

## Malaysia

### AJDF Category B (Malaysian Industrial Development Finance)

Report date: March 2001

Field survey: August 2000

#### 1. Project Profile and Japan's ODA Loan



Project Area Location Map: Malaysia



Furniture factory utilizing waste rubber in the suburbs of Kuala Lumpur

#### 1.1. Background

Insufficient development of small- and medium-sized domestic enterprises has been pointed out as its structural problem in Malaysia. The majority of manufactured goods exports are electrical, electronic equipment and textiles. Since few inter-industry relations exist among assembly type manufacturing industries, small- and medium-sized enterprises that should form the foundation of these industries have not been developed. Under these circumstances, the government of Malaysia considered this project as one under which loans would be provided at a preferential interest rate as investment funds to promote capital investment in the manufactory sector and to enhance productivity in line with the Malaysia's development policies, especially the policy for small-medium enterprises. In addition, they expected that this project would offer domestic financial institutions an opportunity to shift the focus of their financing with a view to expanding the productive capacity of the country through, in particular, export promotion and the development of growth industries.

Japan, on its part, established the ASEAN-Japan Development Fund (AJDF) as part of its financial recycling scheme with the aim of helping ASEAN nations promote regional economic cooperation and private sector development, and accordingly, the decision was made to provide financial assistance<sup>1</sup> (Category B-the portion of a project contributing to the development of the private sector which is covered by Japan's ODA loan (the "ODA loan"))).

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<sup>1</sup> Category A covers projects contributing to the promotion of regional economic cooperation and Category B covers projects contributing to the development of the private sectors.

## 1.2. Objectives

The objective of the project was to provide long-term low-interest capital funds mainly to small- and medium-sized enterprises in Malaysia through Malaysia Industrial Development Finance (MIDF), a governmental development financial institution, thus promoting their businesses.

## 1.3. Project Scope

The ODA loan covers the source fund of sub-loans which is necessary for the implementation of the project and the funds for consulting services.

Eligible Industries: Product manufacturing of foods, beverages, tobacco, textiles, clothing, rubber, plastics, nonferrous metals, metal engineering, etc.

Eligibility: Enterprises with at least 51% of Malaysian shareholding and paid-up capital not exceeding M\$5 million

Items Covered by Loans: Capital investment and building (excluding land)

Terms and Conditions: Loan amount up to M\$5 million; interest rate 6.5% per annum (upper limit); period over 1 year up to 15 years (grace period up to 3 years); percentage of financing less than 75% of necessary funds

## 1.4. Borrower/Executing Agency

Malaysia Industrial Development Finance (MIDF) (guaranteed by the government of Malaysia)

## 1.5. Outline of Loan Agreement

Loan amount/Loan disbursed amount	¥10.013 billion/¥10.013 billion
Exchange of notes/Loan agreement	December 1988/December 1988
Terms and conditions	Interest Rate: 3.5%, Repayment period (grace period): 25 years (7 years), General untied
Final disbursement date	December 1993

