



Technical Assistance Report

Project Number: 46394-001
Capacity Development Technical Assistance (CDTA)
December 2012

Export–Import Bank of Malaysia Berhad Supporting the Tenth Malaysia Plan, 2011–2015: Advisory to the Export–Import Bank of Malaysia Berhad (Malaysia)

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
CPS	–	country partnership strategy
ETP	–	Economic Transformation Programme
EXIM Bank	–	Export-Import Bank of Malaysia Berhad
MIS	–	management information system
PPP	–	public–private partnership
RCI	–	regional cooperation and integration
TA	–	technical assistance
TMP	–	Tenth Malaysia Plan

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Capacity development technical assistance (CDTA)
Targeting classification	–	General intervention
Sector (subsectors)	–	Multisector (money and capital markets, investment funds, economic and public affairs management)
Themes (subthemes)	–	Capacity development (client relations, network, and partnership development); regional cooperation and integration (cross-border infrastructure, money and finance); private sector development (private sector investment, public–private partnerships); governance (economic and financial governance)
Location (impact)	–	Urban (medium), rural (low), national (medium), regional (high)

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. Malaysia is at a critical juncture in its development. It has made huge strides in socioeconomic development since the 1970s, transforming itself from an underdeveloped country reliant on natural resources into a middle-income country with a vibrant manufacturing sector. While Malaysia has made strong gains, the current situation poses challenges that have led some to suggest that Malaysia is in a middle-income trap.

2. The government has proactively taken on these challenges. Recognizing that a new economic model is required, it has issued a comprehensive policy framework through the Economic Transformation Programme (ETP)¹ and the Tenth Malaysia Plan (TMP), 2011–2015.² In addition, the Asian Development Bank (ADB) has formed an interim country partnership strategy (CPS) with Malaysia to support the government's implementation of the ETP and the TMP.³ In this context, the Export-Import Bank of Malaysia Berhad (EXIM Bank) has requested technical assistance (TA). The TA design and monitoring framework is in Appendix 1.

II. ISSUES

3. The pillars supporting Malaysia during this rapid economic transformation, as envisioned by the government's policies and backed up by International Monetary Fund and ADB reports, are (i) economic growth led by the private sector and increased private capital investments, including through public–private partnership (PPP); (ii) market liberalization to encourage trade and investment, particularly direct private sector investment that supports inclusive growth and promotes an environment conducive to business by, for example, ensuring that Malaysia's export financing is geared toward strengthening exports; and (iii) macroeconomic stability and corresponding policy tools for inclusive growth.⁴ Direct private sector investments that support inclusive growth and promote an environment conducive to business will ensure that Malaysia's export financing is geared toward strengthening exports. Supporting export financing from institutions like the EXIM Bank is particularly important as export expansion moderated to 14.5% in 2011 from 26.4% in 2010. These initiatives for export and regional market development will supplement leveraging by the TMP and the ETP of regional initiatives involving the Association of Southeast Asian Nations (ASEAN), the Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area, and the Indonesia–Malaysia–Thailand Growth Triangle.

4. An interim CPS has been formulated to help Malaysia emerge from the middle-income trap through private sector development, including PPP, and regional cooperation and integration (RCI), particularly by reinforcing outward and commercial orientation. To this end, the major development issues to be addressed by ADB include:

- (i) **National anchoring of regional cooperation and integration.** Anchoring RCI at the national level has the dual benefit of contributing to Malaysia's development goals and supporting development in neighboring countries. The outward orientation inherent in this approach supports Malaysia's efforts to emerge from the middle-income trap through more competitive and broader trade and investment opportunities.

¹ The ETP was issued in 2010 to support the implementation of the TMP with a set of sector-specific and thematic projects and programs called entry point projects.

² Government of Malaysia, Economic Planning Unit. 2010. *Tenth Malaysia Plan, 2011–2015*. Putrajaya. The TMP charts the development of the nation and sets the stage for the major structural transformation required. The TMP emphasizes greater regional cooperation and integration to fuel its growth.

