A FRESH START

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Tun Ismail Mohamed Ali receiving a corsage at the opening of Kawasan MIEL Batu Tiga in Shah Alam on 10 September 1968.

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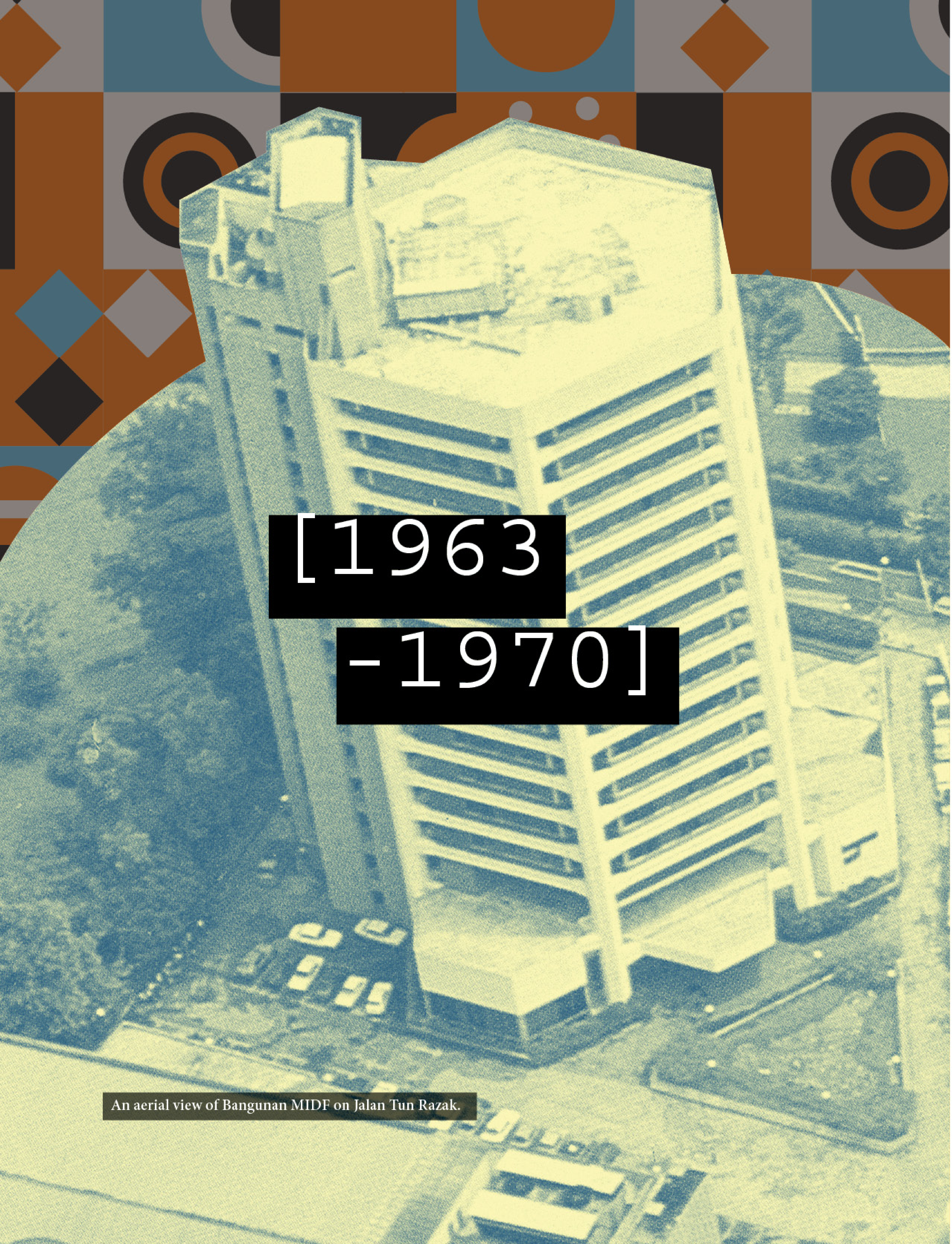


An aerial view of Bangunan MIDF on Jalan Tun Razak.

A FRESH START

Having completed its restructuring and now with increased resources, there were much refreshed hopes for MIDF to better support Malayan industries.

MIDF was ready to offer financial and technical assistance for a wider range of projects—even accepting risks that commercial banks could not. It stated that it intended to support "any project we think promises a high rate of profit, or promises in other ways to be advantageous to the economic development of the country."

The Malayan government also shared similar optimism.

The Federation's Minister of Finance Tun Tan Siew Sin told the House of Representatives that MIDF's enlarged capital would enable it to play a dynamic role in financing industrial development in Malaya and soon-to-be Malaysia. He said this when moving the Loan Guarantee Act 1963 to enable the Federation Government to provide a guarantee for the World Bank loan of US$8 million to MIDF. The bill was passed.