## 2. Results and Evaluation

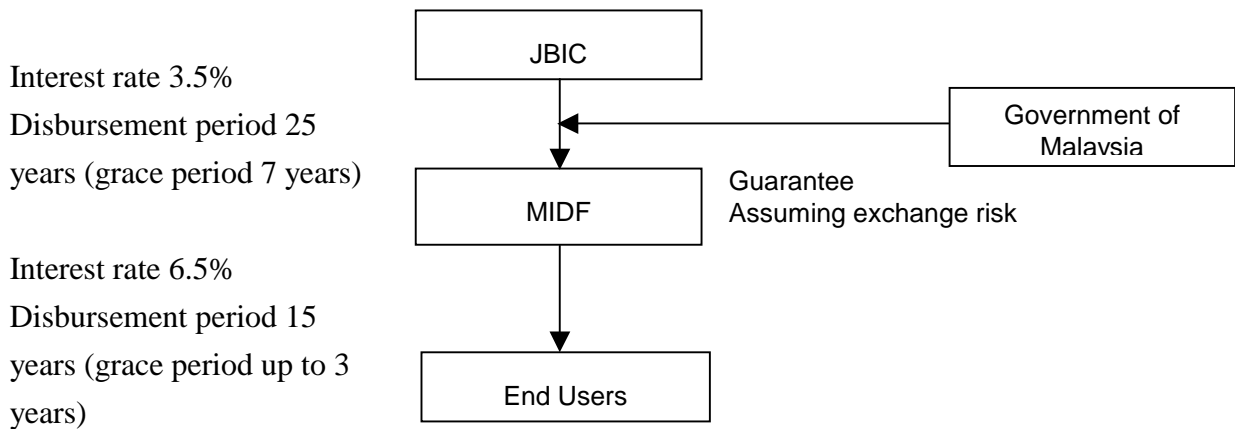
### 2.1. Relevance

The 1st Industrial Master Plan (IMP) for 1986-1995 laid out the outline of development of wide-ranging manufacturing sectors in line with the policy to promote export-oriented industrialization. Based on that outline, the development of underdeveloped small- and medium-sized enterprises was promoted with the aim of strengthening inter-industry relations. The project was implemented as a financing support project to promote capital investment of small- and medium-sized local enterprises as part of the national policy to develop such enterprises. The project plan was relevant in that it aimed to provide fixed funds at a low rate of interest to small- and medium-sized enterprises that had difficulty in obtaining access to such funds. The

2nd Industrial Master Plan (IMP2) for 1996-2005 was drawn up upon completion of IMP. IMP2 set the target of increasing value added particularly in manufacturing sectors, under which more capital-intensive industrialization strategies were carried out in order to deal with the shortage of unskilled labor. These strategies were promoted especially strongly in the area of electrical and electronic manufacturing including computer related manufacturing.<sup>2</sup> Capital investment of small- and medium-sized enterprises in manufacturing sectors, which form the wide-reaching foundations of the industry, remains very important today and, therefore, the project has maintained its relevancy to the present.

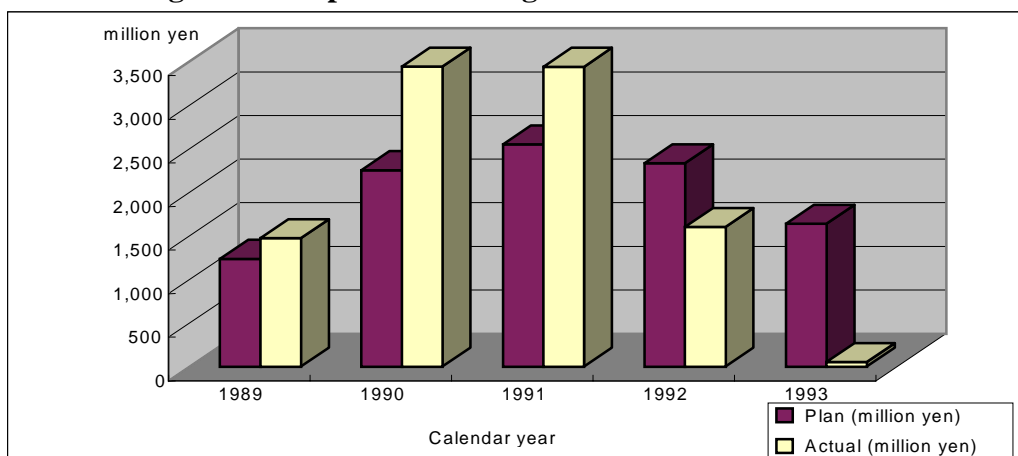
## 2.2. Efficiency

**Figure 1 Implementation Scheme**



The ODA loan was scheduled to be disbursed over a 5-year period from 1989 to 1993. As shown in Figure 2, the disbursement was implemented mostly in accordance with the disbursement schedule which was planned at the time of appraisal.

**Figure 2 Comparison of Original and Actual Disbursement**



Sources: JBIC's data

Note: Amounts are based on the disbursed amounts of the ODA loan

<sup>2</sup> "The Central Bank and the Financial system in Malaysia" Bank Negara Malaysia, 1999

First loan disbursement using ASEAN-Japan Development Fund (AJDF) was provided during the period when Malaysia was enjoying high economic growth and there was a great demand for funds. On the other hand, open market rates were high and the availability of low-interest funds was limited. These situations are considered to be the primary factors underpinning the efficient implementation of the project. Table 1 shows changes in the Base Lending Rate (BLR) and the Average Lending Rate (ALR) of commercial banks and the growth rates of GDP and manufacturing industries from 1988 to 1993. Since 1988, the BLR and ALR of commercial banks have been maintained at around 7-9% and 8-10% respectively. Offering loans with the annual interest rate fixed at 6.5% during this period meant providing small- and medium-sized enterprises, which have less access to funds than large enterprises, with a favorable opportunity to procure funds for investment. Above all, the Malaysian economy was growing rapidly at that time, as shown in the bottom column of Table 1, creating a great demand for funds.