³ ADB. 2011. *Interim Country Partnership Strategy: Malaysia, 2011–2012*. Manila.

⁴ International Monetary Fund. 2010. *Malaysia: 2010 Article IV Consultation—Staff Report*. Washington, DC; ADB. 2011. *Asia 2050: Realizing the Asian Century*. Manila.

- (ii) **Catalyzing private investment.** Malaysia's key economic challenge is to develop its private sector. By promoting commercial orientation, development finance institutions can boost the ability of Malaysian private enterprises to take advantage of regional market opportunities. ADB can support projects that catalyze private sector participation, including PPPs, in financing infrastructure development, and projects that support trade finance.
- (iii) **Maximizing knowledge partnership.** The government promotes inclusive growth. Expanding human capital development, and knowledge and capacity development, will be important in this regard. In addition, as the economy undergoes the structural transformation envisaged by the TMP and the ETP, a macroeconomic tool to monitor inclusive growth will be needed.

5. Tackling these challenges requires knowledge and capacity development TA that can help (i) monitor various aspects of inclusive growth during the period of structural transformation, (ii) promote PPP-enabling policy and regulatory reforms and financing, and (iii) encourage outward-oriented private sector development based on vibrant export growth with effective export financing, which will encourage partnership in global and regional production networks.⁵

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

6. The impact of the TA will be stronger development in Malaysia through the effective implementation of the TMP and the ETP. The outcome will be the improved capacity of the EXIM Bank to support export financing, which is consistent with the government's policy framework and key to economic transformation in Malaysia. As stated in the TMP and the ETP, the economic transformation of Malaysia is to be based on private sector development, with stronger outward and commercial orientation in key institutions. While the TA cannot support all government policies, it can have a catalytic impact with a tangible demonstration of ADB's engagement.

B. Methodology and Key Activities

7. The TA will support export financing and the government's efforts to ensure macroeconomic stability through inclusive growth and in enabling new engines of growth for an economy during a period of structural transformation. Accordingly, the TA reflects the strategic pillars of the interim CPS and is designed to provide enhanced capacity and knowledge support toward TMP and ETP implementation. The key outputs of the TA are: (i) The EXIM Bank's internal risk management procedures and project risk analysis meet international standards; and (ii) Cross-border and regional trade and clean energy finance improved.

8. In line with the interim CPS, ADB will initiate project financing development with the EXIM Bank to strengthen cross-border and regional trade and investment initiatives, and to support clean energy finance across the region. To ensure that ADB's financing support is complemented by capacity development support, this TA will focus on internal risk management and project risk analysis, as well as on upgrading trade and clean energy finance to develop value-added services that foster regional trade and investment. In addition to its own outputs,

⁵ ADB. 2011. *Supporting the Tenth Malaysia Plan, 2011-2015*. Manila. The original TA, was approved on 15 December 2011 for \$1 million financed from the Technical Assistance Special Fund (TASF-other sources) on a reimbursable basis. This TA results from the EXIM Bank's request that the export financing component under the original TA be separated into a nonsovereign TA for it to implement. The original TA first appeared in the business opportunities section of ADB's website on 14 November 2011.

the TA will arrange for a training program to be implemented with other export–import banks in the region.

9. This TA output is based on the strategic framework of engagement between ADB and the government as described above and reflects areas of ADB expertise and experience. In particular, as the TA is financed on a reimbursable basis, ADB needs to deliver high-quality outputs on a timely basis, with inputs from relevant departments. Accordingly, the outputs have been tailored to ensure effective delivery within TA duration and resources.

C. Cost and Financing

10. The TA is estimated to cost \$300,000 to be financed from ADB's Technical Assistance Special Fund (TASF-other sources) on reimbursable basis. Detailed procedures for reimbursement will be prepared as part of the TA agreement. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

11. The TA will be implemented from 20 December 2012 to 19 December 2013. The EXIM Bank will be the executing agency and responsible for coordinating Malaysian institutions involved in the TA. The ADB Southeast Asia Department's Regional Cooperation and Operations Coordination Division will be the ADB focal point.

