Malaysia, especially that of BPIMB, is strengthened.

4. Project purpose

Project management system and risk management system of infrastructure banking operation in BPIMB with emphasis on credit risk management are improved.

5. Expected Outputs

(1) Plan for improving risk management system for infrastructure finance is formulated.

(2) Knowledge accumulation system on project risk evaluation is organized.

(3) Human resource development concerned with infrastructure finance is

strengthened.

- (4) Organizational improvement plan related to infrastructure finance is formulated.
- (5) Strategies of infrastructure finance operation are formulated.

6. Expected Activities

- (1)-1 Assess the current capacity of infrastructure finance sector to make corporate and project appraisal
- (1)-2 Examine improvement measures for organize loan policy, manuals, etc. (for overall risk management)
- (1)-3 Examine improvement measures for Asset Liability Management (ALM) and risk management system
- (1)-4 Examine improvement measures for fund mobilization and necessary disclosure
- (1)-5 Hold workshop on process for establishing risk management system, for upgrading know-how and practical risk judgment as a policy-based finance institution

- (2)-1 Review cases of loan projects and accumulate lessons learned
- (2)-2 Improve financial modeling
- (2)-3 Improve risk evaluation manuals
- (2)-4 Develop a system for know-how sharing
- (2)-5 Hold review training on know-how of project finance

- (3)-1 Improve training system (On-the-job training/group training)
- (3)-2 Train trainers
- (3)-3 Hold training/seminar on infrastructure finance

- (4)-1 Examine improvement measures for organizational structure for infrastructure finance
- (4)-2 Examine improvement measures for organizational strengthening related to compliance and monitoring

- (5)-1 Understand institutional issues related to BPIMB
- (5)-2 Hold seminar for executives, including Board Of Directors and Senior Management who are to establish the strategy of infrastructure finance operation
- (5)-3 Examine strategies for coping with institutional changes under the DFIA (i.e. clear mandate and policy for infrastructure financing)

7. Duration of the Project

The Project will be approximately one and half (1.5) years from the Japanese Fiscal Year 2004 to Fiscal Year 2005.

8. Measures to be taken by both sides

For the implementation of the Project, both sides will take the necessary measures as follows:

8-1. Japanese side

The Japanese side will take the following measures at its own expense:

- (1) Dispatch of Japanese experts
 - Short-term experts
 - Lecturers from Development Bank of Japan
- (2) Training of Malaysian personnel(s) in Japan
- (3) Utilization of JICA-Net

The detailed contents regarding the experts and training in Japan will be determined through further evaluation of the Project.

8-2. The Malaysian side

The Malaysian side will take the following measures.

- (1) To establish a Joint Coordinating Committee (JCC) to supervise and manage the Project that will consist of representative from BPIMB, MOF, EPU, BNM, JICA and JICA experts (EOJ is invited if the necessity is arisen).
- (2) To establish a Taskforce composed of the Counterpart members and the Working Team members, for implementation of the Project
(Organizational structure for project supervision/management and implementation is shown in Annex II)
- (3) To assign adequate number of staff necessary for implementation of the Project as Taskforce members, including administrative staff.
- (4) To provide working facilities necessary for implementation of the Project.
- (5) To make necessary arrangements to secure adequate budget for implementation of the Project as follows:
 - a. Salaries and other allowances for the Malaysian counterpart personnel
 - b. Expenses such as electricity, water, gas fuel and local telecommunication
 - c. Other contingency expenses related to the Project incurred by Malaysian counterpart
- (6) To coordinate with institutions that are involved in providing services regarding to Project Finance, if necessary.
- (7) To ensure the following Management Information Systems are in place:
 - a. Project Monitoring
 - b. Project Profitability
 - c. Portfolio Management
 - d. Risk Management
 - e. Budgetting
 - f. Fund Monitoring

V. Evaluation and Monitoring Systems of the Project

Evaluation of the project will be jointly conducted by the evaluation team(s) consist of JICA and the Malaysian counterparts in JCC, before the end of

cooperation term in order to examine the level of achievement.

The Japanese experts and BPIMB will jointly conduct quarterly review on the progress of the project, in order to secure efficiency and effectiveness of the Project.

VI. Others

1. Information Security

Considering the nature of the Project as well as activities at BPIMB, the Malaysian side requests the followings relevant to the information security :

- (1) All members of the JICA expert team must maintain confidentiality of all information given by BPIMB at all times throughout the Project (from preliminary until completion of the project).
- (2) All information provided by BPIMB is for JICA expert team's utilisation for the purpose of the Project only.
- (3) Any use or publication of the information provided by BPIMB under this Project must get BPIMB's prior consent.

The Team mentioned that the requests of the Malaysian side is considerable. The Team further explained that the progress and result of the Project are to be reported to JICA and the relevant ministries of Japan, as well as to be accountable to the Japanese nationale.

The details on the information security are to be discussed by the both sides at the later stage.

2. Training of Malaysian personnel in Japan

The objective of the training is to strengthen infrastructure finance capacity in BPIMB.

BPIMB will identify the special sub-sectors and the sub-sectors to be mutually agreed later.

(1) Types of training

- (a) Attachment to relevant infrastructure financing institutions
- (b) Exchange of personnel
- (c) Joint Formal Training by Japanese related organizations to infrastructure financing institutions
- (d) Infrastructure project visits
- (e) Visit to infrastructure financing institutions

The above mentioned training program is based on cost sharing between JICA and BPIMB. The training program is subject to approval of special budget on Technical Cooperation Program by BPIMB.



(2) Schedule of training

No. of staff and duration of training to be determined and finalised in February 2004.

3. Continuity of the activities

Continuity of the activities of the Project will be ensured by the following measures:

(1) Quarterly review

The Japanese experts and BPIMB will jointly review the Project implementation quarterly, to grasp the progress of the work so far and to make detailed work plans for the next quarter.

(2) Function of the Working Team members

The Working Team members will function to coordinate works within BPIMB, and to keep close contact with the Japanese experts, while the Japanese experts do not work in Malaysia.

(3) Utilization of JICA-Net for review sessions

The Japanese experts and BPIMB will conduct a review session, basically once a month, using JICA-Net. Monthly review session will reinforce continuity of the activities while the Japanese experts do not work in Malaysia.

4. Case studies to be conducted by local consultants

(1) BPIMB will identify the special sub-sectors and the sub-sectors to be mutually agreed later.

(2) The local consultants to be appointed by the Project Team or JICA Malaysia Office

(3) Expenses of the appointment of local consultant to be borne by JICA

5. Submission of the list of works done by BPIMB and works to be done, concerning each activity item of the Tentative Master Plan of the Project

In order to secure efficiency of the Project implementation, the Team requested and BPIMB agreed to submit the list of works done by BPIMB so far and works to be done in the future, concerning each activity item of the Tentative Master Plan of the Project, by January 15th, 2004.

BPIMB stressed that the following outputs to be completed by September 2004:

(1) Plan for improving risk management system for the infrastructure finance

(2) Organizational improvement plan

(3) Strategies of infrastructure finance operation

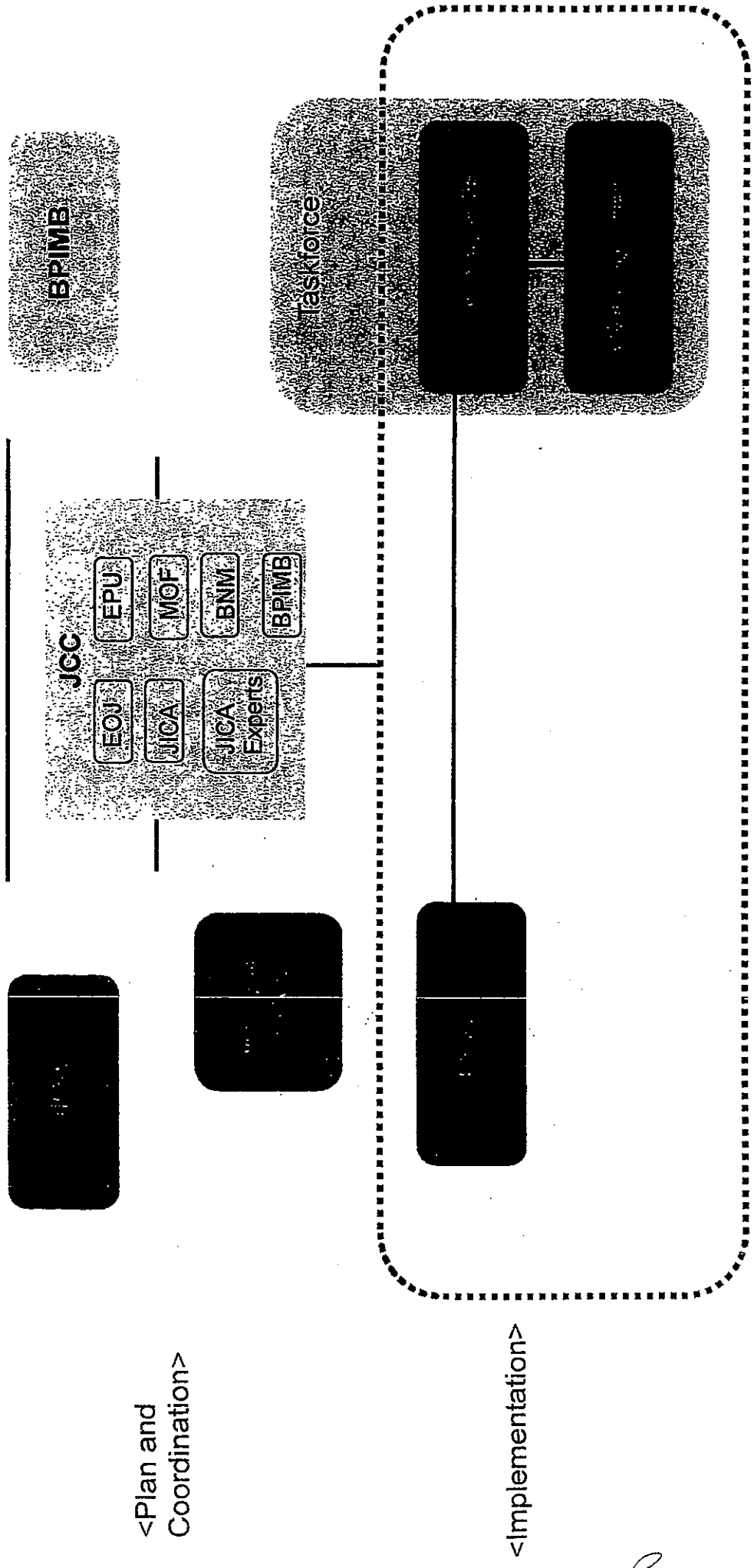
Project Name: Institutional Capacity Building on Infrastructure Finance in Malaysia Duration: April 2004-September 2005 Ver. No.:
 Target Area: Kuala Lumpur Target Group: Bank Pembangunan dan Infrastruktur Malaysia Berhad (BPIMB) Date:

