MALAYSIA

Small and Medium Scale Industry Promotion Program (SMIPP)

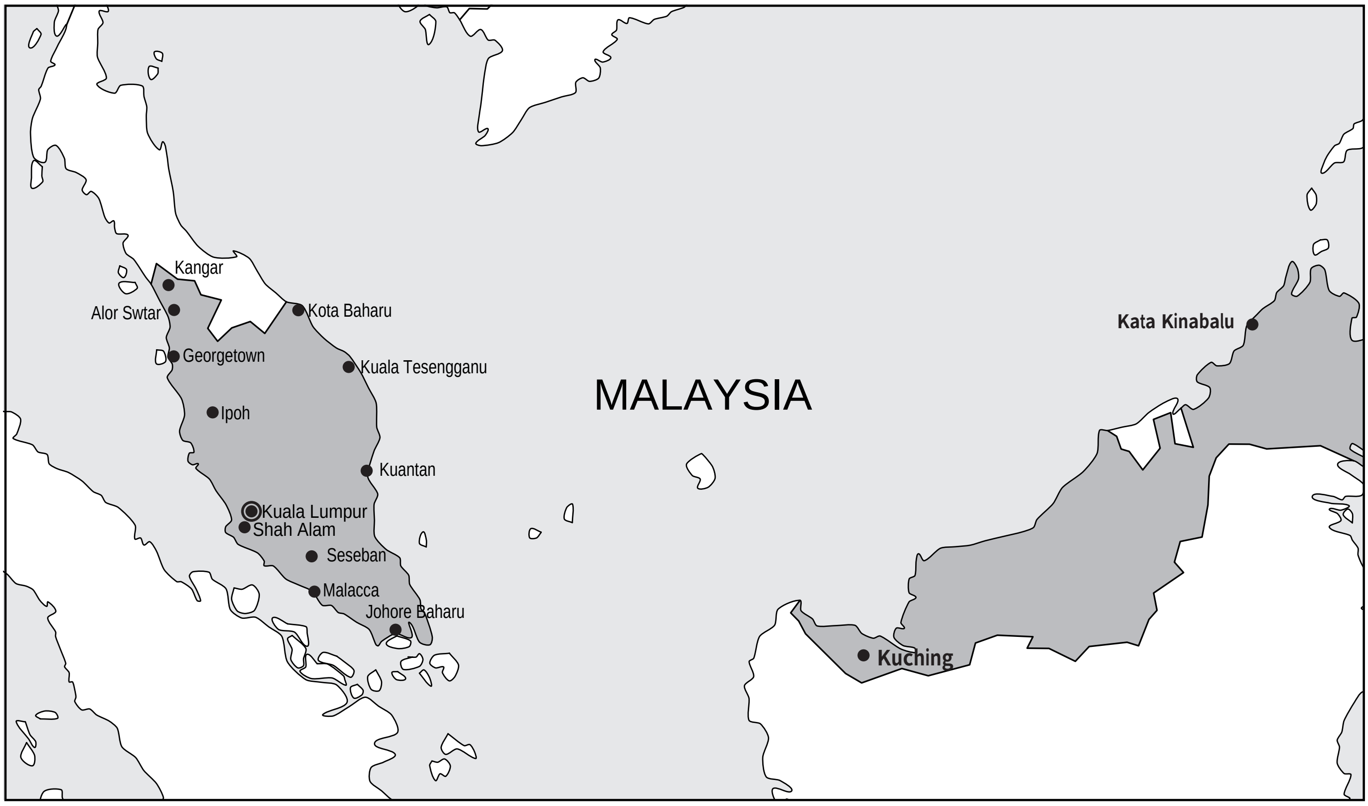
Malaysian Industrial Development Finance Berhad (MIDF) hereinafter refer to as (I)
Bank Industri Malaysia Berhad (BIMB) hereinafter refer to as (II)
Bank Pembangunan Malaysia Berhad (BPMB) hereinafter refer to as (III)

