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THE ECONOMIC DEVELOPMENT OF Malaya

JOHNS HOPKINS

THE ECONOMIC DEVELOPMENT OF MALAYA

REPORT OF A MISSION ORGANIZED BY THE
International Bank for Reconstruction and Development

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HOPEFUL BEGINNINGS

CHAPTE

Prime Minister Tunku Abdul Rahman Putra Al-Haj (2nd from right) and Malayan Flour Mills Ltd. founder David Sung (far right) at the opening of the mill in Perak on 15 January 1966.

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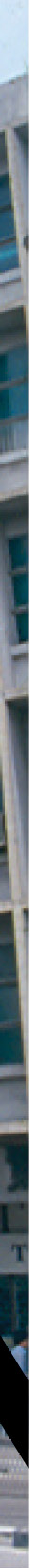
[1955 -1963]



HOPEFUL BEGINNINGS

Date: **12 April 1960**
Venue:
Boardroom,
4th Floor, Sentosa Raya,
13-15 Jalan Ampang
(Lebuh Ampang),
Kuala Lumpur.

The first Board meeting of the newly-minted Malayan Industrial Development Finance Ltd. (MIDF) was in session, and present were its first six directors and the secretary.

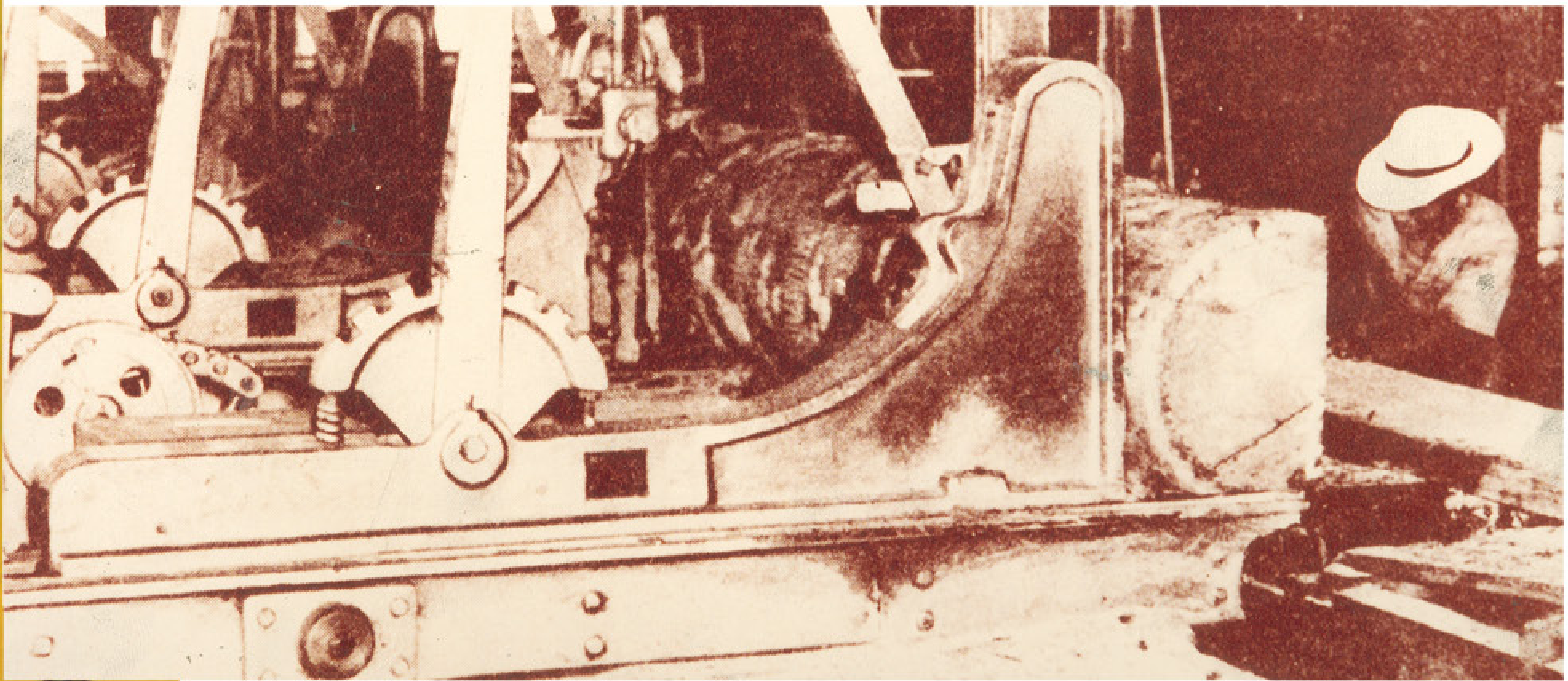
Having been incorporated two weeks earlier as Malaya's pioneer development bank, MIDF was about to be launched as a partner in building an industrial sector for the newly-independent nation of Malaya.

The beginnings of MIDF can be found in a 750-page report, 'The Economic Development of Malaya', issued by the International Bank for Reconstruction and Development (World Bank) in 1955. The report was prepared at the request of the Governments of the Federation of Malaya, Crown Colony of Singapore and the United Kingdom, for the World Bank to undertake a mission for Malaya to consider how the economic resources of the soon-to-be independent nation could be best used for its development.

The mission, comprising 13 specialists in agriculture, public finance, mineral resources, transport and communications, industry, power, social services, as well as general economists, were in Malaya from January to May 1954.

The findings from the report were no surprise—they confirmed what was already known; that Malaya was relatively prosperous, but its economy was heavily dependent on the exports of tin and rubber. This sector, along with a thriving entrepot commerce, had mainly been developed by foreign capital, particularly the British. Tin and rubber accounted for 80% of Malaya's exports and half of the Federal revenue, leaving it vulnerable to the ups and downs of the world market. This inherent instability in its economy was compounded by the dimming prospects of these commodities, with the advent of synthetic rubber, and in the case of tin, technological economies in its utilisation.

The solution was clear—Malaya had to broaden its economic base.



General Sawmills on Jalan Kilang, Petaling Jaya.

There was also a need to create more jobs as agriculture alone could not possibly absorb the growing number of workers. The Malayan population of 5.7 million in 1953 was growing at a rate of more than 3% a year, among the highest rate in the world, with projections that it would double within 25 years and the available labour force was growing even faster.

The report noted that by Asian standards, the Malayan economy had reached a relatively advanced stage, not only in the level of per capita income, but also in structure. It was a more varied and complex economy than that of most underdeveloped countries.

The World Bank team recommended, among others, that the secondary industries sector be developed to diversify the economy from its reliance on primary commodities, and to create productive and well-paying jobs in Malaya, where salaries were already on the high side.

It noted that the "range of products and skills, and the quality of enterprise and hard work, already evident in Malayan secondary industries, offer a very good basis for further progress".

Malaya's manufacturing industry in the 1950s was small, but relatively advanced in Asia, and provided for almost 10% of the employment in the nation. The high level of industrial development was attributed to the sizeable enterprising segment of the population, and to the production of rubber and tin. The latter created a demand for ancillary industrial services, expanded the domestic market for manufactured goods; and generated savings available for industrial investment. At the same time, the primary production and trade sectors were also competing with the manufacturing industries for labour and capital. As a result, wages and other costs had risen to a relatively high level by Asian standards.

As such, the World Bank mission recommended that a specialised industrial credit institution be set up for Malaya and Singapore, along with a central bank to manage monetary policy and an industrial research institution to formulate industrial policy.

The industrial activity tended to concentrate in sectors with considerable natural protection from foreign competition: areas closely associated with primary production, operations that must be performed on the spot, or industries sheltered by high transportation costs or other advantages of location. This included the production of primary commodities, such as rubber, tin and timber for export, and the manufacturing of tobacco and foodstuff, such as beverages, bread, biscuits, pineapple and vegetable oil, as well as consumer products, such as rubber goods, furniture and printed material for the domestic market.

The majority of the enterprises were very small, with nearly 40% of the labour force being unpaid own-account workers and family helpers. Most of these firms were owned and managed by the Chinese. The largest manufacturing firms employed only a few hundred workers and the majority had less than 10. Nearly three quarters of the enterprises had gross sales of less than $100,000*, according to the 1959 manufacturing industries census. Most of the bigger companies were foreign-owned and largely resource-based.

The World Bank recommended that the industrial sector be driven by private enterprise and capital, and to move away from the very small-scale family enterprise model towards a more modern form of joint-equity organisation.

However, these small enterprises could only expand by reinvesting their earnings or sourcing credit through personal contacts or from money lenders, which imposed a very high interest rate. The commercial banks operating in Malaya were mostly British-owned, and as banking in Malaya had developed to finance the export-import trade, they largely focused on short-term lending in the form of overdrafts. Any form of industrial financing that existed, especially medium and long term, appeared to be through private transactions within a closed circle, mainly among the Chinese community.

In most cases, the average domestic entrepreneur did not have access to banks and did not have the collateral for a loan. Formal arrangements for medium-term and long-term credit barely existed.

* Malaysia only started to use the RM symbol in 1993.