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>Overall Goal Infrastructure finance capacity in Malaysia, especially that of BPIMB, is strengthened.</p>	<p>-Number of project screening at project formulation stage -Number of conducting feedbacks of issues to the government as financial institution</p>	<p>-Record of project screening -Document of feedback to the government</p>	<p>-Credit risk management system of infrastructure finance system in BPIMB is maintained/updated and continues to be utilized.</p>
<p>Project Purpose Project management system and risk management system of infrastructure banking operation in BPIMB with emphasis on credit risk management are improved.</p>	<p>-No. and ratio of project which has been assigned risk scoring</p>	<p>-Risk scoring record</p>	<p>-Systemized know-how is utilized for practice</p>
<p>Outputs</p> <ol style="list-style-type: none"> Plan for improving risk management system for infrastructure finance is formulated Knowledge accumulation system on project risk evaluation is organized. Human resource development concerned with infrastructure finance is strengthened. Organizational improvement plan related to infrastructure finance is formulated. Strategies of infrastructure finance operation are formulated. 	<ol style="list-style-type: none"> Plan for improving risk management system for the infrastructure finance is formulated Know-how database, financial modeling for sub-sectors, risk evaluation manuals are completed Number of trained trainers, number of seminars conducted by trained trainers and number of participants, degree of understanding by participants Organizational improvement plan is prepared Strategies of infrastructure finance operation is prepared 	<ol style="list-style-type: none"> Improvement plan Know-how database, financial modeling for sub-sectors, manuals Record of training, questionnaires Organizational improvement plan Strategies 	<p>-Trained staff continue working at BPIMB -Counter part members continue working at BPIMB</p>
<p>Activities</p> <ol style="list-style-type: none"> 1-1 Assess the current capacity of infrastructure finance sector to make corporate and project appraisal 1-2 Examine improvement measures for organizing loan policy, manuals, etc. (for overall risk management) 1-3 Examine improvement measures for ALM and risk management system 1-4 Examine improvement measures for fund mobilization and necessary disclosure 1-5 Hold workshop on process for establishing risk management system, for upgrading know-how and practical risk judgment as a policy-based finance institution 2-1 Review cases of loan projects and accumulate lessons learned 2-2 Improve financial modeling 2-3 Improve risk evaluation manuals 2-4 Develop a system for know-how sharing 2-5 Hold review training on know-how of project finance 3-1 Improve training system (OJT/group training) 3-2 Train trainers 3-3 Hold training/seminar on infrastructure finance 4-1 Examine improvement measures for organizational structure for infrastructure finance 4-2 Examine improvement measures for organizational strengthening related to compliance and monitoring 5-1 Understand institutional issues related to BPIMB 5-2 Hold seminar for executives, including Board Of Directors and Senior Management who are to establish the strategy of infrastructure finance operation 5-3 Examine strategies for coping with institutional changes under DF1 Act (i.e. clear mandate and policy for infrastructure financing) 	<p>Inputs</p> <p><i>Malaysian Side</i></p> <ul style="list-style-type: none"> -Task Force (Counterparts & Working Team) -Working facilities in BPIMB -Adequate budget -Coordination with local institutions -Management Information System <p><i>Japanese Side</i></p> <ul style="list-style-type: none"> -Experts -Short-term experts -DBJ lecturers -Training personnel(s) in Japan -Others -Utilization of JICA-Net -Case studies by local consultants 	<p>Pre-conditions</p> <ul style="list-style-type: none"> -Institutional framework related to infrastructure finance operation of the BPIMB does not change. 	

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Structure of Project Management/Implementation



關連資料 3： 要請書



BANK PEMBANGUNAN

Bank Pembangunan & Infrastruktur
Our Ref. : S-PINF/J-PPP:911/2

ms/IR-040 P-2/8

27 JUN 2003

Mr. Toshio Hida
Resident Representative
JICA Malaysia Office
Suite 29.03, Level 29
Menara Citibank
165, Jalan Ampang
50450 Kuala Lumpur

Dear Sir,

RE : INDIVIDUAL EXPERT DISPATCH PROGRAMME

We refer to the letter dated 25 June 2003 sent by Mr. Juichiro Sasaki pertaining to the above.

Based on the discussion between JICA and BPIMB, we would like to request JICA to proceed to next stage of the above mentioned programme according to the attachment i.e. Draft Proposal for JICA's Technical Cooperation on Infrastructure Finance in Malaysia.

Please contact Mr Salim Saparman at telephone no. 26152896 or Ms Tan at telephone no. 26152948 if you have any query.

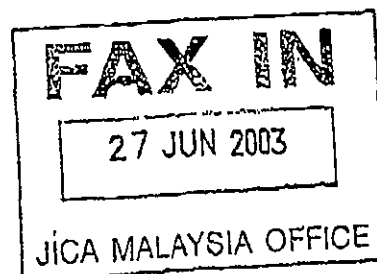
Thank you.

Yours faithfully,

(Signature)

(HAJI MOHD. RAMLI SAMIAN)
General Manager
Infrastructure Banking Sector

.../2



Bank Pembangunan & Infrastruktur Malaysia Berhad (16562-K)

Menara Bank Pembangunan
Jalan Sultan Ismail, Peti Surat 12352, 60774 Kuala Lumpur, Tel: 03-2615 2020, 2615 2628
Telefaks: 03-2692 8520, 2692 7168 Kawat: "BANKMAJU" Laman Web: www.bpimb.com.my

Origins

c.c. Director General.
Economic Planning Unit (EPU)
Prime Minister's Department
Block 5, Level 2
Fed. Government Administration Centre
62502 PUTRAJAYA

(Attn. : Madam Patricia Chia Yoon Moi
Director, External Assistance Section)

TFKL-JICA-25/08/03

**Draft Proposal for JICA's Technical Cooperation
on
Infrastructure Finance in Malaysia**

1. Background of the Project

Infrastructure Banking Sector of Bank Pembangunan & Infrastruktur Malaysia Berhad (hereinafter BPIMB) has conducted infrastructure finance since its establishment in 1999. BPIMB is expected to play an important role in infrastructure development in the Eighth Malaysia Plan 2001-2005. However, due to the lack of experiences in infrastructure finance, operation of Infrastructure Banking Sector of BPIMB needs to be further improvement.

In addition, the Government of Malaysia promulgated the Development Finance Institution Act in February 2002 based on Financial Master Plan in 2001. DFIs including BPIMB are recommended to enhance institutional capacities and operational structure from the viewpoints of effectiveness, efficiency and soundness.

2. Outline of the Project

2-1 Overall Goal

To improve the infrastructure financing system in Malaysia, particularly on BPIMB's activities.

2-2 Project Purpose

To improve *project management system and risk management system* of Infrastructure Banking Operation in BPIMB with emphasis on credit risk management under the given institutional framework.

2-3 Outputs

2-3-1 Overall

- 1) A brief report on the role, responsibility, and issues of Infrastructure Banking Sector of BPIMB by the taskforce members will be submitted to the board of directors. This report could be submitted to the concerned government organizations of Malaysia if the Board members would agree.
- 2) A proposal on overall risk management criteria (including funding requirements) of Infrastructure Banking Sector as a whole.

- 3) A Handbook for Infrastructure Finance which include Improved procedures and guidelines on project management system from planning, implementation, and monitoring as well as application of financial models. In the first year, credit risk management will be prioritized. In the second year, skills for pre-feasibility study at project formulation stage will be added.
- 4) Improved Human Resource Development Programmes for Infrastructure Banking Sector.
- 5) Review and rationalize Organization Structure on roles and functions of other related activities, e.g. credit risk function, risk assessment, funding, project monitoring and supervision.

2-3-2 Improvements in accordance with development stages of a project

- 1) Policies and Planning
 - a) A brief report on current status of infrastructure projects by sub-sector in Malaysia
 - b) A brief memo on key factors of success for typical infrastructure projects.
- 2) Appraisals of projects
 - a) Improved procedures and guidelines on project appraisals (concession contracts, technical aspects, and financial aspects)
 - b) A brief memo on credit risk management of a project
- 3) Extending credit

Improved procedures and guidelines on contracts, conditionalities, and disbursement
- 4) Monitoring

Improved procedures and guidelines on monitoring projects
- 5) Feedback to the Government

A brief memo on a prototype of a feedback report to the Government on credit risks of a project will be submitted to the board of directors.
- 6) Knowledge data base for infrastructure finance
 - a) A profile of each project financed by the Bank
 - b) Key factors of success for credit risk management
 - c) Name list of experts in and outside of BPIMB with regard to specific projects, sub-sectors, and/or financial expertise.

2.4 Project Activities

2.4.1 Overall

- 1) To advise on writing a brief internal report by the taskforce members on the role, responsibility, and issues of Infrastructure Banking Sector of BPIMB.

- 2) To advise on drafting a proposal on overall risk management criteria (including funding requirements) of Infrastructure Banking Sector as a whole.
- 3) To advise on drawing improved procedures and guidelines on project management system from planning, implementation, and monitoring.
- 4) To advise on drafting improved Human Resource Development Programmes for Infrastructure Banking Sector.

2-4-2 Improvements in accordance with development stages of a project

1) Policies and Planning

- d) To advise on writing a brief report on current status of infrastructure projects by sub-sector in Malaysia
- e) To advise on writing a brief memo on key factors of success for typical infrastructure projects.

2) Appraisals of projects

- a) To advise on drafting improved procedures and guidelines on project appraisals (concession contracts, technical aspects, and financial aspects)
- b) To advise on writing a brief memo on credit risk management of a project

3) Extending credit

To advise on drafting improved procedures and guidelines on contracts, conditionalities, and disbursement

4) Monitoring

To advise on drafting improved procedures and guidelines on monitoring projects

5) Feedback to the Government

To advise on writing a brief memo on a prototype of a feedback report to the Government on credit risks of a project and countermeasures.

5) Knowledge data base for infrastructure finance

- ① To advise on formulating a profile of each project financed by the Bank
- ② To advise on accumulating key factors of success for credit risk management
- ③ To advise on drawing name list of experts in and outside of BPIMB with regard to specific projects, sub-sectors, and/or financial expertise.

2-5 Inputs

2-5-1 From BPIMB

- 1) To establish a taskforce in BPIMB for JICA cooperation programme.
- 2) To conduct coordination work and studies with advices from JICA Experts.
- 3) To conduct training programmes with JICA support.

2-5-2 From the Government of Japan

- 1) To dispatch short-term experts with regard to the activities mentioned above.
- 2) To support training programmes for relevant staffs of BPIMB in Kuala Lumpur and Japan.
- 3) To support taskforce of BPIMB by mobilizing consultants in Malaysia for providing information in relation to infrastructure project development and finance in and out of Malaysia.

3 Implementation Schedule

- Refer to the attached "Cooperation Program".

4 Related Activities

Implementation of the following Plans and Act

- 4-1 Eighth Malaysia Plan 2001-2005
- 4-2 Financial Sector Master Plan, Bank Negara Malaysia, March 2001
- 4-3 Development Financial Institution Act, February 28, 2002
- 4-4 Auditing by Bank Negara Malaysia, March 2002
- 4-5 BPIMB's Five Year Corporate Plan 2001-2005

5 Beneficiaries

- 5-1 Staffs in Infrastructure Banking Sector of BPIMB.
- 5-2 Borrowers of infrastructure finance by BPIMB.
- 5-3 Other stake holders of infrastructure finance including public sector

Cooperation Programme XX 1st Priority, X 2nd Priority of each year

US / HR-040 P-8/8

Tasks	Responsible Dept.	Year 1	Year 2	Products
<p>A. Strengthening basics for infrastructure finance</p> <ol style="list-style-type: none"> 1. Compilation of basic know-how for infrastructure finance 2. Dissemination of Financial Modeling and risk evaluation techniques 3. Strengthening basics for corporate finance 4. Reviewing Policies, Guidelines and Procedures 5. Project Planning/Screening <ul style="list-style-type: none"> - eligibility of projects, applicants and priority of projects 6. Review and rationalize of Organization Structure on roles and functions of other related activities, e.g. credit risk function, risk assessment, funding, project monitoring and supervision 7. To develop monitoring system on project finance 8. Formulation of project data base 9. Human Resource Development 		XX	X	
<p>B. Upgrading application know-how for project finance by sub-sector</p> <ol style="list-style-type: none"> 1. To develop Financial Models by sub-sector 2. Compilation of key factor of success for project finance by sub-sector 		XX	X	
<p>C. Upgrading capabilities for technical assessment</p> <ol style="list-style-type: none"> 1. Assessment of completion and operational risks (budget, period, and quality of construction work by sector basis), and mitigation measures 2. Environmental risks 3. Accumulation of lessons to be learned 		XX	X	
<p>D. Enhancement of project support capabilities from the outset of development (identification of concept, promotion scheme, & coordination of stakeholders)</p>		X	XX	
<p>E. Enhancement of overall risk management system</p> <ol style="list-style-type: none"> 1. ALM and Risk Management System 2. Fund mobilization, rating and disclosure 3. Organizational structure for monitoring credit 4. Possible contribution to project development and management 			XX	
<p>F. Drafting strategies of BPIMB for coping with institutional changes under DFI Agt</p>			XX	

関連資料 4： クエスチョネア

Discussion Agenda on Meeting with BPIMB Concerning the Infrastructure Finance Operation

I. Issues Concerning Project Finance by Development Stage

1. Concept Identification Stage

1) Issues concerning the enhancement of project support capabilities from the outset of development (including those concerning *identification of concept, promotion scheme and coordination of stakeholders*)

- Is it possible for BPIMB to consider sending one of its employees with project finance skills to a client company from project identification stage and assisting the project formation as a member of the company taskforce?
- It is often the case that the key factors affecting the success or failure of a company's project formation became fixed with severe conditions even before the borrower requests are made. It is, therefore, crucial to lead the stakeholders to *share necessary risks beforehand, following the standard project finance procedures*. Do you think it possible to adopt a project-finance-style-risk-sharing system?
- For the very purpose, the Bank is required to have a high standard consulting ability. Do you have any plans to strengthen your employees' abilities?