12. A team of consultants will provide advisory, technical, and administrative support, requiring an estimated 7.5 person-months of international consulting services and 13.5 person-months of national. Consultants will be engaged individually, as the TA requires only a few individuals with distinct skills. Consultants will be engaged in accordance with ADB's Guidelines on the Use of Consultants (2010, as amended from time to time). Staff of the ADB Southeast Asia Department's Regional Cooperation and Operations Coordination Division will review the outputs in coordination with the relevant ADB departments.

13. Computer hardware and software will be purchased in accordance with ADB Procurement Guidelines (2010, as amended from time to time) and in coordination with the ADB's Office of Information Systems and Technology and Office of Administrative Services, where applicable. Upon TA completion, any procured equipment will be disposed of in compliance with ADB's Project Administration Instructions.⁶ Disbursements under the project will be done in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

14. TA implementation will be monitored through communication with the executing and implementing agencies and with other stakeholders, as well as through regular missions, consultations, and reviews.

IV. THE PRESIDENT'S DECISION

15. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$300,000 on a reimbursable basis to the Export–Import Bank of Malaysia Berhad for Supporting the Tenth Malaysia Plan, 2011–2015: Advisory to the Export–Import Bank of Malaysia Berhad, and hereby reports this action to the Board.

⁶ ADB. 2009. Administering Grant-Financed Technical Assistance Projects. *Project Administration Instructions*. PAI 5.09. Manila.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Stronger development in Malaysia through the effective implementation of the TMP and the ETP	By 2016 Greater outward and commercial orientation in the EXIM Bank, leading to a more integrated region	Various reports, databases, and publications on economic development in Malaysia and the region Analyses and evaluations from the government, the private sector, key stakeholders, and ADB staff	Assumption National policies will be geared toward harnessing the full benefits of regional integration. Risk The global economic downturn causes a policy shift toward domestic economic concerns and delays the implementation of proposed initiatives.
Outcome Improved capacity of the EXIM Bank to support export financing	By December 2013 Stronger capacity in the EXIM Bank for risk management and project analysis, with 100% of the EXIM Bank's portfolio reviewed using upgraded risk-management procedures. (Baseline 2012: 60%)	Various reports, databases, and publications on the economic development in Malaysia and the region Analyses and evaluations from the government, the private sector, key stakeholders, and ADB staff	Assumptions Malaysia continues to recognize the importance of knowledge and capacity development support for outward and commercial orientation toward boosting economic growth. Close cooperation between ADB and key stakeholders, including development agencies and the private sector, is ensured. Risk Some stakeholders' lack of active participation hampers efforts to forge a clear consensus on the key issues.
Outputs 1. The EXIM Bank's internal risk management procedures and project risk analysis meet international standards 2. Cross-border and regional trade and clean energy finance improved	By December 2013 1–2 new finance and insurance products for small and medium-sized enterprises are launched (Baseline 2012: none) Upgraded procedures and supporting MIS system in place	EXIM Bank business procedural records EXIM Bank business procedural records	Assumption Experts, government ministries and line agencies, and stakeholders are available and interested. Risk The TA is unable to provide timely outputs of high quality to forge a consensus among the various development partners.

Activities with Milestones		Inputs	
1. The EXIM Bank's internal risk management procedures and project risk analysis meet international standards		ADB: Technical Assistance Special Fund (TASF-other sources) to be reimbursed by the EXIM Bank \$300,000	
		Item	Amount (\$)
1.1.	Mapping of internal risk management procedures and MIS, and project risk analysis (March 2013)	Consultant remuneration, per diem, and travel	234,750
1.2.	Staff training on upgraded risk management procedures and supporting MIS (April–June 2013)	Report preparation and communications	1,500
2. Cross-border and regional trade and clean energy finance improved		Equipment and materials	1,500
2.1	Small and medium-sized enterprise department expanded and given additional staff resources (August 2013)	Workshops, training, seminars, and conferences	45,000
2.2	New insurance and finance products launched (December 2013)	Miscellaneous administration and support costs	2,000
		Contingencies	15,250

ADB = Asian Development Bank, ETP = Economic Transformation Programme, EXIM Bank = Export–Import Bank of Malaysia Berhad, MIS = management information system, TA = technical assistance, TMP = Tenth Malaysia Plan.
Source: Asian Development Bank estimates.