**Table 1 Changes in Interest Rates and Growth Rates of GDP, etc.**

Year		1988	1989	1990	1991	1992	1993
Commercial banks	BLR	7.0	7.0	7.5	8.7	9.3	8.2
	ALR	9.0	8.7	9.0	9.7	10.3	9.7
Growth rate of GDP (%)		9.9	9.1	9.0	9.5	8.9	9.9
Growth rate of the manufacturing industry (%)		17.0	20.3	15.3	14.0	7.0	14.6

Unit: %

Source: Bank Negara Malaysia (BNM) for interest rates and Department of Statistics for GDP statistics  
Note: BLR and ARL are as of the end of each year.

Compared with other policy financing schemes available from 1988 to 1993, the AJDF project, which included non-Malaysian enterprises among eligible borrowers if they satisfied the conditions “enterprises with at least 51% of Malaysian shareholding“, was more attractive and convenient until 1993, at which time a policy financing scheme financed by Ministry of International Trade and Industry (MITI) of Malaysia was introduced (borrowers were not required to be enterprises with Malaysian capital and the interest rate was 4% per annum).

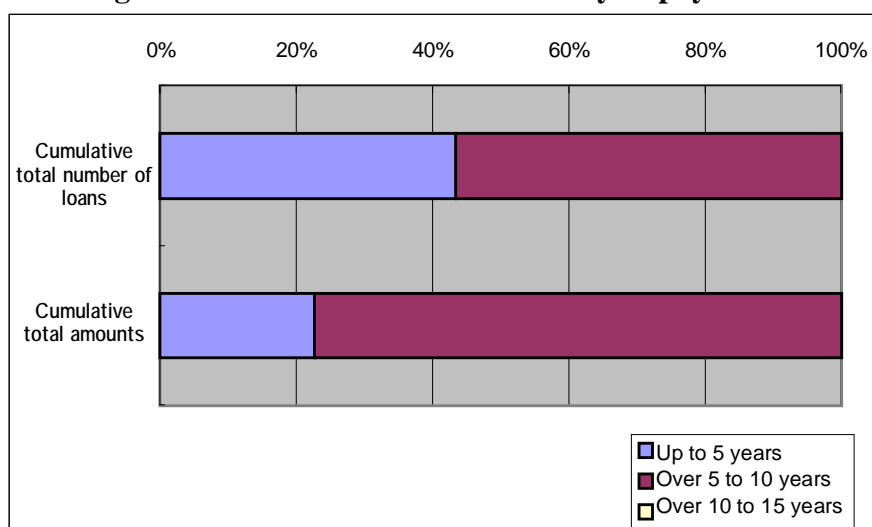
Figure 3 is the classification of sub-loans covered by the first loan disbursement<sup>3</sup> by repayment period based on the cumulative total of actually approved loans as of March 1993<sup>4</sup>. It shows that sub-loans with a repayment period of more than 5 years and up to 10 years accounted for 56.7% in terms of the number of loans and 77.3% in terms of

<sup>3</sup> Financing using the ODA loan as the only source of funds and excluding the funds repaid by end users to the source fund

<sup>4</sup> No data on loans limited to primary borrowers have been obtained. These data and the data on financing results presented in the section on “Effectiveness“ are based on the relevant data for January 1989 to March 1993 which can be classified by MIDF as the data on first disbursement loans in its progress report. In analyzing trends in first loan disbursement, there does not appear to be a such significant difference in these data in terms of the affect of the analysis.

amount, evidencing that medium and long-term loans were extended to small- and medium-sized enterprises that otherwise had little access to such loans.

**Figure 3 Classification of Sub-loans by Repayment Period**



Source: MIDF

Note: Percentages for cumulative totals of loans and the ratio of cumulative totals of loan amounts refer to the ratios of the number and amount of sub-loans of each category of repayment period against the cumulative total of all sub-loans approved by the end of March 1993.

MIDF provided all sub-loans for the first loan disbursement using the AJDF fund. This enabled the executing agency to disburse sub-loans promptly and to receive funds from the ODA loan as quickly as possible, thus contributing to the efficient implementation of the project. In addition, the risk of exchange fluctuation was assumed by the government when providing funds under the AJDF projects. The Malaysian government's commitment to the development of small- and medium-sized enterprises on a long-term basis was one of the important factors which contributed to the success of the project.