2) Do you have any written guidelines or procedures concerning the project screening (or risk checking) at an early stage of development based on the nature, eligibility and profitability of the project concerned, *risk analyses and the ability of project owners (i.e., project implementing body)*?

2. Project Planning Stage

1) Basic policies concerning project approvals and priorities

(a) Improvement of credit approval policies (credit policy decisions), guidelines and procedures

- Please disclose the instruction manuals of project appraisals, credit approvals and loan procedures based on which BPIMB's current credit decisions are made.
- Please disclose the current situation concerning the degree of political intervention
- Please disclose information about the Bank's past experience of co-financing large-sized projects with international financial institutions (such as ADB and WB) and foreign banks, including the information on how conditionalities were decided among those cofinanciers

(b) Project Planning and Appraisals — Project's qualifications, implementing body and priorities

- How do you prioritize certain projects? Do you have any specific criteria for giving such priorities?
- Do you approve a project, at the time of project screening, based on the extent of risk inherent in assets and liabilities? In other words, from the ALM point of view, do you

consider setting a limit to the amount of risk-taking?

- 2) A specific criterion that distinguishes between the cases in which BPIMB chooses to become a lead agency/one of the lead agencies of a cofinanced project and those of becoming a member of syndication.
- 3) Operational procedures for building the project structure by BPIMB (or by other financial institution as a candidate for a lead agency) with potential sponsors, and the key issues involved in the process (such as reaching an agreement on a preliminary risk-sharing scheme/security package among the parties concerned)
- 4) Appraisal of royalty conditions laid down in the Concession Agreement between the project company concerned and the government/local authorities; and appeals made to the government for its revisions.
- 5) Management structure of a project company.
- 6) Appropriateness of procurement plans in terms of equity capital ratio, borrowing limits, syndication, etc.
- 7) In case BPIMB is to promote infrastructure finance from Public Private Partnership (PPP) point of view, how different will it be compared with that of public investment by the government in terms of development method, regulations and subsidies?

3. Implementation and Disbursement Stages

- 1) A general flow chart that shows an interactive relations among the interested parties as well as the financial arrangements for each stage of development from preparation stage, through construction start & completion stages to project operation stage (e.g., bridge finance by commercial banks at construction stage).
- 2) Current status and issues concerning the Bank's project implementation and loan disbursement system (e.g. office regulations on loan decisions including the loan approval authority and risk-checks by officers in charge of project appraisals, and regulations on risk management system).
- 3) Terms of lending (including credit limit, terms of repayment, interest rates & fees, security measures).
- 4) Risk coverage/risk reduction measures
- 5) Current status and issues concerning methods for evaluating engineering aspects of construction (including construction costs, construction quality, operational risks and risk reduction measures). Evaluations on environmental aspects of construction
- 6) Underwriting and syndication: negotiations using a *Term Sheet*
- 7) Legal and other contractual documentations (regarding restrictions on the project company concerned, coverage for default risks, project asset management, etc.)

- The current risk evaluation criteria (such as the rating by risk factor such as project owner, completion of construction, marketing, foreign exchanges, and local characters that varies from “risk zero” to “high risk”).
- Do you use any sort of credit rating system based on computerized grades?

4. Project Monitoring after Loan Disbursement

- 1) Follow up study on collateral conditions of loan disbursement including the auditing of project expenditures, financial statements and credit rating by the project finance department/branch in charge of loan disbursement.
- 2) A crosschecking system for reviewing individual lending by departments and branches other than the ones in charge of loan disbursement (such as departments in charge of credit risk management, appraisals and auditing/inspection), its justification and concrete measures.
- 3) Monitoring risk factors
 - A system by which one can constantly obtain information on the changes of risk factors such as economic environment and project owners (project implementing body).
 - Do you intend to acquire a real-time system that can inform you subtle changes in the extent of each credit risk?
 - Do you intend to establish a risk-monitoring system that gives you a warning of “Need to Respond Immediately” at times of increased risk for each project?
- 4) A crosschecking system for the establishment of the Bank’s overall risk management including ALM; its justification and concrete measures.

II . Issues Concerning the Enhancement of the Overall Risk Management System

1. Risk Management Systems and ALM

- In case BPIMB went into the red, is there any regulation that obliges the Government to take some measures to make up the deficit?
- Do you already have a risk-checking system in which each credit risk is re-evaluated on regular basis or at least at the end of each fiscal year?
- In case a warning “Need to Respond Immediately” is given to a certain project as a result of such re-evaluation, do you take any sort of risk coverage measures by regulation? E.g., Does the Appraisal/Inspection Department have an authority to instruct the Loan Department (in charge of the project concerned) to take steps; and in case the Loan Department cannot take effective measures following the instruction, do you have any regulation that provides guidelines and procedures for such risk management?

2 Rating and Disclosure

- Past records regarding credit ratings.
- Do you have a specific department (such as Corporate Risk Management Division) that manages overall risk factors including credit risk and market risk on daily basis?

3. Problems of Infrastructure Banking Sector pointed out by the Central Bank Inspection, measures to cope with the problems

III. Issues Concerning the Compilation of Know-How of Infrastructure Finance

1. Cases of Infrastructure Finance Project

- 1) Please give a rough outline of the past infrastructure finance projects referring to the attached form. You can use any format other than this one, utilizing the existing documents
- 2) Out of the past projects, please choose a typical case of infrastructure finance; discuss the case referring to the points of evaluation listed in Section I above. Please describe the process of your discussion in detail.
- 3) Please inform us if you have any experience in co-financing projects with international financial institutions (such as ADB and WB) or foreign banks, and coordinating terms of lending with those institutions.

2. A System for Know-How Sharing

- The current state and the future plan to develop a know-how sharing system and project database, and their overview (e.g., project appraisal reports, a set of project case studies with similar profiles and the handbook of infrastructure finance)
- How do you think will such a system work, and to what extent is it appropriate to compile project information as database?
- How will you utilize such a system and database at work?

3. The Capacity Building of Infrastructure Banking Sector.

1) The Current State of Human Resource Development

- Personnel disposition by department; and specific duties by post.
- Personal data of the staff of Infrastructure Banking Sector: educational background, work experience (including that of SME Finance), specific years of experience at Infrastructure Banking Sector and the reasons (such as special skills) for acquiring the current post
- Is there any in-house training program? Whom is it aimed at and who is serving as a trainer?
- Do you send your employees to other agencies such as international financial institutions, leading private foreign commercial banks and the client companies in the industry specific to each department (such as railways, port and real estates)?

- Do you hire technical experts at each department?
 - Do you hire system engineers (especially in the area of financial programming & software development)?
- 2) Compilation of the Know-How of Infrastructure Finance
 - Besides IBJ Model, what are the attempts of BPIMB in developing an appropriate Financial Model? What factors, do you think, must be considered in the Financial Modeling?
 - Any progress in the development of Project Rating System based on financial risks?
 - 3) Human Resource Development in Future: The use of collective training programs and OJT.

IV. Organizational Issues

1. Proper forms and procedures for loan requests, circulating a draft proposal and appraisal report
2. Infrastructure finance policy; office regulations on loan approval authority and division of duties among the related departments; and the current state of instruction manuals (including those issues that were put aside to be dealt with later at our previous visit).

V. Infrastructure Finance Issues: Institutional Changes and the Role of BPIMB

1. In the years prior to the inception of BPIMB's Infrastructure Banking Sector in 1999, the government authorities, ODA, and the domestic and foreign private investors were the ones who funded infrastructure finance projects. How did it work back then? Please give us some examples.
2. How big is the current market for infrastructure finance? Please list all the financial agencies that participate in the market. What is the BPIMB's current position in the market?
3. What is your vision for the future development of the infrastructure finance market and how do you picture the future role of BPIMB?
4. How will you strengthen financial discipline following the Central Bank's instruction and at the same time increase the role of Infrastructure Banking Sector?

VI. BPIMB's Taskforce for the Project implementation

With regard to the implementation of the Technical Cooperation Project for Institutional Capacity Building on Infrastructure Finance in Malaysia (hereinafter called the Project), JICA is expecting BPIMB's ownership and initiatives to conduct the Project. We would like to have your proposal on the following points.

1. Names of counterpart members of BPIMB for the Project.
2. Possibility to nominate working team members under counterpart team for conducting necessary works for the Project. The working team is expected to come up with targeted outputs in the course of implementing the Project with the support of JICA experts. Substantial works by the expected working team is a critical factor for not only the success of our joint work, but also the sustainability of outcomes of the Project after completion.
3. A long list of candidate consultancy companies in Malaysia for a possible consignment work for Infrastructure Finance in Malaysia

It is expecting that a possible consignment work with the JICA support will provide the joint cooperation team with basic external information for the Project. Please suggest us a counter-proposal with targeted sub-sectors based on a tentative draft TOR as follows.

1. Background to choose priority sub-sectors and projects to be surveyed.
2. Viewpoints for conducting case studies by sub-sector and projects with a particular focus on Commercial Risks Analysis.
3. Case Studies.

Particularly, viewpoints for conducting case studies include the following issues.

- Key factors of success (or failure) for the life of project (Planning & Development, Construction, Operation)
- Policy & legislative frame, and Support Agreement by Government or other public-sector authority (e.g. Privatization scheme, Incentives)
- Outcomes of Pre-feasibility study
- Main Sponsors capacity and commitments
- Evaluation of the Project Company and concession contract & risk allocation schemes
- Operation risks and mitigation measures
- Revenue risks and mitigation measures
- Contract mismatch and mitigation measures
- Force majeure risks and mitigation measures
- Other problems and countermeasures
- Lessons to be learned

Thank you for your time and cooperation.

Tentative Questionnaire
on
Infrastructure Finance in Malaysia

Responding to the BPIMB's request for technical assistance in infrastructure finance, a JICA mission is going to conduct preparatory works in Malaysia from December 8, 2003. The followings are our focus points we would like to cover to determine the necessary areas for the technical assistance program.

■ **Questionnaire for the Economic Planning Unit**

1. Overall information on infrastructure finance in Malaysia

- 1) Prior to the inception of the BPIMB's infrastructure banking facility in 1999, which financial institutions had been the main providers of loans for infrastructure projects in Malaysia?
- 2) How big is the current market for infrastructure finance in Malaysia and how big is the government program in infrastructure finance in Malaysia?
- 3) Are there any financial institutions other than the BPIMB providing loans for infrastructure projects? Please explain what percentage of infrastructure finance market BPIMB holds and other financial institutions' trend in infrastructure finance in Malaysia.
- 4) What is your vision for the future development of the infrastructure finance market?
- 5) What do you think are the most important challenges after enforcement of DFI Act 2002?