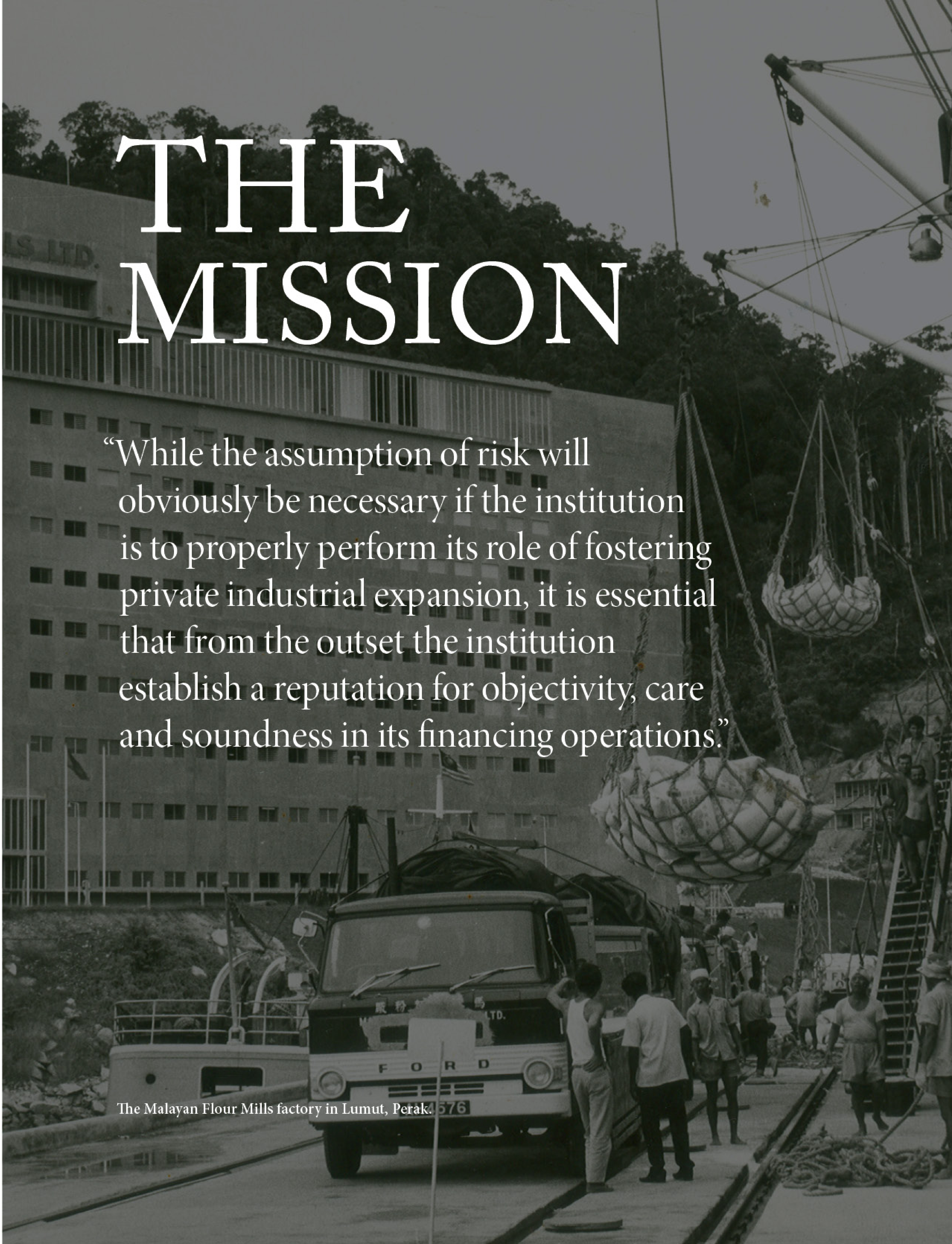
Deputy Prime Minister Tun Abdul Razak Hussein (3rd from right) and wife Tun Rahah Mohamed Noah (4th from right) with MIDF chairman Tan Sri Dr. Foo Yin Chiew (far left), general manager Mr. Harold Francis Geoffrey Leembruggen (4th from left) and other guests at the opening of Bangunan MIDF on Jalan Ampang in 1968.

The World Bank proposed that the industrial credit institution should be established along these lines:

- It should be pan-Malayan in scope, serving both Malaya and Singapore, but its financial resources and management should be independent of government;
- To ensure independence, the voting equity in the institution should be privately-owned. As such, the participation of commercial banks and other private investors should be explored;
- The initial paid-up capital of the institution did not have to be large. Funds could also be obtained by borrowing from the central bank;
- The institution should not be subsidised; rather its interest charges should be sufficient to provide a reasonable return on capital;
- The bulk of its business should be in loans for industrial enterprises. However, the financing procedures should be flexible, with the possibility of equity participation in sound industrial ventures, provided that reasonable efforts to secure the entire equity capital from private sources had been unsuccessful. The institution should limit itself to minority participation and should dispose of its equity holdings to private investors as soon as practicable; and
- The institution's lending should be based on careful evaluation of the technical, organisational and financial merits of the projects. It would require its own small, but capable and experienced staff of technicians and financial analysts.

THE MISSION

"While the assumption of risk will obviously be necessary if the institution is to properly perform its role of fostering private industrial expansion, it is essential that from the outset the institution establish a reputation for objectivity, care and soundness in its financing operations."



The Malayan Flour Mills factory in Lumut, Perak.

Sincere Match and Tobacco Company's factory in Petaling Jaya. The company was the first loan recipient of MIDF.

Soon after this report was issued, the Federation Government set up an Industrial Development Working Party headed by the former Secretary for Commerce and Industry, Mr. A.J.D.C. Loch, in 1956 to formulate an industrial development policy that would include pioneer industries and an industrial credit institution.

The process of negotiations turned out to be a lengthy one as there were concerns that this new industrial credit institution would be directed by the government and not operate commercially. The media reported optimistically every few months that this institution would soon be established, but the date was constantly being deferred.

In 1958, the Malayan representatives from various industrial organisations, banks, insurance companies, cooperative organisations and the government met in Kuala Lumpur, and agreed to launch an Industrial Development Finance Corporation.

It was in May 1959 when the matter was finally handed over to the head of the Federation's economic secretariat, Dato' Oscar Spencer, who was leading the negotiations. He emphasised that this new institution, to be called Malayan Industrial Development Finance Ltd. ("MIDF"), would be a commercial undertaking despite the fact that the government had sponsored its formation.

"It does not exist to subsidise industrial development but to assist sound industrial projects that can stand on their own feet."

— said Dato' Oscar Spencer, who was named MIDF's chairman-designate.

The Malayan government had high hopes for MIDF. It envisaged that MIDF would furnish small loans to rural industries to enable local companies, which were handicapped by the lack of capital, to play a part in the industrial development of Malaya. The acting Minister of Commerce and Industry, Tan Sri Dato' Paduka Mohamed Khir Johari told the House of Representatives that the institution would step in where the Rural and Industrial Development Authority stopped, to give out larger loans for light secondary industries. As a development bank, its lending would be long-term in nature, from three to 15 years.

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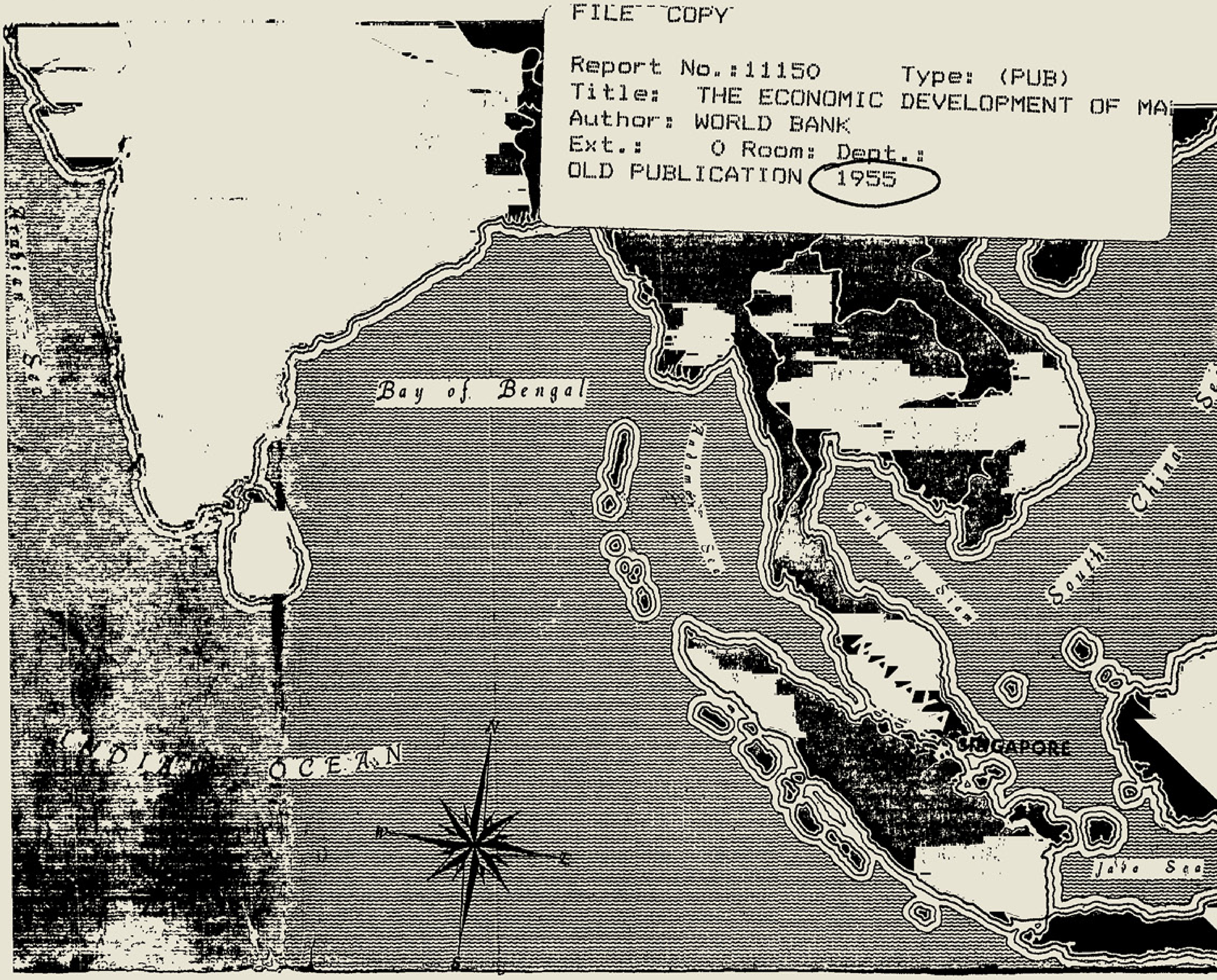