## 2.3. Effectiveness

### (2.3.1.) Results of Financing

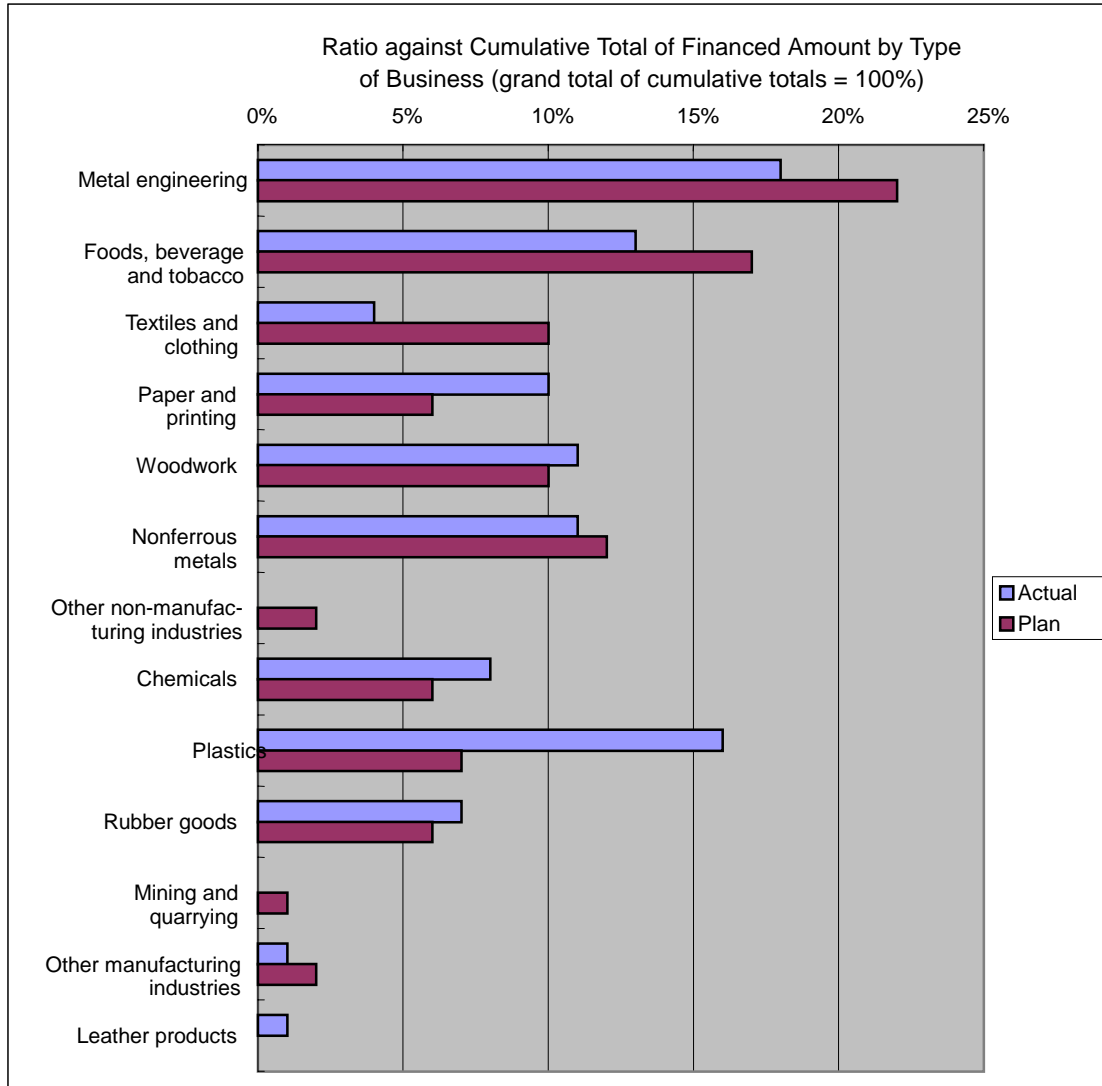
In this section, in order to evaluate the extent of target achievement, the state of sub-loan disbursement is analyzed according to type of business, number of employees and amount of sub-loans in comparison with the plan submitted by MIDF at the time of appraisal. All data are totals of cases and amounts that were approved at project initiation as reported in semiannual progress reports submitted by MIDF.