2. Project selection/ screening stage

- 1) Please explain the criteria in your selection of infrastructure projects. Are there any changes in the screening process of projects since the enactment of the Financial Sector Master Plan and Development Financial Institutions Act?
- 2) How do you prioritize certain projects? Do you have any targeted area (e.g., railway, toll road) in infrastructure projects?
- 3) Do you have any limits in terms of project cost when the projects are mainly financed by DFIs?
- 4) Please explain the main factors in the evaluation of project feasibility and project implementing bodies.
- 5) Once the project is approved, to what extent does your institution deal with arranging the project scheme (e.g., any arrangements among the interested parties, conclusions of concession agreements)?
- 6) Please explain how inter-ministerial issues on infrastructure projects are coordinated.

3. Finance arrangement stage

- 1) Please explain the process you take in your negotiations with financial institutions which are (co-)financing the project.
- 2) Please explain to what extent the government supports infrastructure projects based on project financing.

4. Project monitoring after loan disbursement

- 1) Once the financial institutions have completed the loan disbursement, to what extent do you deal with monitoring the project?
- 2) Responding to any contingencies after the loan disbursement, is it possible to change the project framework? If so, are you involved in the negotiation among the interested parties?

■ Questionnaire for the Ministry of Finance

1. Overall questions

- 1) To what extent are you involved in DFIs' loan appraisal?
- 2) Regarding the "Financial Sector Master Plan, March 2001", please explain any impact it may have on DFIs, especially in terms of fund raising programs.
- 3) Please explain the outline of the "Government Support" and its criteria under the "Financial Sector Master Plan". To strengthen BPIMB's capital base, do you have any specific financial criteria?

2. Finance arrangement for infrastructure projects

- 1) Please explain the fund raising schemes for infrastructure projects.
- 2) Please explain the major criteria and the scope of the government's financial support for infrastructure projects.
- 3) Do you have any regulations on loans for infrastructure projects (loan amount, risk allocation, etc.)?
- 4) Please explain how your institution is involved in coordinating inter-ministerial issues on infrastructure projects.

3. Project monitoring

- 1) Once the financial institutions have completed the loan disbursement, to what extent do you monitor the project?
- 2) If an infrastructure project introduced by the government makes a loss, do you have any financial support to compensate?

■ **Questionnaire for Bank Negara Malaysia**

1. Overall questions

On the basis of the Financial Sector Master Plan, what roles and specified areas do you expect BPIMB to take up in its banking operations?

2. Bank supervision

- 1) Please explain the financial discipline you would expect based on the Development Financial Institutions Act 2002.
- 2) Based on the DFIA, please explain the framework of financial regulation and supervision of DFIs (e.g., incorporated prudential rules, any regulations, scope of supervising, targeted financial ratios). If you have any specific regulation on structured finance (i.e., project finance), please also explain it.

3. Infrastructure finance

- 1) Please explain how your institution is involved in coordinating inter-ministerial issues on infrastructure projects.
- 2) Once the financial institutions have completed the loan disbursement, to what extent do you monitor the project?

3. Capacity building

Please outline your achievements or plans for your capacity building program in the field of project finance.

関連資料 5 : 実施協議 Record of Discussion, Minutes of Meeting
および Project Document

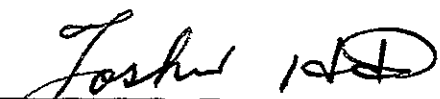
RECORD OF DISCUSSIONS
BETWEEN JAPANESE PROJECT DESIGN TEAM
AND
BANK PEMBANGUNAN DAN INFRASTRUKTUR MALAYSIA BERHAD
ON JAPANESE TECHNICAL COOPERATION
FOR THE PROJECT ON INSTITUTIONAL CAPACITY BUILDING
ON INFRASTRUCTURE FINANCE IN MALAYSIA

The Japanese Project Design Team (hereinafter referred to as "the Team") organized by Japan International Cooperation Agency (hereinafter referred to as "JICA") and headed by Mr. Toshio Hida, Resident Representative of the JICA Malaysia Office, had a series of discussion in Malaysia from March 9, 2004 to March 15, 2004 for the purpose of working out the details concerning the Technical Cooperation Project for Institutional Capacity Building on Infrastructure Finance in Malaysia.

During its stay in Malaysia, the Team exchanged views and had a series of discussions with Bank Pembangunan Dan Infrastruktur Malaysia Berhad (hereinafter referred to as "BPIMB") with respect to desirable measures to be taken by JICA and the Government of Malaysia for the successful implementation of the above-mentioned Project.

As a result of the discussions, the Team and BPIMB agreed to recommend to their respective Governments the matters referred to in the document attached hereto.

Kuala Lumpur, March 15, 2004



Mr. Toshio Hida
Resident Representative,
Malaysia Office,
Japan International Cooperation
Agency



Dato' Haji Abdul Rahim Bin Mohd Zin
Managing Director/CEO,
Bank Pembangunan Dan Infrastruktur
Malaysia Berhad

THE ATTACHED DOCUMENT

I. COOPERATION BETWEEN JICA AND THE GOVERNMENT OF MALAYSIA

1. The Government of Malaysia will implement the Technical Cooperation Project for Institutional Capacity Building on Infrastructure Finance in Malaysia (hereinafter referred to as "the Project") in cooperation with JICA.
2. The Project will be implemented in accordance with the Master Plan which is given in Annex I.

II. MEASURES TO BE TAKEN BY JICA

In accordance with the laws and regulations in force in Japan, JICA will take, at its own expense, the following measures according to the normal procedures under the Colombo Plan Technical Cooperation Scheme.

1. DISPATCH OF JAPANESE EXPERTS

- 1) JICA will provide the services of the Japanese experts as listed in Annex II.
- 2) JICA will provide lecturers from the Development Bank of Japan.

2. TRAINING OF MALAYSIAN PERSONNEL IN JAPAN

JICA will receive the Malaysian personnel connected with the Project for technical training in Japan.

3. UTILIZATION OF JICA-NET

JICA will utilize JICA-Net for mutual communication between the Japanese experts and the Malaysian counterparts when necessary.

4. IMPLEMENTATION OF CONSIGNMENT STUDY

JICA will provide a consignment study on sub sectors of infrastructure in Malaysia by local consulting company.

III. MEASURES TO BE TAKEN BY THE GOVERNMENT OF MALAYSIA

1. The Government of Malaysia will take necessary measures to ensure that the self-reliant operation of the Project will be sustained during and after the period of Japanese technical cooperation, through full and active involvement in the Project by all related authorities, beneficiary groups and institutions.
2. The Government of Malaysia will ensure that the technologies and knowledge acquired by the Malaysian nationals as a result of Japanese technical cooperation will contribute to the economic and social development of Malaysia.
3. The Government of Malaysia will grant in Malaysian privileges, exemptions and benefits to the Japanese experts referred to in II-1 above and their families, which are no less favorable than those accorded to experts of third countries working in Malaysia under the Colombo Plan Technical Cooperation Scheme.
4. The Government of Malaysia will take necessary measures to ensure that the knowledge and experience acquired by the Malaysian personnel from technical training in Japan will be utilized effectively in the implementation of the Project.
5. In accordance with the laws and regulations in force in Malaysia, the Government of Malaysia will take necessary measures to provide at its own expense :
 - (1) Services of the Malaysian counterpart personnel and administrative personnel as listed in Annex III ;
 - (2) Land, buildings and facilities as listed in Annex IV ;

- (3) Supply or replacement of machinery, equipment, instruments, vehicles, tools, spare parts and any other materials necessary for the implementation of the Project;
- (4) Necessary arrangement to secure adequate budget for implementation of the Project as follows;
 - a. Salaries and other allowances for the Malaysian counterpart personnel
 - b. Expenses such as electricity, water, gas fuel and local telecommunication
 - c. Other contingency expenses related to the Project incurred by Malaysian counterpart
- (5) Means of transport for the Japanese experts for official travel within Malaysia ; and
- (6) Coordination with institutions that are involved in providing services regarding to the Project, if necessary

IV. ADMINISTRATION OF THE PROJECT

1. Chief Executive Officer of BPIMB, as the Project Director, will bear overall responsibility for the administration and implementation of the Project.
2. General Managers of Infrastructure Banking Sector and Supervision Sector of BPIMB, as the Project Managers, will be responsible for the managerial and technical matters of the Project.
3. The Japanese Team Leader will provide necessary recommendations and advice to the Project Director and the Project Manager on any matters pertaining to the implementation of the Project.
4. The Japanese experts will give necessary technical guidance and advice to the Malaysian counterpart personnel on technical matters pertaining to the implementation of the Project.



5. For the effective and successful implementation of technical cooperation for the Project, a Joint Coordinating Committee will be established whose functions and composition are described in Annex V.

V. JOINT EVALUATION

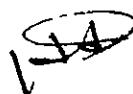
Evaluation of the Project will be conducted jointly by the evaluation team(s) consist of JICA and the Malaysian counterparts in the Joint Coordinating Committee, before the end of the cooperation term in order to examine the level of achievement.

VI. CLAIMS AGAINST JAPANESE EXPERTS

The Government of Malaysia undertakes to bear claims, if any arises, against the Japanese experts engaged in technical cooperation for the Project resulting from, occurring in the course of, or otherwise connected with the discharge of their official functions in Malaysia except for those arising from the willful misconduct or gross negligence of the Japanese experts.

VII. MUTUAL CONSULTATION

There will be mutual consultation between JICA and the Government of Malaysia on any major issues arising from, or in connection with this Attached Document.



VIII. MEASURES TO PROMOTE UNDERSTANDING OF AND SUPPORT FOR THE PROJECT

For the purpose of promoting support for the Project among the people of Malaysia, the Government of Malaysia will take appropriate measures to make the Project widely known to the people of Malaysia.

IX. TERM OF COOPERATION

The duration of the technical cooperation for the Project under this Attached Document will be one and a half years from May 2004.

- ANNEX I MASTER PLAN
- ANNEX II LIST OF JAPANESE EXPERTS
- ANNEX III LIST OF BPIMB COUNTERPART AND ADMINISTRATIVE PERSONNEL
- ANNEX IV LIST OF LAND, BUILDINGS AND FACILITIES
- ANNEX V JOINT COORDINATING COMMITTEE

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ANNEX I MASTER PLAN

1. Overall Goal

Infrastructure finance capacity in Malaysia, especially that of BPIMB, is strengthened.

2. Project Purpose

Credit risk management capacity of infrastructure finance operation in BPIMB is strengthened with improved project management and risk management system and capability.

3. Outcomes

3-1 Capacity of BPIMB's infrastructure finance risk management system is strengthened

3-2 Know-how on project risk evaluation is accumulated and shared in BPIMB

3-3 BPIMB's human resource development concerned with infrastructure finance is strengthened.

3-4 BPIMB's capacity of organizational improvement related to infrastructure finance is enhanced

3-5 Understanding is enhanced regarding direction of the BPIMB's infrastructure finance roles in Malaysia

Note:

The Project will be implemented in accordance with the Project Document attached to the Minutes of Meetings accorded between and signed by BPIMB and the Japanese Project Design Team organized by JICA on March 15, 2004. The Project Document may be revised whenever necessity arises by the consent of the concerned authorities.