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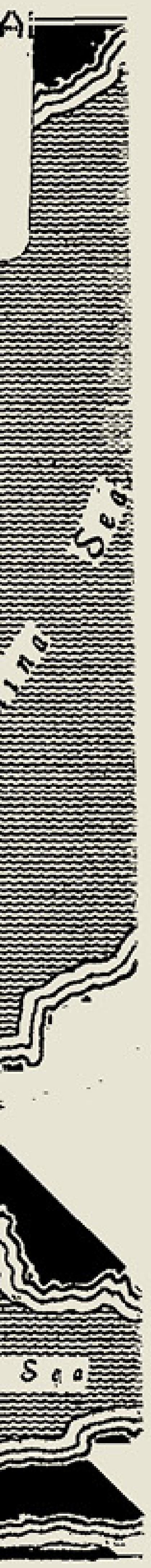


A TEAM OF TOP MEN: WORLD BANK MISSION 1954

The World Bank's 1954 mission to Malaya to undertake a survey on the economic development of the soon-to-be independent nation comprised 13 experts:

1. **Sir Louis Chick,** K.B.E., Chief of Mission
2. **Francantonio Biaggi,** Adviser on Power
3. **John Franklin Booth,** Agricultural Economist
4. **Isidore S. Falk,** Adviser on Social Services
5. **William M. Gilmartin,** Economist
6. **Erich R. Hondelink,** Adviser on Transport & Communications
7. **E.H. Jacoby,** Adviser on Land Tenure
8. **Bruno Lincke,** Adviser on Industry
9. **G.C. Monture,** Adviser on Mineral Resources
10. **Carl Adolf Murray,** Adviser on Public Finance
11. **John F.V. Phillips,** Adviser on Agriculture
12. **Trevor Swan,** Economist
13. **A.M. Thomson,** Adviser on Agricultural Marketing
14. **Ann Friedman,** Secretary

- Sir Louis Chick was the Financial Secretary of the British Government in 1948. He also served as Fiscal Commissioner in Nigeria the year before.
- Economists: Trevor Swan was the professor of economics at the Australian National University and a member of the group of experts appointed by the United Nations (UN) in 1951 to report on measures for international economic stability. Mr. William Gilmartin was an American specialist in Far Eastern economic affairs and a member of the International Bank staff.
- Agricultural Economist: Dr. John Franklin Booth had been part of the Canadian Department of Agriculture since 1929 and chief of the Economics Division since 1937.
- Adviser, Public Finance: Mr. Carl Adolf Murray had been an official of the general accounting office of the Swedish Ministry of Finance since 1934, chief of the finance statistics and budget estimates section since 1949, and a member of the UN missions to Brazil and Bolivia.
- Adviser, Agricultural Policy: Professor John F. V. Phillips was head of the department of agriculture, University College of the Gold Coast in South Africa.
- Adviser, Agricultural Marketing: Mr. A.M. Thomson of Britain was the Food and Agricultural Organisation (FAO)'s agricultural marketing expert in Malaya.
- Adviser, Land Tenure: Dr. E.H. Jacoby, who had been a member of the FAO staff since 1951, was formerly a professor of economics at the Adamson University, Manila.
- Adviser, Mining Policy: Dr. G.C. Monture was chief of the mineral resources division in the Canadian Department on Mines and Technical Surveys, a member of the UN committee of experts on iron ore, and was a member of the UN mission to Bolivia.
- Adviser, Transportation Policy: Mr. E.R. Hondelink, a transportation consultant from England, was a member of the International Bank general survey missions to Turkey, Iraq and British Guiana.
- Adviser, Industry: Mr. Bruno Lincke was the former financial counsellor to the Swiss Federal Administration of Finance. He had also served as a member of the staff of the Swiss Director of War Administration.
- Adviser, Power: Dr. Francantonia Biaggi, of the Societa Edison of Italy and Societa Elettrica Bresciana, represented Italy on the power mission to the United States. He also served on the International Bank's mission to Ceylon in 1951.
- Adviser, Social Services: Mr. Isidore S. Falk had been director of research and statistics for the United States Social Security Administration since 1940, and former director of research for the United States committee on costs of medical care.

The experts were regarded as the "top men in their respective fields".

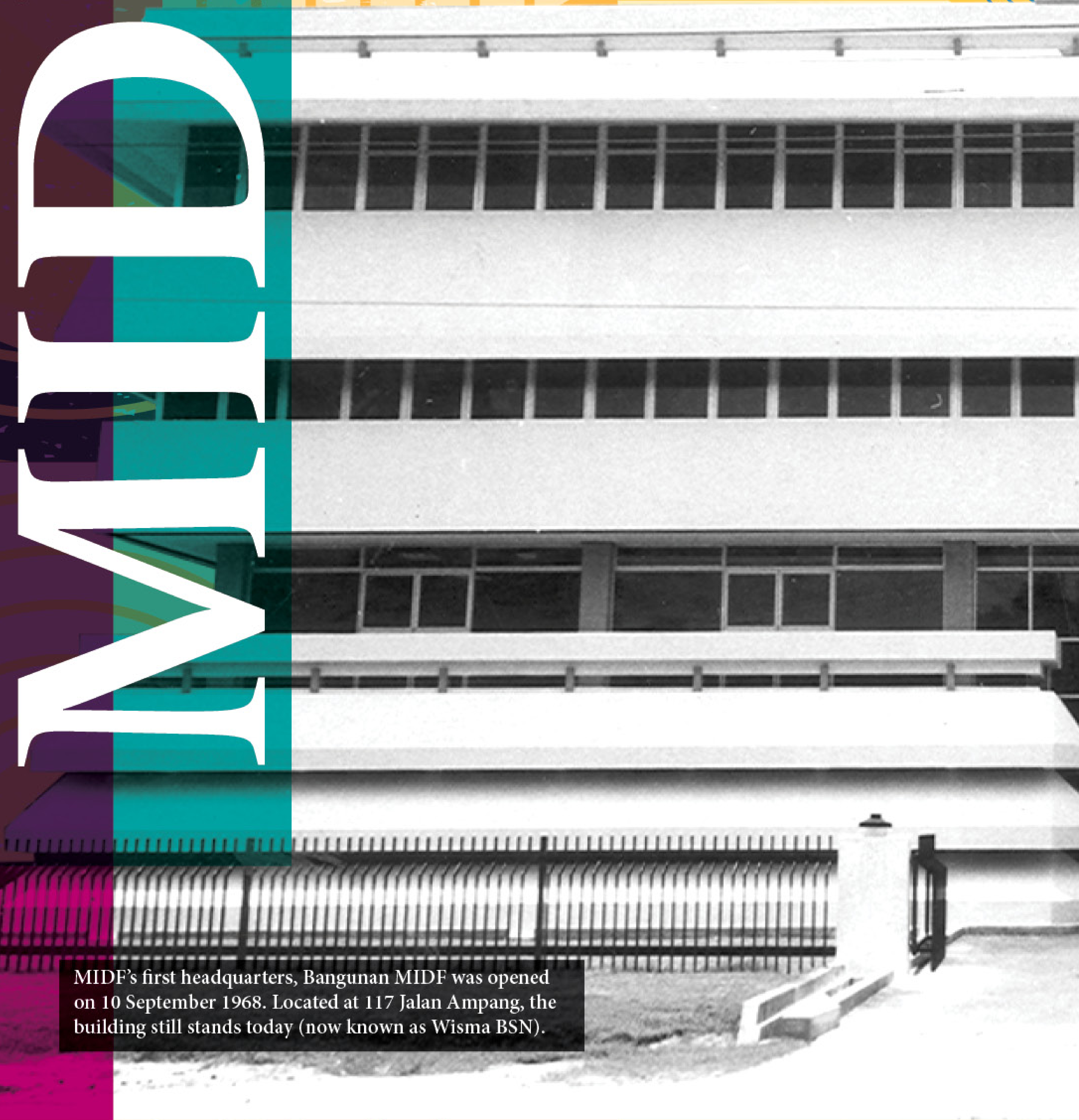
The team, who arrived in January 1954, completed their study by May 1954 after travelling extensively in Malaya and Singapore to meet officials and others.

"Our job has been to survey Malaya's economic potentialities and make recommendations to the Federation and Colony Governments to assist them to form long-range development programmes," said Sir Louis Chick as the team was preparing to leave for Washington.