Report Date: March 1999 / Field Survey: February 1998

1 Project Summary and JBIC's Cooperation

This project is aimed to develop and foster small and medium-sized companies in Malaysia, the country's driving force of economic activities, especially private economic fields such as manufacturing and tourism. It is a two-step loan plan in which low-interest/long-term capital loans, which is difficult for small and medium-sized companies to acquire, are provided via government-run financial institutions (the institutions involved include three banks: Malaysian Industrial Development Finance Berhad, Bank Industri Malaysia Berhad, Bank Pembangunan Malaysia Berhad).
The ODA loan covers the entire foreign currency portion required for the sub-loans (facility investment capital and funds for purchasing environmental conservation equipment by the small and medium-sized end users, and loan to funds for consulting services to improve management efficiency as well as productivity and technical performance) and the consulting services (assistance, for the executing agencies to appraise and monitor sub-loans.)

Borrower / Executing Agency	(I) Malaysian Industrial Development Finance Berhad (MIDF), (II)Bank Industri Malaysia Berhad (BIMB), (III) Bank Pembangunan Malaysia Berhad (BPMB) (Guarantor: Government of Malaysia) / Same as left		
Exchange of Notes Loan Agreement	(I) May 1992 May 1992	(II) May 1992 May 1992	IIII) May 1992 May 1992
Final Disbursement Date	March 1995	August 1997	March 1997
Loan Amount / Loan Disbursed Amount	· 4,660 million / · 4,660 million	· 4,660 million / · 4,660 million	· 4,660 million / · 4,660 million
Loan Conditions	Interest: 3.0%, Repayment period: 25 years (7 years for grace period), General untied		



2 Evaluation Results

(1)Sub-loans (loan from three executing agency banks to end users)

Observing the loan situation by industry*, the loans were passed onto the various industries smoothly as initially planned (more than 80% of the loans by the three executing agency banks went to the manufacturing industry.) Malaysian Industrial Development Finance Berhad was particularly active in providing financing, and reached a sum equivalent to the total amount of the ODA loan in two and a half years (¥4.660 billion.) (On the other hand, the Bank Industri Malaysia Berhad and Bank Pembanguan Malaysia Berhad were unable to complete their financing targets set by the original plan owing to unexpected delays in the demand for capital funding.) However, looking at the items covered, companies placed a relatively low priority on environmental conservation equipment, and Bank Industri Malaysia Berhad was involved in only one contract for providing loan (for an industrial waste processing facility.) There were no end users who would apply for loans in order to employ consultants for improvement of management efficiency, and consequently no actual results of financing were recorded in this area.

With regard to consulting services for three executing agency banks originally scheduled (assistance for appraising and monitoring sub-loans), no consultants were employed as no problems arose with appraisal and monitoring of the sub-loans even though no consultant assistance was acquired. ¥420 million (¥140 million per bank) for consulting services were instead used for sub-loan financing with the agreement of JBIC.

Regarding the financing situation by numbers of employees, all three banks handled about fifty-fifty ratio of small companies with 50 or less employees and medium-sized companies with 51 or more employees. Concerning the average amount of financing provided, Bank Industri Malaysia Berhad handled an almost equal amount of sub-loans for both small and medium sized companies, but the other two banks provided between three and four times the amount of financing to medium sized companies in comparison to small sized companies. This is thought to be the result of the configuration of the corporations requiring financing being capital-intensive companies for Bank Industri Malaysia Berhad, but labor-intensive companies for other two banks, and the scale of sub-loans reflects the size of the companies (number of employees). Analyzing the scale of financing, majority of the sub-loans for all three banks were for RM1 million or less.

All three executing agencies have established their own special funds and are handling secondary and subsequent loans (revolving funds.) Bank Pembanguan Malaysia Berhad in particular was recording favorable results in sub-loan financing and is making the best use of its revolving fund.

* Industrial categories within each field. For example, the field of manufacturing included plastics, textiles and apparel, food and drink, etc. The service industry includes transportation, storage, medical treatment, etc.