ANNEX II LIST OF JAPANESE EXPERTS

1. Chief Advisor
2. Short-term experts in the following technical fields.
 - (1) Risk management system for infrastructure finance
 - (2) Project risk evaluation
 - (3) Evaluation of infrastructure sub-sector projects
 - (4) Human resource development for infrastructure finance
 - (5) Organizational improvement related to infrastructure finance
 - (6) Strategies for infrastructure finance operation
3. Project Coordinator




**ANNEX III LIST OF BPIMB COUNTERPART AND
ADMINISTRATIVE PERSONNEL**

1. Project Director: Chief Executive Officer of BPIMB
2. Project Managers: General Managers of Infrastructure Banking Sector and Supervision Sector of BPIMB
3. Taskforce Members, composed of Counterparts and Working Team Members, as counterparts of all Japanese experts
4. Administrative Personnel
Administrative and clerical staff and others to support the implementation of the Project



ANNEX IV LIST OF LAND, BUILDINGS AND FACILITIES

1. Office spaces for JICA chief advisor, experts and coordinator in the building of BPIMB
2. Other necessary facilities for implementing the Project



ANNEX V JOINT COORDINATING COMMITTEE

1. Functions

The Joint Coordinating Committee shall;

- (1) Discuss and decide overall management and coordination of the Project,
- (2) Review, advice and endorse the Project Plan,
- (3) Review, advice and endorse the progress of the Project,
- (4) Discuss and decide any other matters related to the Project.

2. Composition

The Joint Coordinating Committee shall be composed of;

- (1) Chairman: Chief Executive Officer of BPIMB
- (2) Deputy Chairman:
 - 1) General Manager(s) of Infrastructure Banking Sector and Supervision Sector of BPIMB
 - 2) JICA's Chief Advisor for the Project
- (3) Members:
 - Counterparts, BPIMB
 - Personnel of Finance Division, MOF
 - Personnel of Industry and Trade Section, EPU
 - Personnel of DFIA Regulation Department, BNM
 - Resident Representative of JICA Malaysia Office
 - JICA Experts

3. Frequency of Meeting

The Joint Coordination Committee shall meet three times during project implementation period.

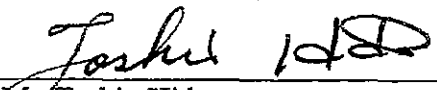
Two handwritten signatures are present at the bottom right of the page. The first signature is a stylized, bold mark, and the second is a more fluid, cursive signature.

MINUTES OF MEETINGS
BETWEEN JAPANESE PROJECT DESIGN TEAM
AND
BANK PEMBANGUNAN DAN INFRASTRUKTUR MALAYSIA BERHAD
ON TECHNICAL COOPERATION PROJECT FOR INSTITUTIONAL
CAPACITY BUILDING ON INFRASTRUCTURE FINANCE IN MALAYSIA


The Japanese Project Design Team (hereinafter referred to as "the Team") organized by Japan International Cooperation Agency (hereinafter referred to as "JICA") and headed by Mr. Toshio Hida, Resident Representative of the JICA Malaysia Office, discussed and exchanged views on Technical Cooperation Project for Institutional Capacity Building on Infrastructure Finance in Malaysia (hereinafter referred to as "the Project") with Bank Pembangunan Dan Infrastruktur Malaysia Berhad (hereinafter referred to as "BPIMB") from March 9, 2004 to March 15, 2004 in Malaysia .

As a result of the discussions, both sides reached common understanding concerning Project Document and the matters referred to ANNEX attached hereto. The Project Document will be revised or altered when deemed necessary after monitoring on the implementation by the Joint Coordinating Committee.

Kuala Lumpur, March 15, 2004



Mr. Toshio Hida
Resident Representative
Malaysia Office,
Japan International Cooperation
Agency



Dato' Haji Abdul Rahim Bin Mohd Zin
Managing Director/CEO,
Bank Pembangunan Dan Infrastruktur
Malaysia Berhad

1. COUNTERPARTS OF JAPANESE EXPERTS

BPIMB decided reorganization in relation to infrastructure finance operation in February 2004. It will be effective from June 2004. The counterparts of BPIMB will be composed of Senior Managers of infrastructure finance related Departments, Divisions, and Sections in the new organization. (Please refer Annex 10 of the Project Document.)

2. CONFIDENTIALITY OBLIGATIONS

Both sides confirmed that the relevant personnel of JICA and BPIMB are regulated under the law in each respective country to divulge the confidential information that they acquired knowledge of through their duties while in service and after retirement. To secure the confidential information of the Project as well as activities at BPIMB, both sides agreed to take the following measures:

- (1) JICA shall include the clause of the confidentiality obligation in the contract between JICA and the organization body designated as Japanese expert team for the Project.
- (2) BPIMB and Japanese experts shall exchange the confidentiality letters on the information security at the commencement of the Project.
- (3) Japanese expert team shall keep any confidential information whatsoever strictly confidential which may be made known to the Japanese expert in the course of performing the services and shall not disclose any such confidential information in any manner to any third party during the term of cooperation and thereafter.

3. ACCOUNTABILITY OF THE PROJECT

Both sides confirmed that the progress, the findings, results of activities, and other information that pertain to the Project should be reported to JICA and the relevant ministries of Japan, as well as to be accountable to the Japanese nationals. Both sides agreed that the reports produced by the Japanese expert team collaborating with Malaysian counterparts which are to be reported to JICA shall get prior consent of BPIMB or the Joint Coordinating Committee of the Project.

[END]



Technical Cooperation Project for
Institutional Capacity Building
on Infrastructure Finance in Malaysia

Project Document

15, March 2004

Technical Cooperation
Between
Bank Pembangunan Dan Infrastruktur Malaysia Berhad
(BPIMB)
and
Japan International Cooperation Agency (JICA)

Abbreviation

ALM	Asset Liability Management
BNM	Bank Negara Malaysia
BOT	Build-Operate-Transfer
BPIMB	Bank Pembangunan Dan Infrastruktur Malaysia Berhad
CEO	Chief Executive Officer
DBJ	Development Bank of Japan
DFI	Development Financial Institution
DFIA	Development Financial Institutions Act
EPU	Economic Planning Unit
FSMP	Financial Sector Master Plan
IAPG	Inter-Agency Planning Group
JCC	Joint Coordinating Committee
JICA	Japan International Cooperation Agency
MOF	Ministry of Finance
NDPC	National Development Planning Committee
ODA	Official Development Assistance
OJT	On the Job Training
PDM	Project Design Matrix
PO	Plan of Operations
PROTECO	Proposal of Technical Cooperation
TA	Technical Assistance
TOR	Terms of Reference

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Annex 8. Terms of Reference for Counterparts of Japanese Experts

Annex 9. Organization Chart of the Project

Annex 10. Information on Concerning Counterparts Organizations

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1. Introduction

The Government of Malaysia launched “Vision 2020” in 1991 with the objective of becoming a fully developed nation by 2020. The Third Outline Perspective Plan 2001-2010 (OPP3), announced in 2001, provides the second phase of national strategy to realize Vision 2020. The latest Eighth Malaysian Plan 2001-2005, the first phase in the implementation of OPP3, emphasizes policies for enhancing the competitiveness and resilience of the economy by shifting growth strategy from being input-driven towards one that is knowledge driven. Under this policy trend, the Eighth Plan focuses on increasing efficiency, productivity, quality and reliability of infrastructure project to support the nation’s competitiveness.

The Eighth Plan also emphasizes macroeconomic stability which is critical to maintain sustainable growth with resilience as the country has seen the stability of the financial system challenged in the recent Asian financial crisis. Efforts to maintain macroeconomic stability includes pursuing sound macroeconomic management, ensuring prudent fiscal and monetary policies, and so forth. In response to the challenges in this new environment, the Financial Sector Master Plan (FSMP) was formulated in 2001 to outline the strategies for the development of the financial sector for achieving a more efficient, competitive and resilient financial system.

Infrastructure finance system of Malaysia is currently facing an issue of how to balance two policy objectives, that is promotion of infrastructure development and establishment of a sound financial system. The government of Malaysia has been taking various measures to strengthen its financial sector, including Development Financial Institutions (DFIs), and introduced the Development Financial Institutions Act (DFIA) in 2002, recommending all DFIs to implement their mandated roles effectively, to provide financial services efficiently and to obtain a sound financial footing as financial institutions.

Bank Pembangunan Dan Infrastruktur Malaysia Berhad (BPIMB) is the only Development Financial Institution (DFI) that engages in infrastructure finance operation in Malaysia. Although five years have passed since BPIMB was entrusted by the Government to finance infrastructure projects in 1999, its

Infrastructure Banking Sector faces urgent needs to further strengthen staffs' capacities and to establish an efficient financing mechanism, as this sector requires a quite different expertise from financing SMIs, that had been the primary operation of BPIMB until 1998. Besides BPIMB has become further pressed to implement its reform measures ever since effectuation of the DFIA. In this context, BPIMB requested technical assistance in its capacity building to the Government of Japan and the Japan International Cooperation Agency (JICA) held a series of discussions with BPIMB on possibility of conducting technical cooperation for BPIMB, conducting an ex-ante evaluation on a project plan drawn and proposed by both sides.

This project document aims to describe the detailed design of the proposed project as well as justification for implementing the project. In Chapter 2, it explains the background of the proposed project. In Chapter 3, it describes the institutional framework for infrastructure finance in Malaysia and analyzes problems to be addressed and current situation concerning BPIMB. In Chapter 4, it elaborates the strategy for project implementation, including basic implementation policy and main features of project implementation process. In Chapter 5, it illustrates the detailed design of the project. Result of the Ex-ante Evaluation is compiled in Chapter 6. Monitoring and evaluation for the project is discussed in Chapter 7. Project Design Matrix (PDM), Plan of Operations (PO) and other documents related to the project are attached as annexes to this project document.

2. Background

2-1 Socio-economic Context and National Strategy

The Government of Malaysia announced "Vision 2020" in 1991 which laid out the directions for Malaysia to become a fully developed nation by 2020. A series of five-year plans are the basis for official development strategies followed by "Vision 2020". The current the Eighth Malaysian Plan, covering the period 2001-2005, is the first phase in the implementation of the Third Outline Perspective Plan (OPP3), 2001-2010. The OPP3, which embodies the National Vision Policy (NVP), will chart the development of the nation in the first decade of the 21st century. In response to the need for resilience, both economically and socially, from contraction due to Asian financial crisis in 1997, the Eighth Malaysia Plan puts emphasis on the

creation of a strong human resource base to support the development of the knowledge-based economy as well as to enhance productivity and competitiveness for the country as a whole.

The Development of the infrastructure and utilities network covering transportation, communications, water supply and sewerage is a one of the main component of a five year Malaysia plan. The Seventh Plan focused on capacity expansion through a more integrated and coordinated planning approach to ensure the availability of facilities to meet demand. The financial crisis in July 1997 affected the implementation of some major infrastructure projects, particularly those by the private sector. As a result, the Government provided financial assistance, including newly introduced infrastructure financing by BPIMB, for the completion of these projects to ensure that the efficiency, productivity and competitiveness of other sectors in the economy were not affected. In addition, the implementation of critical and strategic Government-funded projects was accelerated to serve as catalysts for reviving and stimulating the economy.

To overcome the financial crisis, the Government of Japan extended the financial support to the government of Malaysia under the principle of "A New Initiative to Overcome the Asian Currency Crisis - New Miyazawa Initiative -" to assist her efforts in restructuring the economy. The support to Malaysia amounted to the amount of Yen equivalent to approximately US \$ 5 billion in total as of March 2000. This comprises of ODA loans, untied loans, and project sector investment loans. Among them, BPIMB received untied Two Step Loan from JBIC equivalent to US\$400 million in 1999 to develop infrastructure urgently needed by the Government of Malaysia. In addition, BPIMB signed the JBIC's second untied Two Step Loan equivalent to US\$500 million mainly for transportation and telecommunications projects.

For the Eighth Plan period, emphasis is given to increasing the capacity and accessibility in less developed areas while in urban areas, the focus will be to enhance efficiency and to improve public transport services. The provision of utilities such as communications, water and sewerage will be given priority to increase coverage and improve the quality of life. Participation by the private sector will continue to be encouraged with the Government assuming an

increasingly important role in the supervision and setting of performance standards of infrastructure facilities and services to support the growth and competitiveness of other sectors, and a better quality of life as well.