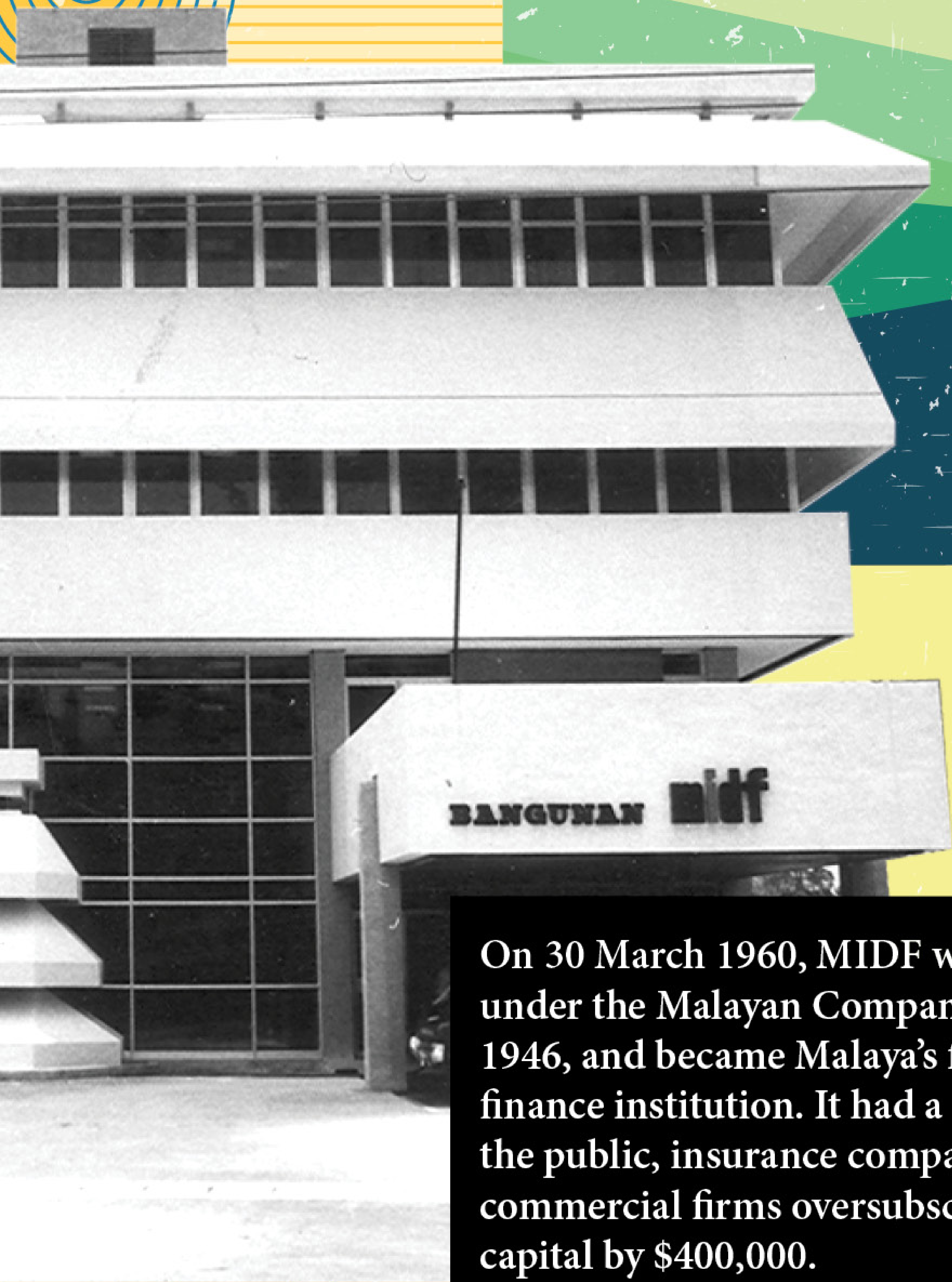
Their report, 'The Economic Development of Malaya', was published a year later. In September 1955, five thousand copies were printed, "complete with 14 maps and diagrams, some of which will be in colour."

The copies were sold for $6 each.

INCORPORATION OF MIDF



MIDF's first headquarters, Bangunan MIDF was opened on 10 September 1968. Located at 117 Jalan Ampang, the building still stands today (now known as Wisma BSN).



On 30 March 1960, MIDF was incorporated under the Malayan Companies Ordinances 1946, and became Malaya's first development finance institution. It had a good start, with the public, insurance companies, banks and commercial firms oversubscribing to its capital by $400,000.

Its authorised capital was $15 million, with $5.25 million initially paid up. Its first shareholders were:

- Federation Government: $2.5 million
- Malaya Developments Ltd. (on behalf of the Colonial Development Corporation): $2.5 million
- The five exchange banks—Chartered Bank, Hong Kong and Shanghai Banking Corporation, Mercantile Bank Ltd., Overseas Chinese Banking Corporation Ltd., and Eastern Bank Ltd.: $5 million
- Members of the British Insurance Association operating in Malaya: $1.25 million
- Other insurance companies operating in Malaya: $1.25 million
- Other foreign banks, trading companies, plantation companies and individuals: $2.5 million

As evident from its prospectus and memorandum of association, MIDF was given immense scope to act flexibly. It could give out loans, take equity participation, sponsor and underwrite new issues of shares, guarantee loans, as well as provide managerial and technical assistance to industries.

An advertisement was put out for a manager, who must have "energy, integrity, business ability and sound judgement". It attracted 300 applicants from 28 countries.

As it embarked into unchartered territory, MIDF initially drew on the resources and experience of one of its shareholders, Malaya Developments Ltd., which was a subsidiary of the Colonial Development Corporation, a British statutory body established to assist enterprises in its colonies. In the first few years, Malaya Developments Ltd. provided supervision and its staff on loan to MIDF. It also provided the Boardroom for MIDF's first ever Board meeting.

The first Board of Directors comprised six persons, the majority of whom were foreigners. By this time, Dato' Spencer had left Malaya. The first Board meeting was chaired by Mr. H.B. Hussey, who was a senior director of Harper Gilfillan and Co. Ltd., one of Malaya's leading agency houses and a nominated member for commerce on the Federal Legislative Council from 1955 to 1959.

Mr. Hussey was nominated to the Board by the majority shareholders, the five commercial banks, along with Mr. H.G. Banham. The other directors were Raja Tun Mohar bin Raja Badiozaman, permanent secretary to the Ministry of Commerce and Industry, representing the Federation Government; Mr. G.I. Firmston-Williams representing Malaya Developments Ltd., and Mr. A. Snaith and Dato' S.Q. Wong representing the British and local insurance companies, respectively. The secretary/accountant in attendance was Mr. Lee Soon Lee.

H.G. Banham (right) with Minister of Finance Tun Tan Siew Sin at an opening ceremony on 25 March 1961. Mr. Banham was one of the first six directors appointed to the Board of MIDF. He also became chairman of MIDF for a short time from April to May 1961. (Photo from New Straits Times)

MIDF's first general manager arrived in Kuala Lumpur in July 1960. An Irishman, Mr. Dermot O' Regan, 45, was a senior industrial advisor to the Irish Export Promotion Board and had worked in the United States, the United Kingdom and Canada.

"From experience, I would say our operations will start slowly, and gradually broaden in scope and extent. We have been doing this (industrial finance) in Ireland for 40 years and it is only during the last 10 years that it has really caught fire. It depends on the industry becoming aware and taking advantage of the facilities we will offer," Mr. O' Regan said in his first media interview.

MIDF, he said, would publicise its services through the press and brochures.

He also said Malaya was regarded as a growing and expanding country, and a very stable one in the context of Southeast Asia. His first impressions of Kuala Lumpur were unusual, perhaps due to the location of the MIDF offices on Jalan Ampang. The city, he said, reminded him strongly of San Francisco, where there was a large Chinese community —"you get the ultra-modern buildings and shops that haven't changed much for decades."

MIDF's first office was on half of the sixth floor of Sentosa Raya, with seven staff comprising the general manager, secretary/accountant, secretary to the general manager, a typist, a bicycle-riding messenger, a driver and a gardener.

It did not yet have its own financial analyst or engineer, and these were borrowed on a part-time basis from Malaya Developments Ltd.

MIDF GOT DOWN TO WORK AND RAN INTO CHALLENGES

MIDF launched into business on 12 August 1960 when the Board issued its loan policy guidelines. It stated that its lending would be restricted to industry including off-estate processing, but not agriculture projects. It would favour domestic firms over foreign ones, as well as 'pioneer industries', which were those producing goods that were being wholly-imported or not being manufactured in sufficient quantities for domestic demand.

The lower limit of loans was set at $50,000. MIDF had initially wanted to set the floor at $100,000, but this was lowered at the request of the government. MIDF set a limit of 20% of its annual loans to be given to small loans from $50,000 to $150,000 as lending to small industries was considered to be experimental and risky.

In September 1960, MIDF issued a brochure setting out the loan terms:

- There was no ceiling figure regarding amounts to be borrowed;
- The project must be commercially sound;
- Interest would be about 2% more than the usual banking rate;
- There was no formal limitation on the size of firms eligible for loans – but it was expected that applications would come mainly from medium and small firms, and new businesses; and
- Preference would be given to local firms, where technical and financial qualifications were similar or where help could make a local project competitive.

Loan applicants had to prove that they had sufficient funds to provide a reasonable proportion of the total capital required; expert general and technical management to run the business efficiently, and the ability to repay its loans out of its income.

Mr. Hussey said at a press conference that MIDF did not intend to compete with the banks or other private lending institutions, but aimed to supplement their activities by covering fields that were otherwise not catered for. Only small industrial concerns would be considered by the company for financial assistance to develop them into large-scale industries to take their place in the economic development of the country.

At the start, only a trickle of applications came in as the public was unaware of MIDF or its objectives. The first loan application to be considered came from Brinchang Lorry Transport Company, but this was rejected as being outside of MIDF's scope.