Comparison of Original Plan and Actual

(1) Project Scope	Plan	Actual
[Sub-loan conditions]		
(i) Covered end users	Less than RM 5(Note) million of capital (however there is no limit as for companies purchasing environmental conservation equipment)	Same as planned
(ii) Fields covered	Manufacturing, services, tourism	Same as planned
(iii) Items covered	Equipment funds, environmental conservation equipment, consulting services (management efficiency, improvement of productivity and technical performance)	Equipment funds, environmental conservation equipment
(iv) Sub-loan amount	Less than RM5 million	Same as planned
(v) Interest	Less than 7.0% interest per year	Same as planned
(vi) Repayment (grace) period	Within 15 years (5 years)	Same as planned
(2) Sub-loan Disbursement Period		
ODA loan commencement ~ completion	(I) July 1992 ~ December 1996 (II) July 1992 ~ December 1995 (III) July 1992 ~ December 1995	(I) September 1992 ~ March 1995 (II) September 1992 ~ August 1997 (III) September 1992 ~ March 1997
(3) Project Cost		
Total of (I) ~ (III)		
Grand total	· 18,640 million	· 35,580 million
Foreign currency portion	· 13,980 million (Sub-loan: · 4,520 million X 3 banks + Consulting service: · 140 million X 3 banks)	· 13,980 million (Sub-loan: · 4,660 million X 3 banks)
Local currency portion	RM 93.8 million	RM 585.4 million
Exchange Rate	RM1 = · 49.7 (1992 average)	RM1 = · 36.9 (October 1997)
(Note) RM (Malaysia Ringgit)		

(2) Implementation Scheme
All three executing agency banks carry out exhaustive analysis into the plans of the small and medium-sized companies that become the end users, as well as into their financial status and credibility before supplying them with the requested financing. The fact that all of the executing agencies have low past-due rates (see below) is proof that they are performing their appraisal and monitoring duties suitably.

(3) Credit Management
As of December 1997, the past-due rates were recorded at 1.94% (average for all three executing agency banks,) which is a very low standard overall.
All three banks perform loan management centrally through loan management departments, and the procedures for decreasing their past-due rates are three stages that involves consultations with end users, the liberalization of payment conditions and the fulfillment of collateral guarantees. As mentioned above, the rates of past-due rates with this project are extremely low, and no particular problems with credit management are apparent.

(4) Project Effects and Impacts
The added value produced by small and medium-sized companies rose by around 35% over the five years from 1992 to 1996, an average annual growth rate of approximately 8%. According to figures for the Seventh Five-Year Plan, the growth rate for manufacturing industries as a whole averaged 13.3% per year between 1990 and 1995. Thus while the production capacity of small and medium-sized companies was growing steadily, they still lagged behind the big companies. The biggest problem is the difficulty Malaysian small and medium-sized companies face of obtaining the funds they need to invest in the equipment necessary for modernization. The funds from this project accounted for one tenth of finance extended to small and medium-sized companies in Malaysia at the time of implementation, which suggests that the project made a great contribution to fund procurement by small and medium-sized companies. It is difficult to quantify, but the effects of this project include improvements in technology and productivity yielded by the introduction of new equipment and the creation of jobs through the beginning of new businesses and the expansion of existing ones.

Movements in the Added Value Produced by Small and Medium-Sized Companies from 1992 to 1996

	1992	1993	1994	1995	1996
Added value production amount (RM million)	4.8	5.6	6.2	6.3	6.5

(Source) National Productivity Corp.

The Malaysian government is keenly aware of the importance of small and medium-sized companies in underpinning the economy, and the share of the development budget distributed to small and medium-sized companies to nurture them rose sharply from 6.8% under the Sixth Five Year Plan to 21.9% under the Seventh (1996~2000). However, the small and medium-sized companies themselves still feel a shortage of funds and the supply of low-interest, long-term funds as provided by this project should be increased considerably.

3 Lessons Learned

When several executing agencies (financial institutions) are aligned for providing development financing loans, it is more effective not to establish the same project scales and sub-loan conditions for each agency concerned, but to handle each case flexibly in accordance with the financial requirements and scale of the targeted end user.

In the case of this project, the three executing agencies had their own business objectives and characteristics, and their measures concerning ODA loans differed slightly from one another. On the other hand, as the small and medium-sized companies are the end users of this project, the same sub-loan conditions and the loan amount (demand for funds) were established for each agency. In light of the above situation, however, it seems to have been better if consideration was given to each agency to set different project scales and sub-loan conditions.

Equipment introduced using a sub-loan (Business type: Textiles)