The Eighth Plan also emphasizes macroeconomic stability which is critical to maintain sustainable growth with resilience. Efforts to maintain macroeconomic stability includes pursuing sound macroeconomic management, ensuring prudent fiscal and monetary policies, attracting quality domestic and foreign investments, enhancing the development of the growth sectors and maintaining a healthy balance of payments position. In response to the challenges in this new environment, the Financial Sector Master Plan (FSMP) was formulated in 2001 to outline the strategies for the development of the financial sector for achieving a more efficient, competitive and resilient financial system.

2-2 Situation of Infrastructure Finance

Before BPIMB started infrastructure finance operation, the government had conducted all infrastructure development, except for privatized projects which private financial institutions had implemented. However after the Asian currency crisis, it is said that private financial institutions faced difficulties in fund raising for such projects.

After the Asian currency crisis, the financially pressed government commissioned private sector to carry out a part of infrastructure development that had been conducted as public investment in the past. In this context, BPIMB began to assume infrastructure finance operation since 1999.

In the past few years, the Government of Malaysia has taken up various reform measures to strengthen DFI capacities. In March 2001, the Government mapped out the Financial Sector Master Plan (FSMP) with a view to strengthening the financial sector as an institutional infrastructure that is sound enough to promote the country's further economic growth. FSMP was especially determined to strengthen DFIs' operation system as a part of financial system for the country as a whole. With the Development Financial Institutions Act (DFIA) coming into effect in February 2002, all the DFIs including BPIMB, operationally separated from the government, were recommended by BNM effective implementation of their

mandated roles, efficient provision of financial services and obtainment of a sound financial footing as a financial institution.

BPIMB has been striving to improve its system and organization in order to play a significant role in the development of the country's infrastructure under the Eighth Malaysia Plan, ever since it was entrusted in 1999 by the Government to finance infrastructure projects, in addition to its primary role as a Development Financial Institution (DFI) to finance small and medium Bumiputera enterprises.

2-3 Prior or Ongoing Project/Assistance

Japan, corresponding to this new development, has placed the technical cooperation project for BPIMB under JICA's Financial Sector Human Resources Development Program, which is in line with Japan's aid principles for Malaysia such as strengthening of economic competitiveness and human resources development. So far JICA has dispatched a financial advisor between 2000 and 2002 for assisting BPIMB establishing its infrastructure finance operation, and three infrastructure sector financial advisors in 2003 for identifying issues to be addressed regarding BPIMB's infrastructure finance operation. JICA has also conducted a training course on project finance techniques every once a year between 2001 and 2003, to each of which BPIMB sent two employees.

Although five years have passed since its inception of infrastructure finance operation, BPIMB's infrastructure finance sector faces urgent needs to further strengthen staffs' capacities and to establish an efficient financing mechanism, as this sector requires a quite different expertise from the conventional financing skills for SMI. In addition, BPIMB has become further pressed to implement its reform measures ever since the DFIA came into effect. Under this context, BPIMB requested the Government of Japan to continue the dispatch of experts and to provide BPIMB the continuous support for its human resources development and for strengthening its credit risk management capacities by individual infrastructure projects and by the Bank as a whole.

3. Problems to be Addressed and Current Situation Concerning BPIMB

3-1 Institutional Framework for Infrastructure Finance

3-1-1. Outline of Infrastructure Finance

(1) Infrastructure project planning and project approval procedure of the government

The plan of infrastructure development is formulated by the Inter-Agency Planning Group (IAPG) set up by Administrative and Modernization Unit (MAMPU) which is composed of the Economic Planning Unit (EPU), Public Services Department, Implementation Coordination Unit (ICU), Ministry of Finance, BNM and other related Ministries. National Development Planning Committee (NDPC) examines projects proposed by the EPU, and those projects are to be decided by the Cabinet and be approved by the Parliament. The IAPG takes a central role in formulating the plan and provides information to the NDPC for policy formulation based on the five-year Malaysian Plan. The Cabinet decides fund allocation to projects based on proposal made by the NDPC. The EPU takes a role as a secretariat for IAPG, NDPC and related committees.

Infrastructure project plans are drawn up either by the Economic Planning Unit (EPU) in the Prime Minister's Office (top-down style) or by the competent authorities (bottom up style) based on the Eighth Malaysia Plan. In the case of top-down style, EPU experts or external consultants assess the project plans. In the case of bottom-up style, IAPG assesses proposed projects, matching to the macro-level objectives set in the Malaysia Plan. For each project, content of the Concession Agreement signed between a project sponsor and the government is to be decided after the assessment by the IAPG. Then NDPC sends it to the Cabinet for approval and the signing of the final Concession Agreement on projects approved by the Cabinet is left entirely to the competent authority.

(2) Classification of Infrastructure Projects

The country's infrastructure projects are drawn up under Five-Year Malaysia Plan, based on which the budget is allocated by sub-sector. Under the Eighth Malaysia Plan, the Government has promoted privatization in order to implement infrastructure projects that might be delayed or need to be urgently developed under the tight budget. Infrastructure finance projects are classified into two categories: 1) public investment and 2) privatization projects.

BPIMB is intensively providing financing of infrastructure projects that are subject to privatization, except for deferred payment finance provided specifically to contractors under the category 1) public investments.

Infrastructure projects are taken up in the following style:

- For partial privatization projects that are able to operate with the government support, BPIMB provides financing and reduces the fund raising cost of project sponsors; and
- For those projects that are able to privatize fully taking into account various factors including project profitability, each project sponsors are free to select their own financial institutions (including BPIMB).

3-1-2 Role of BPIMB in infrastructure finance system in Malaysia

Before BPIMB started infrastructure finance operation, the government had conducted all infrastructure development, except for privatized projects which private financial institutions had implemented. However after the Asian currency crisis, it is said that private financial institutions faced difficulties in fund raising for such projects.

After the Asian currency crisis, the financially pressed government commissioned private sector to carry out a part of infrastructure development that had been conducted as public investment in the past. In this context, BPIMB began to assume infrastructure finance operation since 1999.

Currently BPIMB is the only DFI which engages in infrastructure finance in Malaysia, and its role in infrastructure finance can be considered as indispensable mainly due to the following reasons:

- (1) Reducing fund-raising costs for clients by providing preferential loan terms (interest rate, etc.) compared to that of private financial institutions.
- (2) Securing stability of fund-raising for clients by providing long-term loans (longer than 10 years), etc.
- (3) Reducing repayment burdens of clients by setting longer grace periods.

3-2 Analysis of the Current Situation and Problems to be Addressed

Since the Asian currency crisis in 1997, the government of Malaysia has been

focusing on establishing a sound financial system led by BNM and mapped out the Financial Sector Master Plan (FSMP) in 2001. It has also strengthened financial supervision over Development Financial Institutions (DFI), by issuing the Development Financial Institutions Act (DFIA) in 2002. As a result, the infrastructure finance system of Malaysia is now facing the issue of how to balance two policy objectives, that is promotion of infrastructure development (A) and establishment of a sound financial system (B). More specifically, the two policy objectives are (A) promotion of infrastructure development, that has enormous social and economic impact, by government agencies in charge of infrastructure projects and (B) strengthening BNM's financial supervision over financial institutions (such as improving capacity of financial risk management related to infrastructure projects whose loan amount is very large and loan period is often very long) in order to establish a sound financial system in Malaysia.

One of the most important factors in achieving such a balance between two policy objectives discussed above as (A) and (B) is capacity building of infrastructure finance institutions, especially that of BPIMB. BPIMB is the only DFI engaging in infrastructure finance in Malaysia. In the long run, capacity building of BPIMB's is expected to contribute to risk reduction of infrastructure projects through enhancing BPIMB capacity to feedback financial risk information to the planning authorities, and then to contribute to efficient and effective promotion of infrastructure development. It is also expected to reinforce financial discipline of BPIMB as a financial institution through reducing project risks accompanying provision of large amount of loan and to contribute to establishing a sound financial system in the future.

Name	Bank Pembangunan Dan Infrastruktur Malaysia Berhad (BPIMB)
History	Established on 28 November 1973 as a vehicle to reduce the economic imbalances between the Bumiputera and non-Bumiputera communities by financing Bumiputera <i>small and medium enterprises</i> . In October 1998, it was entrusted by the Government to finance infrastructure projects and its name was officially changed from Bank Pembangunan to Bank Pembangunan Dan Infrastruktur Malaysia Berhad accordingly.
Service	Small and medium business finance and infrastructure finance
Employees	Approx. 600 people (Approx. 55 people in Infrastructure Banking Sector)
Supervising Ministries	Ministry of Finance and Ministry of Entrepreneur Development
Capital	RM1,600,000,000.- (100% owned by the Government)
Outstanding loan amount	RM12,000,000,000.- (RM8,612,700,000.- handled in Infrastructure Banking Sector)
Fund procurement	Employee Provident Fund, JBIC (Untied loan), Infrastructure Note Program, Deposit of government enterprises

Based on the analysis of the current situation through discussions between BPIMB and JICA ex-ante study team and conducting interviews, the following issues are identified concerning infrastructure finance of BPIMB.

- **Risk management capacity of infrastructure finance of BPIMB as a whole**
Risk management capacity of infrastructure finance of BPIMB is required to be reinforced so as to strengthen its financial discipline under the DFIA. BPIMB must gather speed in adopting further reforms from the viewpoint of strengthening institutional soundness under the DFIA.
- **Know-how on project risk evaluation**
Systematic compilation of the know-how on credit analysis related to infrastructure projects is yet to be developed. There is a remarkable difference between the know-how of BPIMB's conventional lending to indigenous SMI and that of long-term credit analysis. Five years have passed since the inception of Infrastructure Banking Sector in BPIMB, but it still needs to learn and master new financial methods and practices for project finance.
- **Training system of the Infrastructure Banking Sector**
BPIMB has not established regular training programs on the continuous human resource development for infrastructure and project finance.
- **Organizational structure related to infrastructure finance**
It is necessary to examine measures to strengthen organizational structure in such respects related to project approval and credit management of

infrastructure finance. Presently in BPIMB, Infrastructure Project Finance Taskforce is assuming the roles of a credit appraisal department who is expected to receive project proposal submitted by loan department, assess the validity of risk judgment, its compliance with the Bank regulations, and other factors as an independent department. In order for BPIMB to carry out practical credit appraisals such as the ones based on a database of compiled knowledge and skills, it is important to examine organizational improvement measures, such as to separate loan departments and credit appraisal department. With regard to credit management, concrete procedures to formulate and enforce countermeasures of risks are yet to be developed. It is also essential to examine improvement measures on organizational structure related to credit management of infrastructure finance.

Reorganization was decided at the Board Meeting in February 2004 and will be effective from June 2004. (Please refer Annex 10 for the new Organization Chart.)

- Operational strategies in order to respond institutional changes related to infrastructure finance operation

Exposure to financial risks for Infrastructure Banking Sector of BPIMB is yet to be clarified. The Government leads the decision-making at the project formation and investment stages, leaving less scope for BPIMB to make its own financial decisions. In spite of receiving the Government support letter for infrastructure projects, the extent of BPIMB's financial responsibility is still ambiguous.

After identification of issues to be addressed, the solution tree was charted in Annex 2. It identifies Core Objective in PDM, and clarifies the "means-ends" relationship between the desirable situation (that would be attained once problems have been solved) and solutions for attaining it.