In that first year, MIDF received 70 enquiries, but found only 28 to be suitable for assessment. It approved a mere seven loans for a total of $11 million. Many applicants were rejected for applying for loans below the floor of $50,000 or for loans related to agricultural projects or retail trade that was outside its scope.

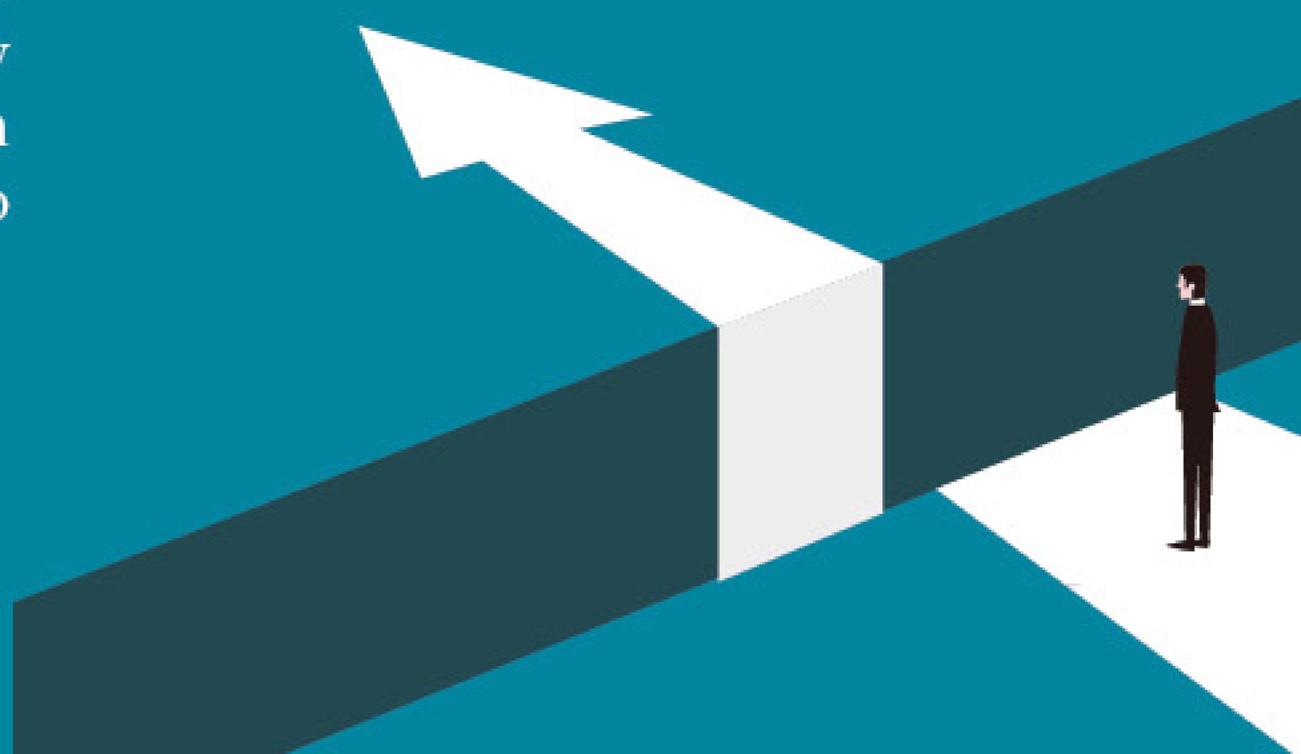
MIDF finally gave out its first loan on 17 November 1960 to Sincere Match and Tobacco Factory Ltd. for $2.1 million over 12 years.

In the first MIDF Annual Report in 1961, Mr. Banham, who was appointed chairman after Mr. Hussey returned to the United Kingdom in April 1961, explained the slow start: "Many interesting proposals had to be turned down because the sponsors had not given adequate thought to their planning or because they were over-optimistic in profit forecasts and greatly exaggerated their potential returns." Many projects were also found to have had an excessive ratio of debt-to-equity capital.

MIDF's first annual general meeting was held on 4 July 1961.

The challenge to give out loans persisted into the second year. In 1962, MIDF's business improved with 17 loans approved for $9.8 million, but only seven were for below $50,000. Five for between $50,000 and $1,000,000, and five over $1,000,000.

One of its notable loans in 1962 was given to Selangor Pewter Co. (now known as Royal Selangor) for a sum of $80,000 to build a factory in Setapak to boost its production for export. The 4,000 square foot factory was a modern one, designed with the advice of three consultants from the International Labour Organisation, who were in Kuala Lumpur to help Malaya set up a National Productivity Centre.



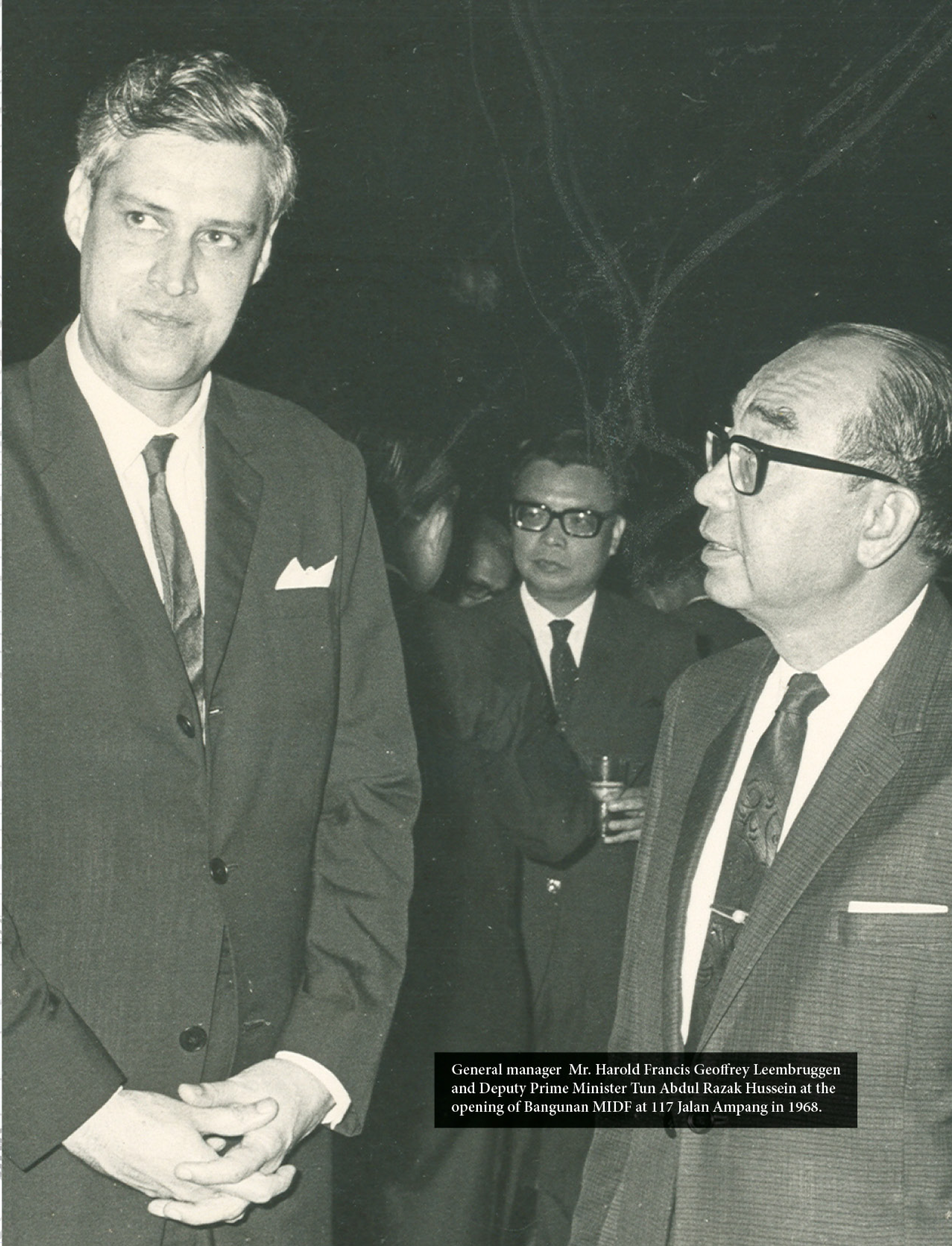
“For the small man who wishes to make sauce, manufacture glass or start any other numerous light industries”

In the second Annual Report in 1962, MIDF commented that the majority of the projects that sought financing with them were under-capitalised, with a loan-to-equity ratio far in excess of sound financial planning. In addition, the enterprises often burdened themselves with heavy hire-purchase commitments repayable over a short period of years. They worked within very narrow financial limits and were unable to build up reserves as a cushion against fluctuating market conditions. When they found themselves in financial difficulties, they sought loans from MIDF, which was unable to refinance them.

MIDF did try to meet the needs of smaller industries through a hire-purchase scheme for industrial equipment financing set up in February 1961. This scheme adopted a simpler appraisal procedure. However, it stipulated that this was to be used “only selectively, and no publicity is to be given to it.”

For the “small man who wishes to make sauce, manufacture glass or start any other numerous light industries”, MIDF introduced a factory mortgage finance scheme. Its Factory Development Division published a brochure in October 1961 with details of standard factories costing \$35,000 to \$45,000, made of “steel framing with nine-inch thick brick panel walling, reinforced concrete slab flooring, steel roof trusses surfaced with asbestos sheeting, roof lights and ventilators”, which could be built on new industrial sites springing up in Malaya, notably in Tasek (Perak), Tampoi (Johor) and Sungei Mak Mantin (Penang).