The Yang di-Pertuan Agong also touched on the topic in his address at the opening of the fifth Parliament session in 1963, saying: "My government hopes that, once strengthened financially, this organisation (MIDF) will be able to widen the scope of its operations so that it can play a more active role in promoting our industrial development."

The Board of MIDF was enlarged to 14 elected directors, eight of whom were Malayans, among them Tun Ismail Mohamed Ali, Raja Kamarudin Raja Tun Uda, Tan Sri Robert Kuok Hock Nien and Mr. Heah Hock Meng. Tan Sri Dr. Foo Yin Chiew, a British-educated businessman with widespread mining interests in Perak, was elected chairman in 1963, becoming the second Malayan to hold this post. He was chairman until 1969.

MIDF's operations were restructured, with an executive committee set up in November 1963 to better manage its operations. The committee comprised of a chairman, two directors and a general manager (who did not have a vote) met twice a month to assess loan applications and make other management decisions. The Board itself met three to four times a year.

A new general manager was appointed, a post which had been vacant since 1962 upon the departure of Mr. O'Regan. Mr. E.T. Kuiper arrived in October 1963, with his first task being to reactivate MIDF to undertake its full role as a development finance company. He was formerly the general manager of Pakistan Industrial Credit and Investment Corporation, and managing director of Development Bank of Ethiopia.

"It became increasingly evident that the response from Malaysian entrepreneurs was lacking because MIDF was perceived as a foreign company, and there was also a need to reorganise its management."

— said Tun Ismail Mohamed Ali, chairman of MIDF, in the Annual Report 1981.

He was succeeded in October 1964 by Mr. L.M. Svoboda, a World Bank staff who had been an adviser at Arab Development Fund in Kuwait. Mr. Svoboda held the post until 1968 when a Malaysian took over the general manager's post for the first time.

MIDF engaged three economists, two accountants and a lawyer in 1963, and an industrial engineer soon after. It continued to steadily grow its staff with local expertise and by the end of the 1960s, 24 out of its 27 executive or professional staff were Malaysians.

With its expanded operations, MIDF moved from Sentosa Raya around this time to take up three and a half floors of the Hwa-Li Building on 63-65 Jalan Ampang.

However, despite its efforts, activities remained lacklustre. In 1965, it approved 49 loans totalling $19.5 million, but this fell to 32 loans for just $8.5 million two years later, even lower than its performance in its first year in 1961. This was mainly attributed to low demand, as not many local enterprises were coming forward to apply for loans.

Chairman Tan Sri Dr. Foo Yin Chiew (7th from left), Tun Ismail Mohamed Ali (5th from left) and rest of MIDF Board members in a meeting in 1967.

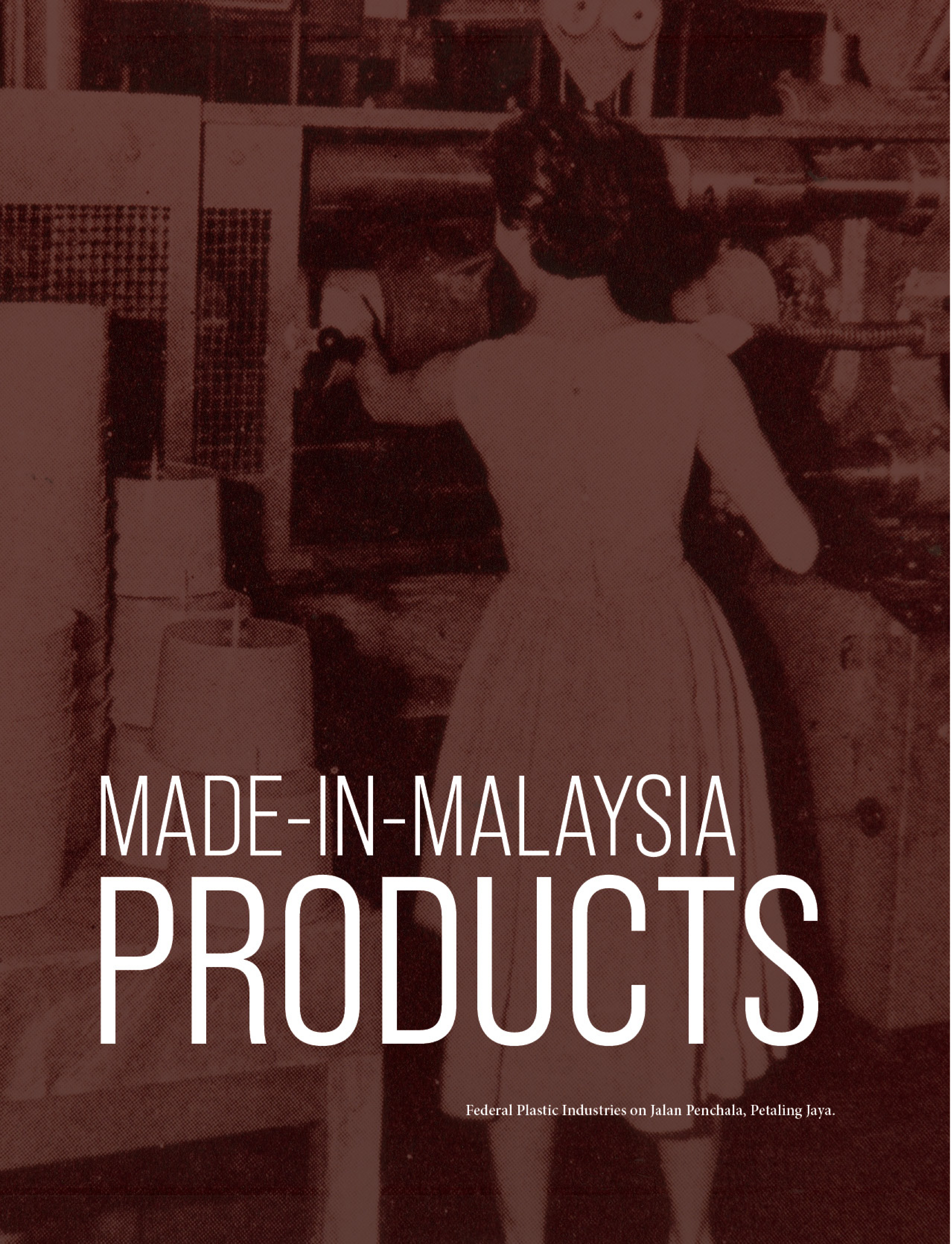
MIDF set up a committee in 1967 to undertake a reorganisation of its operations and management. The committee was chaired by one of its directors Tun Ismail Mohamed Ali, the British-educated Central Bank Governor, who would go on to become MIDF chairman in 1969 (until 1991).