#### (a) Financing result by type of business

Figure 4 is a comparison between the cumulative totals of approved amounts (actual results) as of the end of March 1993, and the projection of cumulative disbursement totals from the AJDF fund for 1989 to 1993 submitted by MIDF at the time of appraisal. The results cover the majority of eligible industries that were initially included in the plans. The comparison in ratios of cumulative totals for each industry

against the cumulative grand total indicates that estimates for fund demand were accurate although there are slight differences because the plan covered disbursement amounts whilst the results are for approved amounts.

**Figure 4 Ratio against Cumulative Total of Financed Amount by Type of Business**



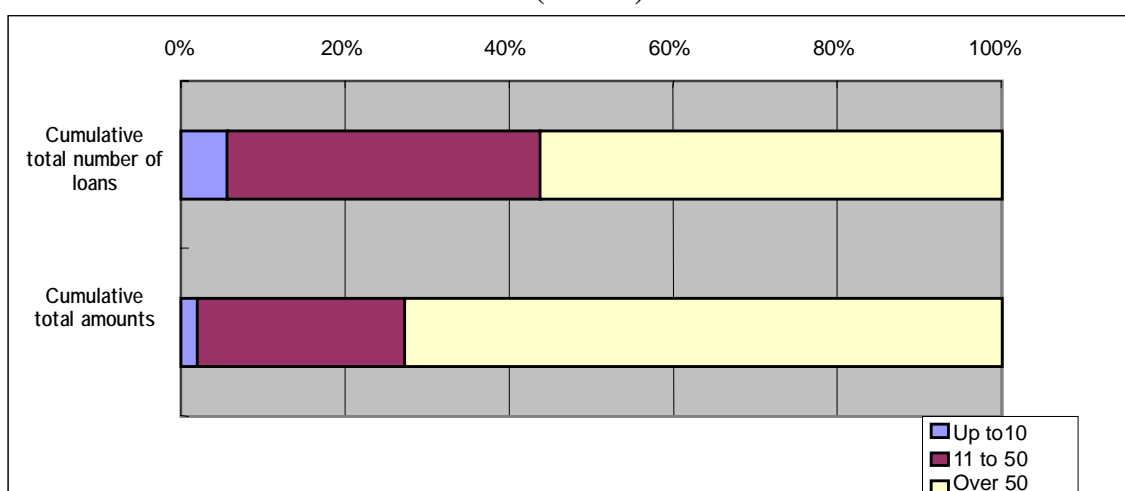
Source: MIDF's data

**(b) Results of financing by number of employees**

The results of financing by number of employees are shown in Figure 5. Sub-loans given to enterprises with 50 or less employees account for 44% in terms of the number of loans and 27% in terms of amount, evidencing that a relatively large portion of the loans were extended to small- and medium-sized enterprises.<sup>5</sup>

<sup>5</sup> The definition of small- and medium-sized enterprises in Malaysia (MITI of Malaysia as of January 1998) is enterprises with fewer than 150 full-time employees and annual sales not exceeding M\$25 million. Among them, small-sized enterprises are defined as enterprises with fewer than 50 full-time employees and annual sales not exceeding M\$10 million.

**Figure 5 Cumulative Totals of the Amount Disbursed by Number of Employees  
(results)**



Source: MIDF's data

Note: The numbers of employees are the totals of those who were employed and planned to be newly hired at the time of sub-loan appraisal

**(c) Results of financing by amount of sub-loans**

Table 2 shows cumulative totals of the number and amount of sub-loans approved under the first loan disbursement. Sub-loans of M\$3 million or less occupied 95% of the plan and 92% of the results in terms of number, and 58% of the plan and 69% of the results in terms of amount. Relatively small denomination sub-loans were extended to small- and medium-sized enterprises as planned.