However, these two schemes did not make much of a ripple, with only 17 commitments in three years amounting to \$420,000.



General manager Mr. Harold Francis Geoffrey Leembruggen and Deputy Prime Minister Tun Abdul Razak Hussein at the opening of Bangunan MIDF at 117 Jalan Ampang in 1968.

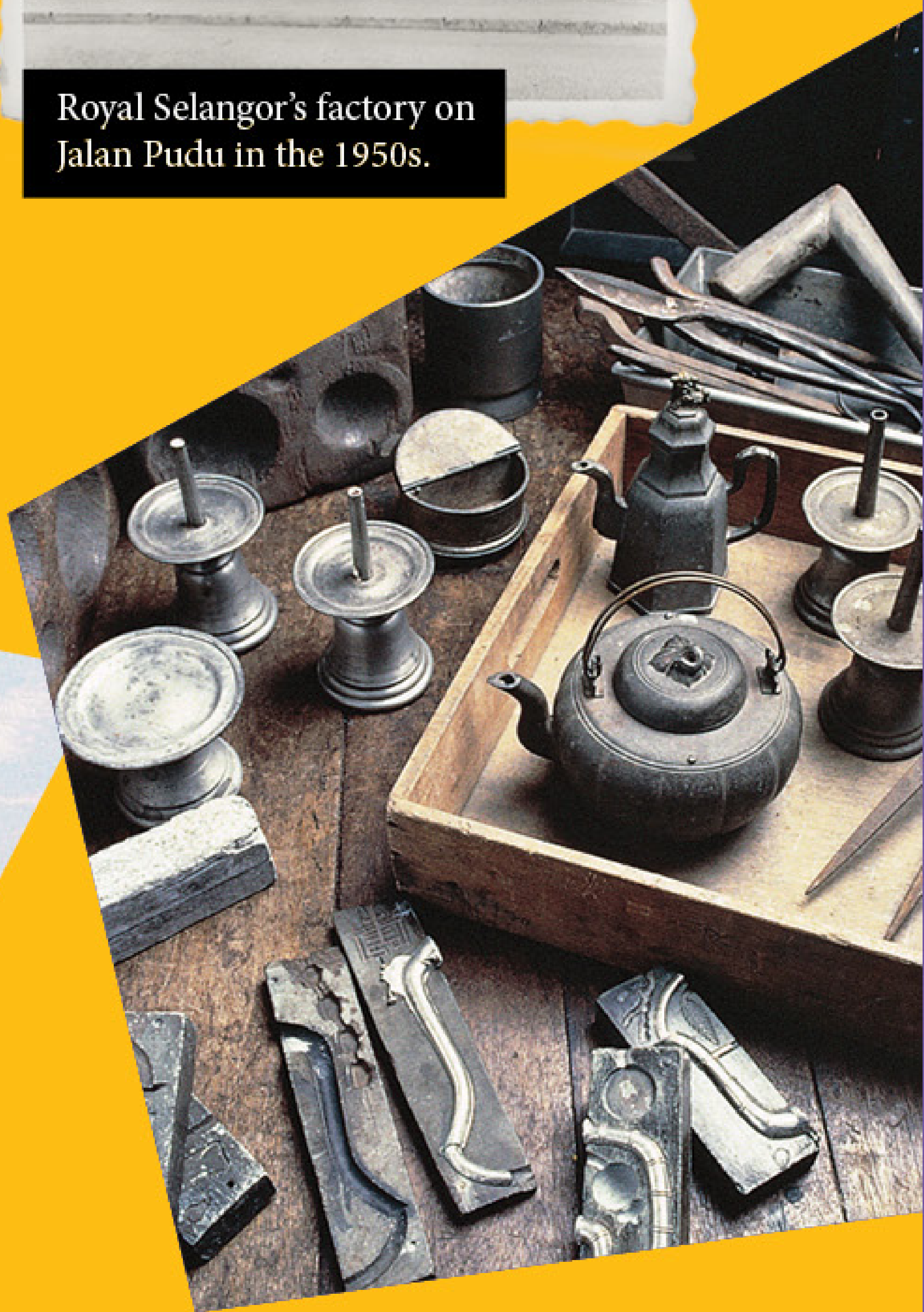
EARLY LOANS

ROYAL SELANGOR

MIDF's first factory loan was made in 1962 to Selangor Pewter Company (now known as Royal Selangor), which produced pewter items from local tin. The loan of $80,000 helped to finance the building of a new factory in Setapak to treble its production for export.

When he received the loan, Mr. Yong Peng Kai, the proprietor of the firm, said work on the new factory would begin in early 1963 and it would employ 150–200 workers. Machinery worth about $40,000 had been ordered. He was making contacts in America and other parts of the world for a major export drive, explaining that Malayan pewter, made of Malayan tin, was recognised throughout the world as the best pewter because of its high content of tin.

Royal Selangor's factory on Jalan Pudu in the 1950s.



Mistrian Haji Redwan, one of the longest serving employees of Royal Selangor, joined the company at the age of 19 in 1963.

> "We are exhibiting our pewter ware in the Chicago Trade Fair now. We have received many enquiries as a result of this. A Canadian brewery recently bought 1,000 pewter beer mugs to give to its employees with 10 years' service."

— Mr. Yong Peng Kai said in 1962.

The loan was said to have caused Mr. Yong sleepless nights until he paid back the last cent. This factory continues to produce pewter items today.

FACING HEADWINDS

While MIDF was still in its infancy, the Malayan Government had started to be dissatisfied with the way MIDF ran its business. It was of the opinion that MIDF did not do enough to assist small firms and seemingly had apparent preference for larger foreign-owned firms that had stronger collaterals to offer.

It had high hopes for MIDF to be a crucial partner in building Malaya's industrial sector, which had been growing rapidly since independence. The enterprises were mainly light industries, but there were several major projects, such as an automobile tyre factory, oil refineries, a steel mill, cement mills, a pipe factory, a pulp and paper plant, a sugar refinery and a fertiliser factory in the pipeline. While still at an early stage, industrial development had shown a marked upsurge since 1960, reaching an average annual rate of growth of 11.5% against an annual increase of 6.1% in the domestic economy as a whole.

The Malayan Government wanted MIDF to fill the financing gap for small industries, which employed most of the manufacturing workers in Malaya. The only other long-term financial institution was the Rural Industrial Development Authority, which, in practical terms, financed mainly rural handicrafts.

However, in reality, loans to small enterprises were seen as risky and costly to administer, and MIDF had to walk a fine line between playing its role in building the industrial sector and developing into a commercially-sound financial institution.

The Malayan Government's dissatisfaction boiled over when on 24 March 1961, MIDF made a loan of $7 million to Dunlop Malayan Industries Ltd., a subsidiary of Dunlop of United Kingdom, to set up the nation's first automobile tyre factory in Petaling Jaya.

MIDF financed the first automobile tyre factory in Petaling Jaya operated by Dunlop Malayan Industries Ltd.

This loan had committed nearly half of MIDF's subscribed capital, in a departure from its policy that it would not commit to any single enterprise for more than 20% of its paid-in share capital and reserves. The objections to this investment were that:

- it was made to a firm that could easily raise funds from the open market;
- it was made to a firm largely owned and controlled from abroad;
- it committed almost half of MIDF's resources to one project; and
- it served to identify MIDF with large industries and with foreign concerns.

As the World Bank noted in 1963, this loan had evoked criticism that "MIDF stands for Big Business" and created difficulties with the government.

MIDF saw things differently. Being hampered by its limited resources, it had viewed the Dunlop loan as a means to grow its income, which could then be used to expand its services and make smaller loans. This loan was to provide a financial base for MIDF to fulfil its role to assist small enterprises.

MIDF alluded to its limited resources in its Annual Report 1962 when it raised the idea of forming a Pan-Malayan industrial bank with Singapore to increase its capital, extend its operations and take greater risks to help small firms.

"If MIDF is to serve its purpose in Malaya apart from carrying its overhead and paying dividends, it must look to expansion very much beyond $15 million (in its equity)."

