**13 Malaysia****Fund for Small and Medium Scale Industries**

Supporting economic recovery in Malaysia, which was affected by the Asian currency crisis.

Loan Amount/Disbursed Amount 16.296 billion yen/15.646 billion yen
Loan Agreement Terms & Conditions March 1999
 Interest rate 0.75%, Repayment period 40 year (grace period 10 years), General untied
 March 2004
Final Disbursement Date
Executing Agency Malaysian Industrial Development Finance Berhad (<http://www.midf.com.my/>);
 Bank Perusahaan Kecil & Sederhana Malaysia Berhad* (<http://www.smebank.com.my/>)

* Bank Perusahaan Kecil & Sederhana Malaysia Berhad, or SME Bank (SMEB), was established as a subsidiary of Bank Pembangunan Malaysia Berhad (BPMB) following the latter's formation in September 2005 through the integration of Bank Pembangunan & Infrastruktur Malaysia Berhad (BPIMB) and Bank Industri & Teknologi Malaysia Berhad (BITMB).

Project Objectives

The objective of this project was to develop small and medium-sized enterprises (SMEs) in Malaysia through the provision of long-term, low-interest loans for fixed asset investment funding, etc., via financial institutions, and thereby contribute to the promotion of SMEs, the expansion of supporting industries, and the creation of employment opportunities.

Effectiveness & Impact**Rating a**

There were 483 sub-loans in this project, which had a total loan amount of RM547.7 million. By type of business, the manufacturing industry accounted for the majority of borrowers (75.4% of the number of sub-loans and 69.6% of the total loan amount). By purpose, the majority of sub-loans were used to purchase new machinery or equipment aimed at production capacity expansion, equipment improvement, and/or new product production (81.0% of the number of sub-loans and 72.2% of the total loan amount). By region, the west coast of Peninsular Malaysia, the country's industrial heartland, accounted for about 80% of the sub-loans. By borrower scale, most of the sub-loans were provided to small and micro businesses. A beneficiary survey (52 valid responses) confirmed that a little over 30% of the businesses had greatly increased sales after receiving the loan, and a little under 70% had sales that increased, even if only marginally. Moreover, 44% of the businesses whose sales had increased said that those increases

were strongly related to this project. Therefore, this project has largely achieved its objectives, and effectiveness is highly satisfactory.

Relevance**Rating a**

This project has been highly relevant with Malaysia's national policies both at the time of the appraisal and at the time of the ex-post evaluation. This project was planned based on the Seventh Malaysia Plan and Second Industrial Master Plan, and was utilized within the framework of the Fund for Small and Medium Scale Industries, established in 1998. At the time of the ex-post evaluation, the promotion of development of SMEs was being emphasized.

Efficiency**Rating a**

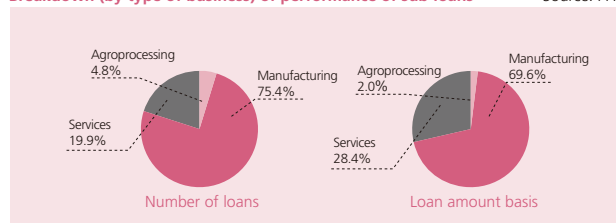
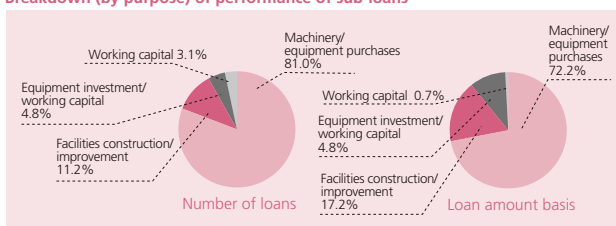
Both project period and costs were almost as planned, therefore, efficiency of the project is high. Although the approved amount of sub-loans exceeded the funds received by the participating financial institutions (PFIs), delays in actual sub-loan disbursement resulted in funds being left unused.

Sustainability**Rating b**

Regarding sub-loan repayment, while the average recovery rate is generally favorable, at over 80%, it is on a downward trajectory overall. Moreover, the arrears ratio by amount is above 20% at all three PFIs. No major problem has been observed for capacity of the executing agency (such as loan appraisal and loan management capability) or the operation or its maintenance system, therefore, sustainability of this project is moderate.

Breakdown (by type of business) of performance of sub-loans

Source: PFIs

**Breakdown (by purpose) of performance of sub-loans****Third-Party Opinion**

The Malaysian government is emphasizing the improvement of financial access for SMEs. The financial schemes for SMEs are consistent with the goals of that policy. With similar projects in the future, it would be advisable to improve the flexibility and broaden the scope of the loans in order to respond to market changes.

Name of specialist: Tan Sri Dato' Dr. Lin See-Yan (private sector)
 Doctorate in economics from Harvard University. Currently manages a consulting firm and is pro-chancellor of Universiti Sains Malaysia and professor of economics at the Universiti Utara Malaysia. Specializes in economics and business administration.