**Table 2 Comparison of Planned and Actual Financing by Amount of Sub-loans**

Unit: number (case) amount (M\$ million)

	Plan at Appraisal				Actual			
	Number	Ratio	Amount	Ratio	Number	Ratio	Amount	Ratio
~ M\$ 200,000					31	13%	4.2	2%
M\$200,000 ~ M\$1 million	188	86%	58	31%	125	54%	61.6	26%
M\$1 million ~ M\$2 million	11	5%	27	14%	38	16%	50.0	21%
M\$2 million ~ M\$3 million	9	4%	25	13%	21	9%	47.7	20%
M\$3 million ~ M\$4 million					8	3%	25.8	11%
M\$4 million ~ M\$5 million	11	5%	77	41%	3	1%	13.2	6%
M\$5 million					7	3%	35.0	15%
Total	219	100%	187	100%	233	100%	237.4	100%

Source: MIDF Data

**(2.3.2.) Viability of Borrower Enterprises**

Few borrowers of AJDF funds have defaulted on their loans, indicating that strict loan appraisal has been conducted. MIDF explains that the circumstances of AJDF

fund borrowers are far better than those of other MIDF's programs. Therefore the viability of such borrowers can be evaluated as good.

**(2.3.3.) Improvement of Export Competitiveness through Enhancement of Technical Capability of Equipment within Export-Oriented Industries**

All 10 borrower enterprises we visited in the evaluation survey used the AJDF fund for capital investment and exported their products. It suggests that the ODA loan contributed to the improvement of equipment capacity of export-oriented enterprises.

**(2.3.4.) Sales Increases**

Sales figures for the 10 enterprises interviewed in the past 3 years are shown in Table 3. Given that each enterprise obtained their loans at different times and that their sales are greatly affected by economic conditions, it is difficult to determine to what extent the newly introduced equipment directly contributed to the increase of sales from the result of this survey alone. Although average sales have been decreasing in the past 3 years for the 10 enterprises, 6 enterprises recorded continuous increases in sales in the same period during which time Malaysia has experienced a currency crisis, revealing the positive aspects of the business conditions of borrower enterprises.<sup>6</sup>

**Table 3 Sales Increases**

Unit: M\$ million

	Enterprise 1	Enterprise 2	Enterprise 3	Enterprise 4	Enterprise 5	Enterprise 6	Enterprise 7	Enterprise 8	Enterprise 9	Enterprise 10	Average
1999	4.3	11.03	10.7	2.56	10.7	0.4	6.7	5	15.9	28	9.5
1998	3.8	33.23	9.5	2.59	13.2	0.32	5.1	4.7	11.6	25	10.9
1997	3.7	37.76	9.1	2.40	10	0.3	4.7	2.7	10.9	43	12.5

Source: Interview results

**(2.3.5.) Creation and Promotion of Employment brought about by New Investment and Business Expansion**

Two hundred and thirty-three sub-loans (gross) were approved under the first loan disbursement, amounting to M\$237 million. These sub-loans were used for new investment, business expansion, and relocation and diversification. Number of approved sub-loans and their amounts are shown in Table 4. Sub-loans for new investment accounted for about 30 % of the total in terms of both number and amount, and those for business expansion for 50-60%.

<sup>6</sup> The consumer price index (CPI) increase rate during that period was around 3.6% on annual average.



**Table 4 Use of Funds**

	Number (ratio %)		Amount (M\$ million) (ratio %)	
New investment	61	26%	79.6	34%
Business expansion	130	56%	115.1	49%
Relocation and diversification	42	18%	42.7	17%
Total	233	100%	237.4	100%

Source: MIDF data

With regard to the employment creation effect, the data shown in Table 5 were submitted to MIDF by end users concerning the number of additional employees that they were planning to hire in connection with the implementation of the project.

**Table 5 Planned Number of Additional Employees**

	91/92	92/93	93/94	94/95	95/96	96/97	97/98
Planned number of additional employees	1,756	161	NA	493	919	964	843
Number of approved sub-loans	65	16	NA	17	74	60	64
Planned number of additional employees per approved sub-loan	27.0	10.1	NA	29	12.4	16.1	13.2

Source: MIDF data

Table 5 suggests that the employment creation effect produced 10-30 additional employees per sub-loan on average.

## 2.4. Impact

### (2.4.1.) Achievement of Overall Goal

The project aimed to promote exports and develop small- and medium-sized enterprises in manufacturing industries in Malaysia by providing funds for the expansion of production capacity. Although quantitative measurement of the achievement level is difficult, from the facts as described above, the project is considered to have been contributing to the achievement of the overall goal.

### (2.4.2.) Impact on Environment and Society

Monitoring the observation of environmental regulations and standards is primarily considered to be the responsibility of the Department of Environment of the Ministry of Science, Technology and Environment. MIDF checks whether guidelines set by the Department of Environment and Malaysian laws are being observed during regular visits to borrowers. It also confirms observance of government rules on involuntary displacement and resettlement prior to extending loans.