COST ESTIMATES AND FINANCING PLAN
(\$ '000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	187.50
ii. National consultants	42.25
b. International and local travel	5.00
c. Report preparation and communication	1.50
2. Equipment and materials	1.50
3. Workshops, training, seminars, and conferences	45.00
4. Miscellaneous administration and support costs	2.00
5. Contingencies	15.25
Total	300.00

Note: The technical assistance (TA) is estimated to cost \$350,000, of which contributions from the Asian Development Bank are presented in the table above. The Export-Import Bank of Malaysia will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, secretarial assistance, and other in-kind contributions. The value of the Export-Import Bank of Malaysia's contribution is estimated to account for 14% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources) and will be reimbursed by the EXIM Bank.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. All consultants for the Asian Development Bank (ADB) technical assistance (TA) supporting the Tenth Malaysia Plan, 2011–2015 will be recruited according to ADB's Guidelines on the Use of Consultants (2010, as amended from time to time). Disbursements under the TA will be in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). Consulting services may be provided intermittently as agreed by the consultants, the EXIM Bank, and ADB.

A. Development Finance Institutions, Risk, and Advisory Component

2. **Credit risk management specialist** (international, 4.5 person-months). The consultant should have at least 10 years of experience in risk management and export financing, preferably in Asia. A degree in finance is preferred. The consultant must have extensive knowledge of and hands-on experience in developing and upgrading credit risk management systems in a range of credit and noncredit rated financial institutions. The consultant will do the following:

- (i) Undertake due diligence of the EXIM Bank and review the existing credit risk management system and supporting governance procedures, including guiding regulations issued by the Ministry of Finance, Bank Negara Malaysia, or Securities and Exchange Commission, as relevant.
- (ii) Review the classification of the following risk categories and provide technical capacity upgrading as required: credit risk, market risk, liquidity risk, operation risk, legal risk, reputation risk, strategic risk, and compliance risk.
- (iii) Review the organizational and staff profile of the risk analysis department and upgrade technical capacity as required in risk management, risk administration and modeling, and risk policy. Review the timelines for completing credit review proposals and the structure of approval committees.
- (iv) Review regulations guiding the (a) the scope of risk management; (b) supervision; (c) risk management policies; (d) procedures and determination of risk limits; (e) risk identification, measurement, monitoring, and control processes; (f) risk management information systems; (g) internal control systems; (h) the organization and function of risk management; (i) risk management committees; (j) the risk management unit; (k) new products; and (l) reporting and assessment. Indicate gaps and the degree of upgrading required.
- (v) Assess the key issues associated with nonperforming loan recovery, asset management functions, and product development and/or advisory services currently provided by the development finance institutions.
- (vi) Provide, by inception report delivery, timelines and budget estimates for institutional, governance, and information technology systems; staff training; and suggested additional skill inputs for the EXIM Bank.
- (vii) Undertake training as required in consultation and agreement with the target institution's senior management and ADB over the remainder of the consultancy, with periodic assessment and adjustment as required by senior management and in consultation with ADB.
- (viii) Provide inputs and logistical support for the training program to be developed with other export–import banks in the region.
- (ix) Support the EXIM Bank and ADB in other activities relevant to the TA.