4. Project Strategy

4-1 Project Strategy

4-1-1 General Strategy

To address the problems illustrated in the previous chapter, the Project employs a

TA method that emphasizes institutional capacity building of BPIMB, that is, a TA method that guarantees to enroot the transferred expertise in the organization. By doing so, sustainability of the benefit that is achieved by project implementation is to be enhanced. Also successful implementation of this project scheme necessitates BPIMB and JICA experts collaborate closely in implementing this project. In particular, BPIMB and JICA experts pay attention to effective and efficient project management, through reviewing the progress of the project regularly.

4-1-2 Basic Policy for Project Implementation

BPIMB and JICA experts implement the Project, based on mutual understanding of the Project Implementation Policies described below. JICA experts provide appropriate technical assistance, that meet BPIMB's needs, in efficient and effective manners, acknowledging that this project is one of the unprecedented and advanced technical assistance on infrastructure project finance to a policy-based financial institution, that the counterpart country, Malaysia, is an advanced country in ASEAN region and that this project is one of the first project conducted as Proposal of Technical Cooperation (PROTECO), a TA scheme newly introduced by JICA.

Basic Policy for Project Implementation

- (1) Emphasis on ownership of the government of Malaysia and BPIMB and maintenance of close communication between the Malaysian side and the Japanese side during the Project implementation period.
- (2) Mutual understanding on the roles of the Japanese experts as to assist initiatives and self-help efforts by the Malaysian side: JICA experts provide advice and technical assistance, utilizing know-how and information that BPIMB has started to establish.
- (3) Mobilizing experienced JICA experts and JICA-Net instructors in order to deal with various issues
- (4) Making request for the Development Bank of Japan (DBJ) to collaborate in this Project in Malaysia and in Japan, because DBJ has similarities to BPIMB as a policy-based financial institution and it is one of the most experienced Japanese financial institution in the field of project finance.
- (5) Planning the Project so that sustainability is secured after the project implementation
- (6) Provision of necessary information from BPIMB to JICA experts who meet the

confidentiality obligations.

4-1-3 Main Features of the Project Implementation Process

Main features of this TA project and its implementation process are as follows:

- (1) BPIMB organizes a Taskforce, comprised of Counterpart Members (mainly at senior management level) and Working Team Members (mainly at officer level) concerned with infrastructure finance operation of BPIMB in order to secure regular communication and coordination with JICA experts.
- (2) Provision of working schedule by BPIMB during the project implementation period: BPIMB provides a working schedule on interactive collaboration with JICA experts for 18 months (quarterly basis), for solving main issues to be dealt in this Project. BPIMB also provides their schedule to submit the drafts for the following outputs:
 - (a) Plan for improving risk management system for the infrastructure finance
 - (b) Organizational improvement plan
 - (c) Strategies of infrastructure finance operation
- (3) JICA experts collaborate with BPIMB in Malaysia quarterly, working on main issues indicated in the above-mentioned quarterly working schedule and improvement plan and providing advice through OJT, in a timely and focused manner. In order to do so, JICA experts make plans for collaboration with BPIMB beforehand and carry out adequate preparations every quarter before coming to Malaysia. This TA method allows BPIMB to conduct normal business operation smoothly as well as to perform additional tasks that are necessary for this Project implementation.
- (4) JICA experts receive the information from BPIMB, in accordance with the working schedule during the project implementation period, and analyze concrete issues before each time they conduct TA in Malaysia. JICA experts make adequate preparation and collaborate with BPIMB with efficient and effective provision of advice in Malaysia. JICA experts make good use of information and know-how that BPIMB has obtained since its inception of infrastructure finance operation as much as possible.
- (5) Following measures are taken to secure continuation of the technical assistance in the course of the Project implementation as both sides work separately in Malaysia and Japan respectively except for quarterly joint work in Malaysia:
 - A) Taskforce members of BPIMB and JICA experts grasp achievement and issues to be addressed in the future on a quarterly basis.

- B) After coming back to Japan, JICA experts conduct follow-up works necessary to solve issues identified in the previous collaboration work in Malaysia and communicate and coordinate regularly with the Taskforce members through e-mails, faxes, etc.
 - C) BPIMB and JICA experts secure regular communication through JICA-Net for overall information exchanges. This is basically conducted on a monthly basis during the months JICA experts do not work in Malaysia.
- (6) This Project utilizes various TA methods; collaboration work to solve issues and OJT conducted by JICA experts in Malaysia as basis, the TA methods include holding seminars in Malaysia, trainings in Japan, and utilizing JICA-Net (including lectures on specific technical areas such as know-how at sub-sector level, know-how on engineering and on environment evaluation). Also, the Project requests the Development Bank of Japan for cooperation in holding seminars in Malaysia and Japan, in order for BPIMB to learn lessons from DBJ's experience in project finance and in building its know-how as a policy-based financial institution.
- (7) The Training programs in Japan consist of two courses: a trainer's training for officers and a program for executives. In trainer's training, participants will acquire knowledge of project finance to apply for infrastructure finance in Malaysia. In a program for executives, participants will share views on the direction of BPIMB's infrastructure finance and enhance understanding of other countries' experiences to reflect BPIMB's future operational strategies
- (8) A consignment study to a local consulting company will be implemented by JICA's assistance under close coordination between JICA Experts and Malaysian counterpart in order to grasp actual situation of sub-sectors in Malaysia and learn lessons from cases studies. This aims at strengthening BPIMB's capacity in infrastructure finance at sub-sector level, because BPIMB has not yet accumulated Malaysia-specific information and know-how at sub-sector level in a systematic way.
- (9) The Project assists BPIMB in establishing a know-how accumulation system and training internal trainers system during project period, to secure sustainability after the project implementation.

4-2 Implementation Structure¹

4-2-1 Taskforce

For implementation of this project, BPIMB organizes a Taskforce to be counterparts of Japanese experts. The Taskforce is comprised of Counterpart Members (mainly at senior management level) and Working Team Members (mainly at officer level). The Counterpart Members are to work directly with Japanese experts. The Working Team Members are to work under the instruction of Taskforce Members and are to be trained as internal trainers and expected to assume the role of enrooting the transferred expertise in the organization in the future.

4-2-2 Joint Coordinating Committee (JCC)

For management of and coordination concerning this project, the Joint Coordinating Committee (JCC) is to be established and to meet three times during project implementation period. JCC's function and composition is as follows:

(1) Functions

- Discuss and decide overall management and coordination of the Project
- Review, advise and endorse the Project Plan
- Review, advise and endorse the progress of the Project
- Discuss and decide any other matters related to the Project

(2) Composition

- Chairman: Chief Executive Officer of BPIMB
- Deputy Chairman:
 - 1) General Managers of Infrastructure Banking Sector and Supervision Sector of BPIMB
 - 2) JICA's Chief Advisor for the Project
- Members:
 - Counterparts, BPIMB

¹ For implementation structure of the project, please refer to Annex 9.

- Personnel of Finance Division, MOF
- Personnel of Industry and Trade Section, EPU
- Personnel of DFIA Regulation Department, BNM
- Resident Representative of JICA Malaysia Office
- JICA Experts

5. Project Design

The following text describes the Project in terms of its objectives, outputs, activities, inputs, important assumptions, implementation structure and prior obligations. Most of this information is summarized in a standard format of the Project Design Matrix (PDM) in Annex 1 and the Plan of Operations in Annex 2.

5-1 Project Purpose

The project purpose is defined as:

“Credit risk management capacity of infrastructure finance operation in BPIMB is strengthened with improved project management and risk management system and capability”

It is expected to be achieved by the end of Project duration (one and half years from project inception, that is June 2004 under the current institutional frame work). The accomplishment of the project purpose can be measured *by number and ratio of projects that have been assigned risk scoring.*

An important assumption to achieve the project purpose is “Systemized know-how is utilized for practice”. If the know-how established / enhanced in the project outputs is not applied to practice, the project management system and risk management system cannot be improved.

5-2 Overall Goal

The overall goal of the Project is defined as:

“Infrastructure finance capacity in Malaysia, especially that of BPIMB, is strengthened.”

The accomplishment of this overall goal can be measured over longer period of time than project duration (1 and a half years). The overall goal is to be measurable *by number of project screening at project formulation stage and number of conducting feedbacks of issues to the government as financial institution.*

An important assumption to achieve the overall goal is “Infrastructure finance capacity in Malaysia, especially that of BPIMB, is strengthened”. If the improved project management system or risk management system are not maintained nor

updated, the positive benefit of the Project cannot be sustained after the project implementation and can not lead to capacity enhancement of infrastructure finance of Malaysia, especially that of BPIMB.

5-3 Outputs and Activities

In order to achieve the project purpose, the following five outputs are required to be produced. Activities to be implemented for achieving each output are also described.

Output 1: Capacity of BPIMB's infrastructure finance risk management system is strengthened.

Activities to be implemented:

- (1) Assess the current capacity of infrastructure finance related sectors to make corporate and project appraisal
- (2) Examine improvement measures for organizing loan policy, manuals, etc. (for overall risk management)
- (3) Examine improvement measures for plan and system of ALM and risk management.
- (4) Examine improvement measures for fund mobilization and necessary disclosure
- (5) Hold seminar on process for establishing risk management system, for upgrading know-how and practical risk judgment as a policy-based finance institution

Output 2: Know-how on project risk evaluation is accumulated and shared in BPIMB.

Activities to be implemented:

- (1) Review cases of loan projects and accumulate lessons learned
- (2) Improve financial modeling
- (3) Improve risk evaluation manuals
- (4) Develop a system for know-how sharing
- (5) Hold review training on know-how of project

Output 3: BPIMB's human resource development concerned with infrastructure finance is strengthened.

Activities to be implemented:

- (1) Improve training system (OJT/group training)
- (2) Train trainers

- (3) Hold training/seminar on infrastructure finance

Output 4: BPIMB's capacity of organizational improvement related to infrastructure finance is enhanced.

Activities to be implemented:

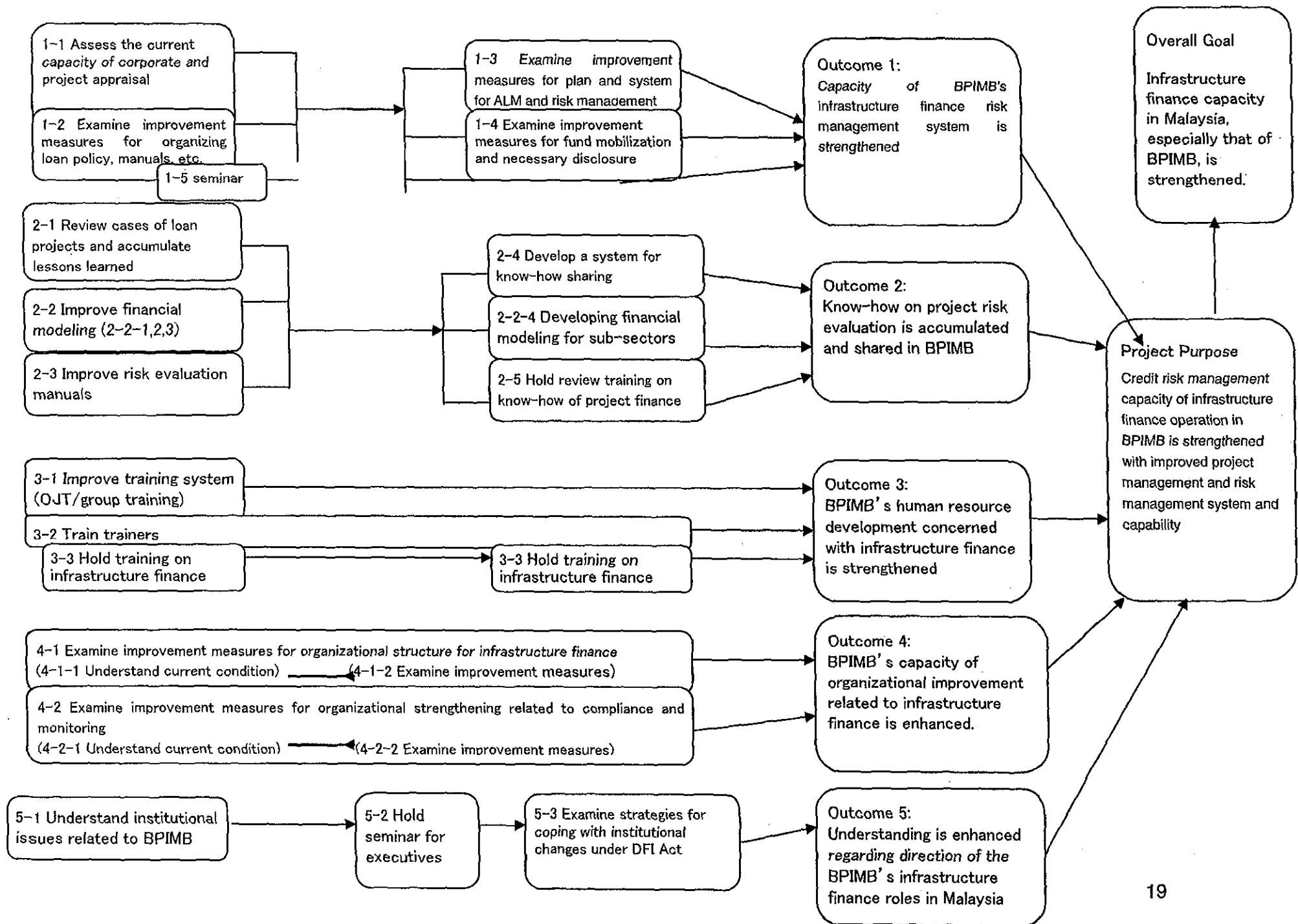
- (1) Examine improvement measures for organizational structure for infrastructure finance
- (2) Examine improvement measures for organizational strengthening related to compliance and monitoring