## 2.5. Sustainability

### (2.5.1.) Sustainability of the Project

Table 6 shows the status of the cash collection of primary sub-loans. The collection ratio has declined since the currency crisis of 1997, and especially in 1998. However, it is concluded that the collection ratio has been maintained at high level.

**Table 6 Status of Cash Collection**

Unit: M\$ million

	1993	1994	1995	1996	1997	1998	1999
Principal and interest due (a)	34.4	37.7	39.6	31.9	33.8	23.8	21.9
Collected amount (b)	34.0	37.0	39.0	31.6	32.9	22.1	21.3
Cash collection ratio (b)/(a)	98.8%	98.1%	98.5%	99.1%	97.3%	92.9%	97.3%

Source: MDIF's data

Table 7 shows the status of sub-loan collection in terms of the percentage of loans in arrears<sup>7</sup> (Infection Ratio) and the percentage of loan amount in arrears (Arrears Ratio).

**Table 7 Status of Sub-loan Collection**

	1993	1994	1995	1996	1997	1998	1999
Number of outstanding loans	185	164	151	169	183	184	164
Number of outstanding loans in arrears	32	48	40	39	59	72	43
Arrears Ratio by Number (%)	17.3	29.3	26.5	23.1	32.2	39.1	26.2
Outstanding loan amount (M\$ million)	125.0	93.0	75.0	86.0	85.0	77.0	58.0
Loan amount in arrears (M\$ million)	0.4	1.1	2.1	1.3	2.2	4.6	7.9
Arrears Ratio by Amount (%)	0.3	1.2	2.8	1.5	2.6	6.0	13.6

Source: MIDF data

Note: Above figures include both the first and second disbursement of sub-loans from the special account. MIDF classifies only principals as revolving funds. Therefore, the Arrears Ratio is the ratio against the principal only.

As compared with the Arrears Ratio by Number, the Arrears Ratio by Amount was much lower until 1997, evidencing that arrears occur in loans of relatively small size. The sharp rise in the Arrears Ratio by Amount in 1999 was caused by the increase in loans in arrears resulted from the Asian currency crisis. In addition, MIDF has not approved any new loans using the special account of the AJDF project since 1998. As a result, repayment of principals was facilitated and the outstanding amount was

<sup>7</sup> In response to the questions in our survey, MIDF reported that loans in arrears have been overdue for 3 months or longer.

reduced. This is another factor behind the increase in the Arrears Ratio by Amount.<sup>8</sup>

Table 8 shows the status of utilization of the special account. It became clear that lower denomination sub-loans were disbursed in 1993-1994 and 1998-1999 compared with other years. This is thought to be attributable to the introduction of other financing schemes for small- and medium-sized enterprises and the decline in use of AJDF funds particularly after 1998 resulting from the currency crisis.

**Table 8 Cash Flow of Special Account**

Unit: M\$ million

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
1. Balance brought forward	0.0	11.1	18.6	28.8	43.2	73.9	98.2	114.2	92.1	82.9	80.5
2. ODA loan disbursement	29.2	64.3	70.1	31.5	1.3	0	0	0	0	0	0
3. Collection of sub-loans		6.9	9.4	26	34	37	39	31.6	32.9	22.1	21.3
4. Sub-loan disbursement	18.1	63.7	69.3	43.1	4.6	12.7	17.7	43.1	31.5	13.9	2.2
First loan disbursement	18.1	63.7	69.3	43.1	2.2	0	0	0	0	0	0
Second loan disbursement	0	0	0	0	2.4	12.7	17.7	43.1	31.5	13.9	2.2
5. Repayment of ODA loan (principal)	0	0	0	0	0	0	5.3	10.6	10.6	10.6	10.6
6. Balance carried forward	11.1	18.6	28.8	43.2	73.9	98.2	114.2	92.1	82.9	80.5	89

Source: MIDF data

### **(2.5.2.) Sustainability of Executing Agency**

MIDF's organization, financial status and operation and management system are described below. There is no problem with the sustainability of the executing agency.

#### **(a) Organization**

MIDF has been listed on the Kuala Lumpur Stock Exchange since December 1992. Therefore, its business conditions are constantly monitored by the market. The Board of Directors consists of 10 members including one director appointed from MITI. As of September 2000, it has 204 employees and 7 branch offices.