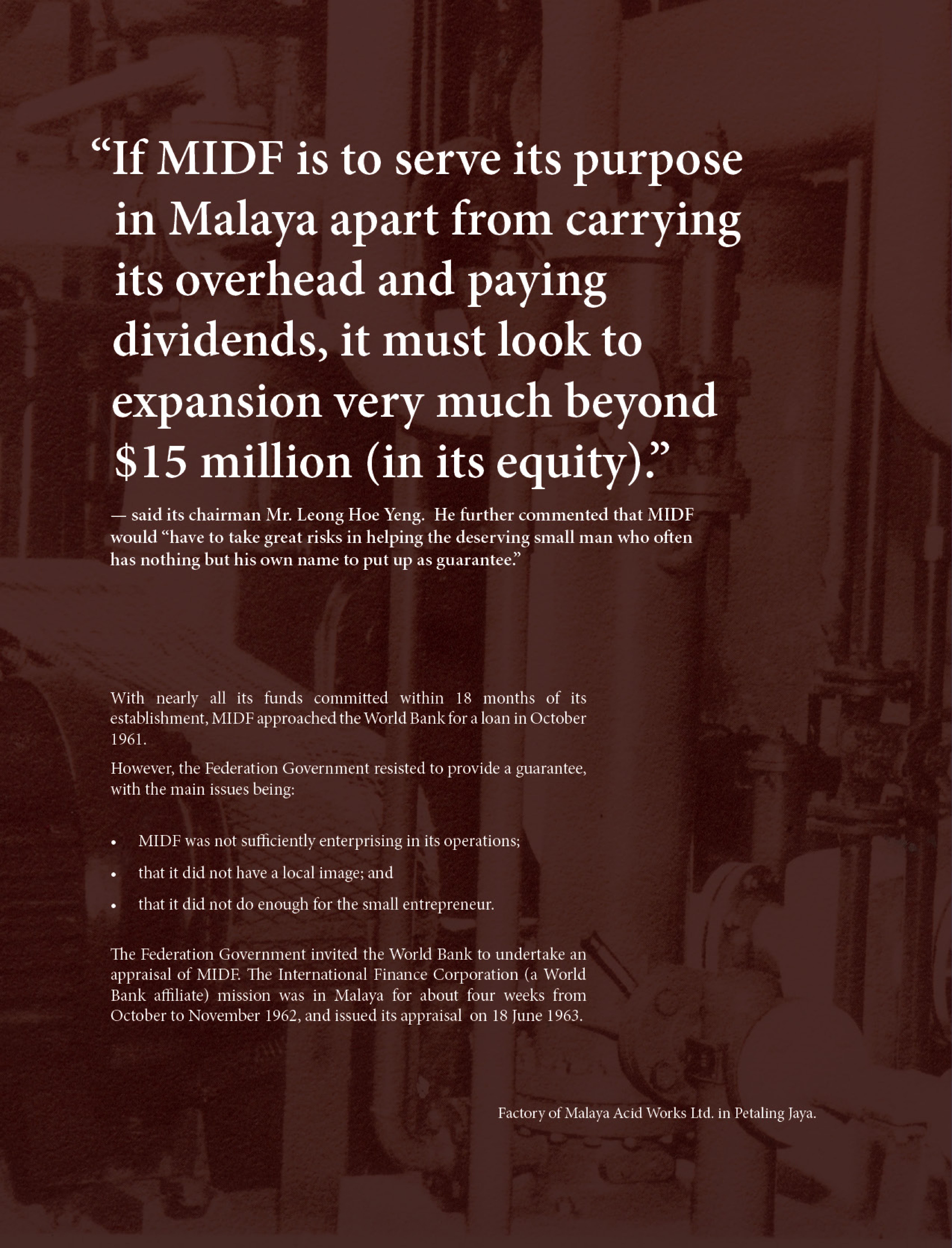
— said its chairman Mr. Leong Hoe Yeng. He further commented that MIDF would "have to take great risks in helping the deserving small man who often has nothing but his own name to put up as guarantee."

With nearly all its funds committed within 18 months of its establishment, MIDF approached the World Bank for a loan in October 1961.

However, the Federation Government resisted to provide a guarantee, with the main issues being:

- MIDF was not sufficiently enterprising in its operations;
- that it did not have a local image; and
- that it did not do enough for the small entrepreneur.

The Federation Government invited the World Bank to undertake an appraisal of MIDF. The International Finance Corporation (a World Bank affiliate) mission was in Malaya for about four weeks from October to November 1962, and issued its appraisal on 18 June 1963.



Factory of Malaya Acid Works Ltd. in Petaling Jaya.

The team concurred, in large part, with the Federation Government. It said the criticisms that MIDF was not sufficiently enterprising and that it did not have a local image appeared to be justified. However, it disagreed that MIDF did not contribute to the small-loans field. It recognised that it was difficult for a commercially-oriented institution to build up a profitable business on the basis of small loans, which were both risky and costly, and despite this, MIDF was already operating in a limited way in this field.

Nevertheless, it noted that MIDF's set-up and operations gave the prevailing impression that it existed for big businesses, and not for assisting the average domestic entrepreneur. It said MIDF had to improve its public image by having better public relations, increasing local ownership, eliminating foreign control, as well as introducing suitable lending policies designed to meet the needs of the average Malayan entrepreneur and suitable staff policies.

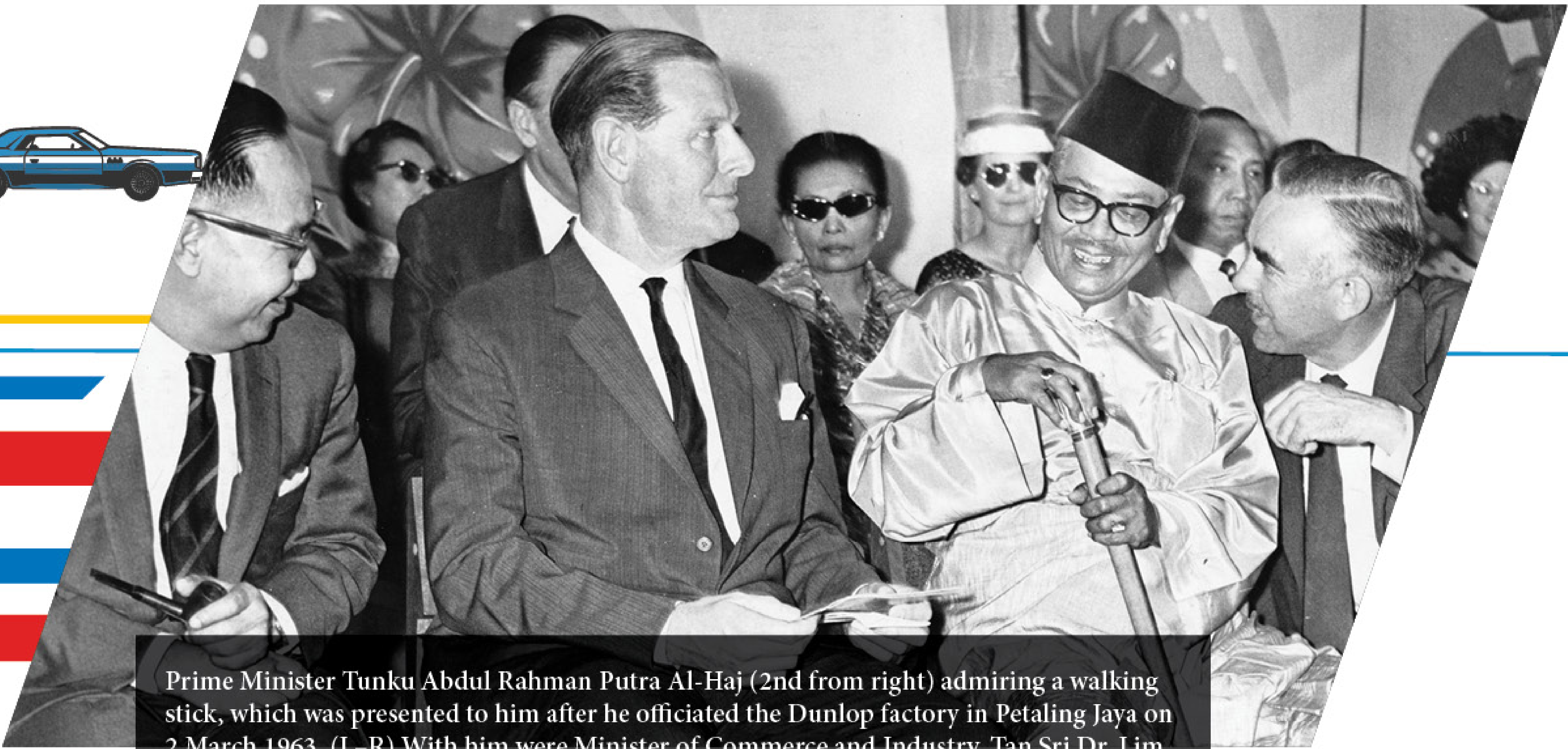
"It has to be observed that after three years of operation, MIDF has not succeeded in earning recognition as an institution which is satisfactorily fulfilling the expectations of it in the country or as one which is sufficiently Malayan," it said.

One of the reasons it had not been deemed successful was that it had taken too small a share in the financing of industry. In three years, its loan disbursements amounted to only $11.8 million and the number of cases approved was only 26. Two loans, which represented 60.6% of its lending, were to largely foreign-owned firms – Dunlop Malayan Industries Ltd. ($7 million) (United Kingdom) and Alcan Malayan Aluminium Company Ltd. ($2 million) (Canada).

The report said it was generally felt that MIDF put too great an emphasis on security and not enough emphasis on profitability, but it also took note of the fact that MIDF believed it should be guided by strict commercial standards and that it should not take risks with its money. MIDF's conservative views might have been influenced by a Board dominated by commercial banking and insurance background.

To function properly as a developmental bank, MIDF had to adopt a more dynamic attitude, and towards this end, it was advised to have greater diversification of talent and experience on the Board. It was also suggested that MIDF could have participated more actively in industries by making equity investments in appropriate cases. This was because the typical entrepreneur in Malaya had too little capital to maintain a sound equity-loan ratio in its capital structure.

DUNLOP TYRES



Prime Minister Tunku Abdul Rahman Putra Al-Haj (2nd from right) admiring a walking stick, which was presented to him after he officiated the Dunlop factory in Petaling Jaya on 2 March 1963. (L–R) With him were Minister of Commerce and Industry, Tan Sri Dr. Lim Swee Aun; managing director of the Dunlop Group, A.R.M. Geddes and managing director of Dunlop Malayan Industries Ltd., R.C.F. Carver. (Photo from New Straits Times)

Dunlop Malayan Industries Ltd., a newly-incorporated company in Malaya with pioneer status, was a recipient of a large loan of $7 million from MIDF in 1961. The loan part-financed Dunlop's new factory in Petaling Jaya for the manufacture of motor vehicle tyres and tubes. Dunlop was awarded a Pioneer Certificate by the government as the tyre plant was regarded as an important resource-based industry in Malaya, which was the world's biggest rubber producer at that time.