Output 5: Understanding is enhanced regarding direction of the BPIMB's infrastructure finance roles in Malaysia

Activities to be implemented:

- (1) Understand institutional issues related to BPIMB
- (2) Hold seminar for executives, including Board of Directors and Senior Management who are to establish the strategy of infrastructure finance operation
- (3) Examine strategies for coping with institutional changes under DFI Act (i.e. clear mandate and policy for infrastructure financing)

The chart below shows the work flow of outputs and activities stated in 5-3.



5-4 Inputs

The following inputs from both Japanese side and Malaysian side are necessary to undertake the activities listed above.

5-4-1 Inputs from the Japanese side

The Japanese side will take the following measures at its own expense:

(1) Dispatch of Japanese experts

JICA Experts-Approximately 8 experts

Approximately four times a year (Please refer Annex 5)

Lecturers from Development Bank of Japan-Approximately 5 lecturers

Approximately once a year

(Please refer Annex 11)

(2) Training of Malaysian personnel(s) in Japan (Please refer Annex 7)

(3) Utilization of JICA-Net approximately eight times a year for reviewing issues, coordinating future activities, and conducting small seminars on specific subjects. (Please refer Annex 4)

(4) Implementation of a consignment study on sub sectors of Infrastructure in Malaysia by a local consulting company in the Japanese first fiscal year. (Please refer Annex 6)

5-4-2 Inputs from the Malaysian side

The Malaysian side will take the following measures.

(1) To establish a Joint Coordinating Committee (JCC) to supervise and manage the Project that will consist of representative from BPIMB, MOF, EPU, BNM, JICA and JICA experts (EOJ is invited if necessary).

(2) To establish a Taskforce composed of the Counterpart members and the Working Team members, for implementation of the Project
(Organizational structure for project supervision/management and implementation is shown in Annex II)

(3) To assign adequate number of staff necessary for implementation of the Project as Taskforce members, including administrative staff.

(4) To provide working facilities necessary for implementation of the Project.

(5) To make necessary arrangements to secure adequate budget for implementation of the Project as follows:

- a. Salaries and other allowances for the Malaysian counterpart personnel
- b. Expenses such as electricity, water, gas fuel and local telecommunication

- c. Other contingency expenses related to the Project incurred by Malaysian counterpart
- (6) To provide means of transport and travel allowances for the Japanese experts for official travel within Malaysia
- (7) To coordinate with institutions that are involved in providing services regarding Project Finance, if necessary.
- (8) To ensure the following Management Information Procedures and Systems are in place:
 - a. Project Monitoring
 - b. Project Profitability
 - c. Portfolio Management
 - d. Risk Management
 - e. Budgeting
 - f. Fund Monitoring

5-5 Important Assumptions and Risk Analysis

Important assumptions assumed for this project are as follows:

- An important assumption to achieve the project purpose is “Systemized know-how is utilized for practice”. This important assumption is expected to be fulfilled, because the Project employs a TA method that provides assistance in the course of engagement in the ordinary business operation.
- An important assumption to achieve the overall goal is “Infrastructure finance capacity in Malaysia, especially that of BPIMB, is strengthened”. This assumption is expected to be fulfilled, because the Project employs a TA method that focuses on establishing systems that are sustainable after the project implementation period.
- Important assumptions to achieve project outputs are “trained staff continue working at BPIMB” and “counterpart members continue working at BPIMB”. These assumptions are expected to be fulfilled, as strong commitment by the BPIMB side is expected.

5-6 Pre-conditions

As a precondition for commencement of the Project, mobilization of the Inputs listed in section 5-4 above should be assured. Also, the project assumes that institutional framework related to infrastructure finance operation of BPIMB does not change.

6. Ex-ante Evaluation

When JICA implements ODA projects, it uses five evaluation criteria stipulated by the *Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD)* to determine whether implementation of the Projects is appropriate. The aforementioned criteria are: efficiency, effectiveness, impact, relevance, and sustainability. These criteria are also used in the stages of monitoring and evaluation of projects.

6-1 Relevance

Relevance is evaluated through examining whether or not the Project Purpose and Overall Goal are consistent with development policies and match the needs of beneficiaries.

The project is considered to be relevant by following reasons:

- (1) The Project is in line with Japan's aid principle and JICA's Country-specific Project Implementation Plan for Malaysia.
- (2) It is in line with the Eighth Malaysian Plan 2001–2005 and the Financial Sector Master Plan 2001-2010.
- (3) Japan has accumulated the appropriate and transferable infrastructure finance know-how.
- (4) BPIMB is the only governmental financial institution that conducts infrastructure finance. There is a strong need for human resource development, as infrastructure finance requires quite different expertise from the conventional financing skill of SMI finance.

6-2 Effectiveness

Effectiveness is evaluated by the prospects for achieving the Project Purpose. Particular attention is paid to confirm whether or not the Project Purpose can be expected to achieve based on the achievement of Outputs.

The Project is considered to be effective by following reasons:

- (1) Strong commitment of the BPIMB's management headed by CEO
- (2) The Project is designed to strengthen BPIMB as a whole by training system development and organizational structure reform.

- (3) It also aims to upgrade the level of know-how on a sector basis as well as individual project basis.
- (4) It is designed to solve prospective problems in accordance with BPIMB's working schedule. Therefore there is a high possibility that the knowledge acquired will be utilized after the completion of the Project.
- (5) Through occasions such as Joint Coordinating Committee, seminars, and JICA's training in Japan, authorities concerned will enhance understanding of the importance of BPIMB's role as a policy-based financial institution.
- (6) The direction of infrastructure finance system in Malaysia becomes clearer as BPIMB formulates "Strategies of Infrastructure Finance Operation" which clarifies its own role. It is effective with the synergy of human resource development.

6-3 Efficiency

Efficiency is assessed by productivity of implementation process. The evaluation element is the appropriateness of the quantities and quality of resources put in, the means, methods and timing of Inputs to achieve Outputs.

The Project is expected to be efficient by following reasons:

- (1) It is clear what minimum inputs are necessary since BPIMB provides their working schedule and information in order to clarify what and when BPIMB needs assistance from JICA experts.
- (2) In accordance with the issues and the schedule discussed in advance, the quarterly on-site work will be effective and efficient through know-how transfer with interactive work at each phase between JICA experts and BPIMB.
- (3) Before and after the work in Malaysia, JICA experts make thorough preparations in Japan such as producing appropriate materials and following up problems in order to implement the on-site work productively.
- (4) While in Japan, JICA experts follow up the problems and exchange information with BPIMB by e-mail and JICA-Net in order to grasp the progress and problems. Therefore the continuity of the technical assistance is secured throughout the Project.
- (5) By improving risk the management capacity of infrastructure finance related sectors, the risk management capacity of whole BPIMB will be strengthened, which will lead to the sound financial system and efficient promotion of infrastructure

development in Malaysia. Therefore the Project is considered to be cost effective.

6-4 Impact

Impact is evaluated by the effects of project implementation. The impact of the Project is assumed as follows:

- (1) As a result of improving its infrastructure finance capacity, BPIMB will be able to feed back the information on project risks from the perspective of a financial institution to concerned authorities such as EPU, MOF, and BNM. In this respect, the Government of Malaysia will be able to grasp the financial risks of the projects in advance and promote more feasible infrastructure projects.
- (2) Through improvement of its financial discipline, BPIMB will be able to contribute to establish sound financial system and reduce the amount of fiscal burden such as compensation payment by the Government of Malaysia.

6-5 Sustainability

Sustainability is evaluated through examining whether the benefits of the project will continue after it is completed, with particular attention paid to the project's self-sufficiency.

The Project is assumed to be sustainable by following reasons:

- (1)BPIMB will secure the necessary budget for the future trainings related to infrastructure finance after completion of the Project.
- (2)The Project is designed to establish a system to secure know-how on infrastructure finance within BPIMB by implementing trainers' training.
- (3)The approach to enroot transferred know-how by consolidating systems such as accumulating and sharing knowledge is being considered.

6-6 Overall Conclusion

As mentioned above, implementation of the Project is justified in the perspectives of relevance, effectiveness, efficiency, impact, and sustainability.

Regarding the impact, the expected outcome by implementing this Project including impacts on policy and financial system is considered to be significant for the Government of Malaysia. In terms of sustainability, there is uncertainty whether trained staff will continue working in BPIMB. To countermeasure this

concern, the Project is designed with the emphasis on organizational capacity building. Therefore, the know-how will be sustained in BPIMB even some of the trained staff may leave BPIMB in the future

Implementation of this Project is justifiable and also necessary due to the following reasons:

- (1) The commitment and ownership of BPIMB are strong.
- (2) The value of this Project is significant especially from the perspectives of relevance and impact.
- (3) The Project aims to achieve sustainability and select the approach accordingly.

7. Monitoring and Evaluation

Evaluation of the project will be jointly conducted by the evaluation team(s) consist of JICA and the Malaysian counterparts in JCC, before the end of cooperation term in order to examine the level of achievement.

The Japanese experts and BPIMB will jointly conduct quarterly review on the progress of the project, in order to secure efficiency and effectiveness of the Project.

In the course of the implementation of the Project, the following official reports will be submitted to JICA from organization body for the Project collaborating with the Malaysian Counterpart. All the official reports shall have a prior consent of BPIMB.

Type of Reports

Name	Content	No. of copies	Submission Date
Progress Report	<p>With regard to Output in PDB, "Achievement of Output" as of submission date, and "Progress of Activities" for the following periods will be described.</p> <p>JICA Experts and the Malaysian Counterpart will jointly draft the reports, and have a prior-consultation with JICA before submission of the Reports.</p>	6	At the end of every half year after the inception of the Project.
PDM Output	Outputs defined in PDM, such as draft plans, descriptive papers, training materials which can be disclosed.	6	1 and a half year after the inception of the Project.
Final Report	Final report as of completion of the Project will include the achievement of activities, inputs, outputs, attainment of project purpose and Overall Goals with lessons during implementation of the Project and proposals to JICA and other concerned agencies.	14	1 and a half year after the inception of the Project.