#### **(b) Financing system and loan management system**

Promotional activities for MIDF's loan programs are performed by the Business Development Department and branch offices. After confirming that the minimum standards required for loan appraisal are met, the appraisal group of the Projects Department and branch offices conduct loan appraisal. Approval for loans of up to M\$5 million is given by the Credit and Investment Committee (a committee ranked next to the Board of Directors) and technical examination is conducted by the

<sup>8</sup> MIDF pointed out the following as the cause of end users' delays in and defaulting on repayment: (i) End users' awareness of their repayment obligations is low; (ii) adequate technical support has not been provided to end users; (iii) economic conditions have deteriorated due to external factors; (iv) end users have poor business management skills; (v) end users are unable to increase sales because of insufficient market penetration; and (vi) cash flow is insufficient due to a shortage of operating funds or problems with loan collection.

Projects Department. Loans of more than M\$5 million are subject to approval of the Executive Committee of the Board of Directors. Following the completion of necessary procedures by the Legal Department, the Disbursement Section of the Loan Management Department confirms the terms of disbursement and then the Finance Division executes disbursement to the borrower or supplier. After disbursement, projects are managed by the Supervision and Arrears Section of the Loan Management Department. This section gives advices to end users and ensures they maintain the repayment schedule. Responsibility for collection of problem loans is transferred to the Problem Projects & Receivership Section.

**(c) Financial status**

MIDF's financial status during the past 4 years is shown below. In 1999, MIDF posted extraordinary losses caused by the deteriorating financial conditions of its subsidiary Oriental Bank Berhad. Before that, it had been paying dividends on a continuous basis. Its equity to assets ratio is high and it has also maintained the profit ratio of net financial income at a high level except for 1999. As of the end of FY2000 (end of March 2000), Japan's ODA loans occupied 34% of long-term loans payable.<sup>9</sup>

**Table 9 Balance Sheet**

Unit: M\$ million

End of FY	1996	1997	1998	1999	2000
Current assets	777	368	329	414	567
Long-term loans	662	880	986	943	738
Investments and others	607	886	1166	937	871
Deferred assets	1	1	2	5	6
Fixed assets	7	7	10	8	7
<b>Total assets</b>	<b>2,054</b>	<b>2,142</b>	<b>2,487</b>	<b>2,308</b>	<b>2,189</b>
Current liabilities	167	208	295	205	190
Long-term borrowings	765	770	968	1,161	1,094
Reserve for retirement allowances	7	7	8	9	9
Capital	632	635	635	635	636
Reserve fund	483	521	581	298	261
<b>Total liabilities and shareholders' equity</b>	<b>2,054</b>	<b>2,142</b>	<b>2,487</b>	<b>2,308</b>	<b>2,189</b>

Source: MIDF's data

<sup>9</sup> ODA loan projects by MIDF aside from the AJDF project, include the Small and Medium Scale Industry Promotion Program (SMIPP) and the Fund for Small and Medium Scale Industries (FSMI).

**Table 10 Profit and Loss Statement**

Unit: M\$ million

	1996	1997	1998	1999	2000
Net interest income	51	88	107	75	56
Other net revenue	41	45	49	22	19
Total income	91	133	156	96	74
Total expense	-24	-38	-58	-92	-59
Extraordinary revenue (loss)	0	0	0	-280	-50
Pre-tax income	68	96	97	-275	-34
Post-tax income	46	63	74	-284	-37

Source: MIDF's data

**Comparison of Original and Actual Results**

Item	Plan	Actual
1. Project scope	<p>1. Sub-loan</p> <p>Eligible Industries: Product manufacturing of foods, beverages, tobacco, textiles, clothing, rubber, plastics, nonferrous metals, metal engineering, etc.</p> <p>Eligibility: Enterprises with at least 51% of Malaysian shareholding and paid-up capital not exceeding M\$5 million</p> <p>Items Covered by Loans: Capital investment and building (excluding land)</p> <p>Terms and Conditions: Loan amount up to M\$5 million; interest rate 6.5% per annum (upper limit); period over 1 year up to 15 years (grace period up to 3 years); percentage of financing less than 75% of necessary funds</p> <p>2. Consulting services</p>	<p>1. Sub-loan</p> <p>Same as the plan</p> <p>2. Not performed</p>
2. Implementation schedule	1989 to 1993	Same as the plan
3. Project cost		
Foreign currency	¥10.013 billion	Same as the plan
Local currency	¥0	
Total	¥10.013 billion	
ODA loan portion	¥10.013 billion	