

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: Public Management, Financial Sector, and Trade Division (SEPF)

TA No., Country and Name			Amount Approved:\$300,000	
TA 8124-MAL: Supporting the Tenth Malaysia Plan, 2011-2015 : Advisory to the Export-Import Bank of Malaysia Berhad			Revised Amount: N/A	
Executing Agency: Malaysia EXIM Bank		Source of Funding: TASF (Others - Reimbursable TA)	Amount Undisbursed: \$292,068	Amount Utilized: \$7,932
TA Approval Date: 08 Aug 2012	TA Signing Date: 10 Sept 2012	Fielding of First Consultant: Resource Person was fielded on 1 May 2013	TA Completion Date Original: 15 Feb 2013 Actual: 19 Dec 2013 Account Closing Date Original: 15 Feb 2013 Actual: 28 Feb 2014	
Description: As part of the Interim Country Partnership Strategy: Malaysia, 2011-2012, whereby Asian Development Bank (ADB) undertook re-engagement with the Government of Malaysia (the Government), an agreement was reached between the Government and ADB to support the Government's Economic Transformation Program (ETP) and the implementation of the Tenth Malaysia Plan (TMP) 2011-2015. In this context, the Export-Import Bank of Malaysia Berhad (EXIM Bank), the official export credit agency of Malaysia, requested a reimbursable Technical Assistance (TA) to prepare for a non-sovereign loan and provide capacity building on improving internal risk management processes and develop new trade and insurance instruments.				
<p>The objective of the TA was to improve EXIM Bank's delivery of short and medium-term trade and insurance services on behalf of the country's national exporters across ASEAN, as well as strengthen project financing capability via long-term financing for overseas infrastructure projects, to assist the country's emergence from the middle income trap. Malaysia EXIM Bank is part of the Asia Eximbank Forum. During the regional meeting held in the Philippines in 2011, Malaysia EXIM Bank expressed an interest to ADB Management in accessing a medium-term non-sovereign loan similar to the one approved by the Board in March 2011, for Indonesia Eximbank – also supported by a capacity development TA structuring new financial instruments. The processing of an ADB nonsovereign loan requires extensive and detailed due diligence of the Borrower's internal procedures as required by the Office of Risk Management and ADB's Investment Committee. The results of the due diligence are kept confidential as indicated in the Management Letter signed by both parties once the Government's No Objection to the transaction has been obtained.</p>				
Expected Impact, Outcome and Outputs: The expected impact of the TA was to assist the Government of Malaysia in the effective implementation of the TMP and ETP. The outcome was the improved capacity of EXIM Bank to support export financing in accordance with the government's policy framework and the stronger international and commercial orientation of a key development institution – in this case, EXIM Bank – thereby demonstrating ADB's tangible engagement. The key outputs of the TA were: (i) the upgrading of EXIM Bank's internal risk management procedures, as per international best practice; (ii) improved cross-border trade and insurance instruments – including the implementation of new clean energy finance instruments supporting an ADB nonsovereign (NSO) loan to EXIM Bank.				
Delivery of Inputs and Conduct of Activities: The TA adequately identified ADB's capacity development and the scope for medium to long term financing supporting EXIM Bank's growth strategy. ADB conducted several Missions during 2012 to facilitate an understanding of EXIM Bank's internal processes and enable the ADB Mission to present the procedures involved in the processing of an ADB NSO loan. ADB initiated financial due diligence on EXIM Bank in 2012 and continued into early 2013. During this time, ADB deployed the international expert on Environment and Social Management Systems (ESMS), who was providing capacity development in this area to Indonesia Eximbank; the expert was invited to present on the major steps required to facilitate ESMS compliance by EXIM Bank Malaysia. In May 2013, ADB engaged an international consultant with extensive experience in the South East Asia region to undertake the gap analysis of EXIM Bank's risk management system. During a 3-day Mission in May 2013, the ADB Mission Leader and the consultant, undertook the following: (i) review of EXIM Bank's internal Management Information Systems (MIS) reports; (ii) review of internal reports on funds transfer and (iii) provided a detailed questionnaire on risk management that was attached to the Aide Memoire (AM). A briefing on MIS upgrading was undertaken with EXIM Bank's Board of Directors and the focus of the proposed capacity building was strongly approved. The Risk Management Division expressed strong satisfaction with the proposed MIS upgrading. The Mission requested for the Chief Executive Officer's feedback on the proposed focus of the MIS upgrading by end-				

May 2013. This was to ensure the upgrading could take place during the major stages of NSO project processing for NSO project submission to ADB Board by December 2013. At the end of May 2013, the Mission was informed that EXIM Bank would not be seeking ADB NSO funding. There was no further indication provided on the capacity building for MIS upgrading, as stated in the Aide Memoire and the objective of TA 8124. ADB provided the support initially requested by EXIM Bank, however, due to changing circumstances in Malaysia, the assistance was no longer prioritized by the senior management of EXIM Bank.

Evaluation of Outputs and Achievement of Outcome: On the basis of the extensive consultations undertaken by ADB during 2012 and 2013, and the identification of international resources to support the capacity building objectives of the TA, the TA was efficiently implemented. However, with the lack of ongoing request from EXIM Bank Malaysia to continue with the implementation of MIS capacity upgrading, the Mission requested ADB Management to communicate the TA's pending status to the Government. Further to an exchange of official letters from Directors SERC and SEPF, an agreement was reached with Government and EXIM Bank's CEO, to return the unutilized funds under the reimbursable TA, to EXIM Bank Malaysia.

Overall Assessment and Rating: The TA's implementation was made more challenging by the issuance of the \$500 million bond by EXIM Bank Malaysia in June 2012. The inaugural US\$500 million, 5.5-year Fixed Rate Notes (the "Notes"), was issued subsequent to its US\$1,500,000,000 Multicurrency Medium Term Note Programme (the "MTN"). The Notes were priced at T+218bps, the lowest yield ever achieved by a Malaysian issuer in a comparable issuance. At the request of EXIM Bank Malaysia, ADB fielded an international MIS expert in May 2013. Subsequently, it was indicated that ongoing activity under the TA would be predicated upon the proposed NSO from ADB matching or exceeding the pricing of the bond. Since the Mission was not in a position to provide this guarantee, as NSO pricing is subject to market fluctuations, a mutual agreement was reached between EXIM Bank Malaysia and ADB to close the TA. On the basis of the best efforts made by the ADB to complete the outputs and the outcome of the TA, it is proposed the TA be rated as "less than successful" to reflect the interrupted due diligence and capacity development of EXIM Bank Malaysia's MIS system. All capacity development training material was handed over to EXIM Bank Malaysia.

Major Lesson: The major lesson is the need to facilitate regular dialogue with development financial institutions in Malaysia, on ADB's due diligence and risk pricing procedures re. NSO transactions. The TA was the first reimbursable TA negotiated by ADB/SERC/SEPF, with a government-owned financial institution in Malaysia. The implementation of the TA was initiated by SEPF in third quarter 2012. By mid-2013, the Government was preparing for general elections; the focus of major government-owned financial institutions was increasingly being drawn into the political process. In this context, ADB provided a capacity building framework for the technical upgrading of risk management procedures in a financial institution, and indicated the willingness to re-engage with either EXIM Bank Malaysia, or another state-owned financial institution, at the appropriate time.

Recommendations and Follow-Up Actions: None to date.

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