The factory provided employment for 600 people when in full production at its 145,000-square-foot premises. At the start, the $25 million factory produced about 400,000 tyres a year for domestic use and exports, and used about 2,000 tons of Malayan rubber a year on this capacity output.

The factory was opened in 1963 by Prime Minister Tunku Abdul Rahman Putra Al-Haj, who said: "It makes good economic sense—I might even say good common sense—to establish a manufacturing industry for tyres right in the home of rubber."

A Dunlop earth-mover tyre being taken out of its mould at its factory in Petaling Jaya. Photo taken in 1981. (Photo from New Straits Times)

“It makes good economic sense—I might even say good common sense—to establish a manufacturing industry for tyres right in the home of rubber.”

— said Prime Minister Tunku Abdul Rahman Putra Al-Haj.

The report found that MIDF was also hampered by the lack of a Technical Services Department, which was intended to consist of an industrial engineer, cost accountant and chemical engineer. It did establish an Economics Department in 1962 and borrowed a financial analyst from Malaya Developments Ltd., but up to 1963, it still had only one financial analyst and no one in its Technical Services Department.

The mission recommended a structural reorganisation of MIDF, with changes to its ownership, resources, policies and Board composition. The changes included:

- The capital of MIDF was increased from $17.5 million to $25 million through an additional issue of $7.5 million in shares. Domestic private investors took $3.5 million, while foreign private investors were invited to take up a maximum of $1.5 million. The International Finance Corporation took up $2.5 million and undertook to subscribe any further amount needed to make up the total of $7.5 million of new shares issued. Its subscription enabled the Malayan shareholding to be in a majority, treating International Finance Corporation as Malayan.
- The World Bank granted a loan of US$8 million for 15 years, guaranteed by the Federation Government, which also provided a 30-year loan amounting to 1.5 times the share capital, a sum of $37.5 million.
- The Board structure was reorganised to reflect the change in ownership, with the International Finance Corporation having the right to have one director. A majority of Malayan representatives were sourced through a voting arrangement agreed by the Board members. With this enlarged Board, there would be eight Malayan directors out of 14, if International Finance Corporation was counted as local.
- MIDF was strengthened with more technical staff to enable it to better manage riskier loans and undertake equity financing. MIDF had requested the International Finance Corporation's assistance to recruit a new general manager, as the post had fallen vacant, with his duties being to guide the company after the reorganisation and train a local person to succeed him.
- MIDF would adopt more progressive policies, consistent with sound investment banking principles. It would continue to operate experimentally, but in a limited way in the field of small loans with adequate safeguards.

$1 mil. MIDFL loan for P.J. factory

KUALA LUMPUR, Friday.

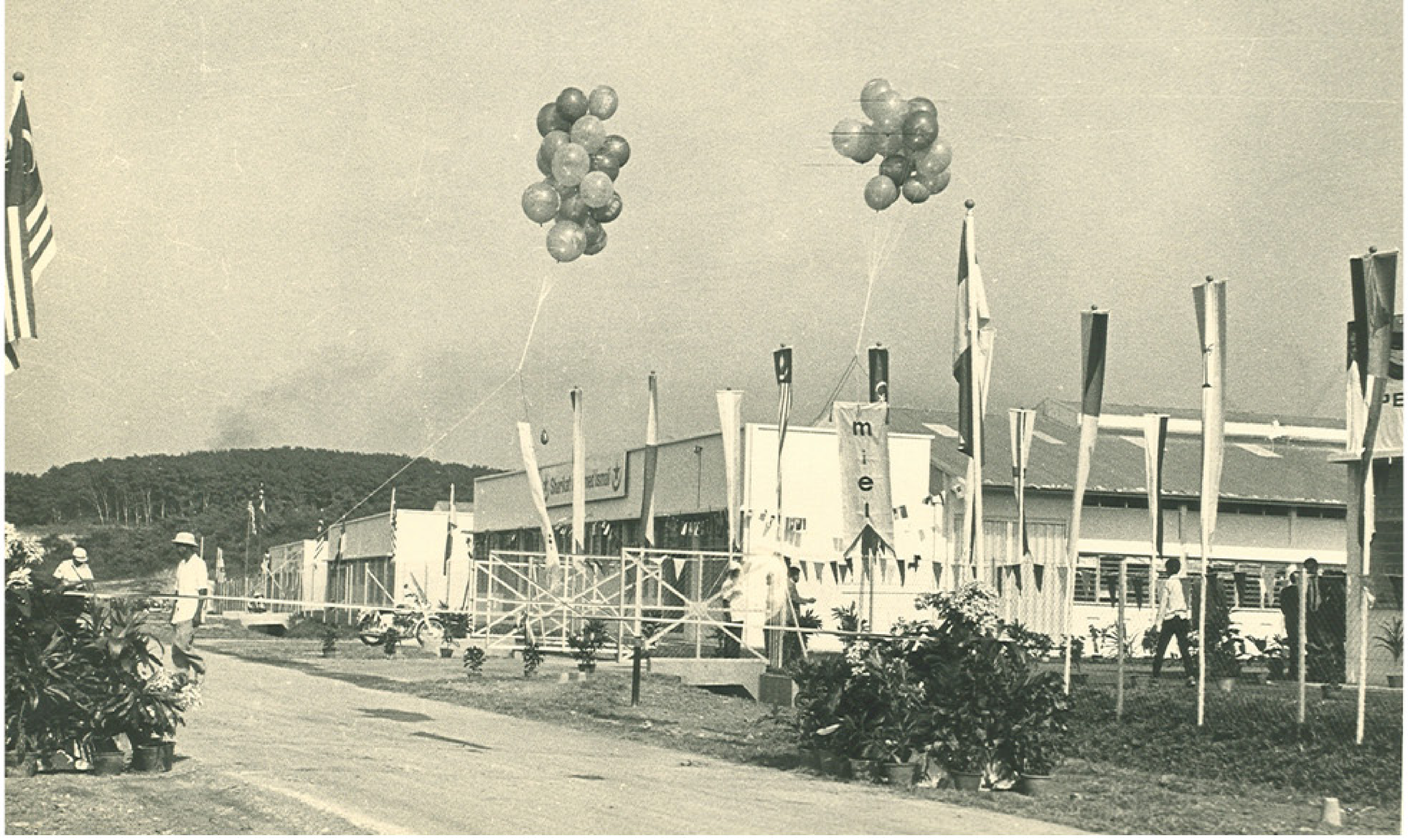
THE Malaysian Industrial Development Finance Ltd. yesterday granted a $1 million loan to a firm which has set up a factory in Petaling Jaya.

The firm is Malaysian

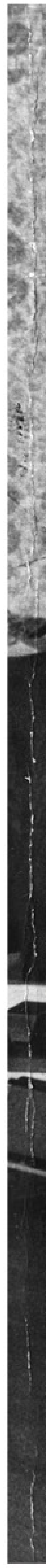
"In spite of its shortcomings, it (MIDF) has gained valuable experience of investment banking problems; and above all, has so far paid its way."

The report concluded that MIDF had, so far, not made a tangible impact on Malaya's industrial development mainly because of insufficient resources, emphasis on security rather than on profitability, omission to utilise other forms of investment other than loans, lack of liaison with the government and a general lack of an enterprising attitude.

Nonetheless, despite the initial stumbles, the World Bank believed that MIDF, as the pioneer investment corporation in the country, had broken new ground in providing institutional means for mobilising local and foreign capital for investment in local industry. It was also a pioneer in the field of underwriting and issuing house services, and, therefore, contributed to the development of the capital market.



Exterior view of Kawasan MIEL Batu Tiga, Shah Alam in 1968.



In June 1961, rubber industry leader Mr. Leong Hoe Yeng was elected the first Malayan chairman of MIDF. He was president of the Malayan Estates Owners' Association and Rubber Producers' Council, and chairman of Kwong Yik (Selangor) Banking Corporation. In August 1962, MIDF's capital was increased to $17.5 million, with the additional $2.5 million issued to the Central Bank of Malaya, which was set up in 1959, as part of the World Bank's earlier recommendation.

Even so, as at 31 January 1963, with 110 shareholders, effective control of MIDF remained in foreign hands with 62% of the capital held by foreign institutions. More than half of its capital was contributed by British banks, insurance companies, Malaya Developments Ltd. and Commonwealth Development Finance Company. MIDF amended its Articles on 1 February 1963 to provide for the election of directors, who were previously nominated individually by the shareholding interests.

MIDF's loan agreement with the World Bank was signed in Washington D.C. in July 1963, with Mr. Leong signing on behalf of MIDF as its chairman; Mr. George D. Woods, president of World Bank, on behalf of the International Bank for Reconstruction and Development, and Tun Omar Ong Yoke Lin, Malayan ambassador, on behalf of the Malayan government.

This loan was the first of an agreed line of credit, amounting to $186 million, which MIDF would be able to call upon whenever required for the support of industrial investment. With the loan from the Malayan government and the increase in its capital, MIDF now had resources totaling $250 million for the purpose of developing industrial projects in Malaya.

After a lacklustre start, the restructured MIDF, with greater resources at its disposal, was placed on a sounder footing to make a fresh start.

(L–R) His Excellency Tun Omar Ong Yoke Lin, Malayan Ambassador to the US, George D. Woods, president of World Bank, and Leong Hoe Yeng, chairman of MIDF, during the signing of the World Bank loan documents on 15 July 1963. (Photo from New Straits Times)