3. **Energy efficiency, renewable energy finance, and advisory specialist** (international, 3 person-months). The consultant should have at least 10 years of experience in project financing, preferably in Asia. A degree in finance is preferred. The consultant must have

extensive knowledge of and hands-on experience in developing finance products for energy efficiency in commercial sectors, as well as a working knowledge of export credit, insurance, and guarantee products, and familiarity with Berne Union best practices in energy efficiency. The consultant will do the following:

- (i) Assist department heads of EXIM Bank review energy efficiency finance products and risk models, and explore cofinancing options such as the Clean Development Mechanism.
- (ii) Coordinate with the international credit risk management expert the stress testing of project models to verify risks and their impact on claims payment, review the existing risk management model and assess how adequately it ensures the sustainability and profitability of businesses in energy efficiency and renewable energy, and propose appropriate changes for adoption by the bank that are in keeping with Berne Union guidelines.
- (iii) Provide hands-on training to broaden staff members' knowledge and application of energy efficiency and renewable energy finance products, including advanced concepts in project finance.
- (iv) Introduce to the advisory unit on-the-job training and guidance on marketing and promoting energy efficiency finance and renewable energy products to commercial banks and chambers of commerce.
- (v) Support the EXIM Bank and ADB in other activities relevant to the TA.

4. **Credit risk management specialist** (national, 4.5 person-months). The consultant should have at least 5 years of experience in risk management. A degree in finance is preferred. The consultant must be a credit risk management practitioner and financial expert on small and medium-sized enterprise and corporate finance, and possibly project finance, and have a working knowledge of credit risk management. The consultant will do the following:

- (i) Assist the team leader in reviewing financial, legal, and other capacity-building requirements in the EXIM Bank.
- (ii) Prepare all training materials on credit risk management with the other TA team members and provide hands-on training.
- (iii) Coordinate with management and staff of the EXIM Bank as required to ensure the effective implementation of the TA.
- (iv) Support the EXIM Bank and ADB in other activities relevant to the TA.

5. **Clean energy finance and project finance specialist** (national, 3 person-months). The consultant should have at least 5 years of experience in project financing, preferably in Malaysia. A degree in finance is preferred. The consultant must be a project finance practitioner and have applied knowledge of clean energy finance products. The consultant will do the following:

- (i) Assist the team leader with reviewing financial, legal, and other capacity-building requirements in the EXIM Bank.
- (ii) Prepare all project finance and clean energy finance training materials and provide hands-on training along with the other TA team members.
- (iii) Coordinate with the EXIM Bank management and staff in development finance institutions as required to facilitate the smooth implementation of the TA.
- (iv) Support the EXIM Bank and ADB in other activities relevant to the TA.

6. **Technical assistance coordinator and economist** (national, 6 person-months). The consultant should have at least 5 years of experience in public policy and economics. A degree in economics or related fields is preferred. The economist will support ADB's and government agencies' achievement of TA outputs and ADB on TA administration and logistics, including procurement. The consultant will do the following:

- (i) Assist team members with collating data on financial, legal, and other capacity-building requirements of the TA.
- (ii) Develop an abbreviated communication plan to effectively disseminate information and coordinate stakeholders.
- (iii) Administer spending on workshops and other activities.
- (iv) Provide administrative support toward generating inception, interim, and final reports, as well as regular post-workshop reports to ADB and the government.
- (v) Assist in liaising with the EXIM Bank and ADB, and with other stakeholders including the private sector, regarding other activities, including administrative and logistical support to the TA.

B. Reporting Requirements

7. The consultants will submit the following reports, to be adjusted based on TA requirements:

- (i) The inception report will present 1 month after the start of services the initial findings and the work program, based on the terms of reference.
- (ii) The first interim report will present 3 months after the start of services preliminary findings and recommendations and proposing modifications, if any, to TA activities during the remaining period.
- (iii) The second interim report will present 6 months after the start of services detailed findings and recommendations, particularly on the technical assessment of the three main topics, as outlined above.
- (iv) The third interim report will present 9 months after the start of services detailed findings and recommendations toward developing the final report.
- (v) The draft final report will describe in detail 12 months after the start of services the work undertaken and present the study conclusions and recommendations. The final report will be submitted consequently, incorporating stakeholder comments.