In 1968, three new Malaysian directors were elected to the Board, namely Tan Sri Tengku Ahmad bin Rithauddeen bin Tengku Ismail, Mr. Yong Pung How and Mr. Kang Kok Seng, making it nine Malaysians out of the 14 directors.

After having had a series of foreign general managers since its inception, Mr. Harold Francis Geoffrey Leembruggen was appointed the first Malaysian general manager of MIDF in 1968.

Mr. Leembruggen, 43, had returned to Kuala Lumpur in 1967 after serving 16 years in the Singapore civil service. He was reportedly to have taken up a senior appointment in Europe in the new trade service but was "diverted to MIDF to reorganise the company in the face of slackening performance." A media interview with Mr. Leembruggen, who was a graduate in literature, reported that he had voiced doubts that improvements could be achieved quickly. Nonetheless, improvements did come quickly.

MIDF reorganised its operational structure in 1968 to simplify its loan procedures, offer better guidance to entrepreneurs and cultivate a new "promotional orientation toward industrial financing". It also diversified its lending policy in 1968 from purely manufacturing concerns to services as well as agricultural and processing industries.



MADE-IN-MALAYSIA PRODUCTS

Federal Plastic Industries on Jalan Penchala, Petaling Jaya.

"We are now getting the young sons of businessmen, men with good education, real professionals, taking over family businesses, willing to form corporations, to expand and innovate."

— said Mr. A. Shanmuganathan.

The restructuring made a significant impact. A year later, in 1969, MIDF announced that a record 85 loans had been approved for $27.2 million, doubling the 47 loans worth $13.5 million the year before. It had also increased significantly its factory mortgage and hire purchase loans, both schemes targeted at small industries.

Over 75% of these loans went to small and medium sized industries, which formed the backbone of manufacturing in Malaysia at that time, making up 86% of the enterprises compared to 95.7% a decade earlier in 1959. Some 98% of the enterprises had fewer than 100 workers. Some small industries employed 65% of all workers engaged in manufacturing, with their output constituting 57% of the country's total manufacturing output.

Mr. A. Shanmuganathan, a senior engineer and coordinating investment officer at MIDF, described the industrial enterprises of the 1960s to be mostly "family-type businesses".

"We would like to see the economy developing at a more rapid rate but until recently, the development of the industrial sector has been haphazard. It is difficult to get Asians to get together and form a corporation. There is now however, a perceptible change in this attitude."

"We are now getting the young sons of businessmen, men with good education, real professionals, taking over family businesses, willing to form corporations, to expand and innovate," he said in a press interview.

The industrial sector grew rapidly in the 1960s, at an average rate of 10.2% a year. In 1960, manufacturing contributed 8.5% of the nation's gross domestic product. This rose to 13.4% a decade later.

During its first decade, MIDF's focus was on helping to build import substitution 'pioneer' enterprises to produce made-in-Malaysia goods for the domestic market. Many of its clients in its first five years were pioneer companies and MIDF loans amounted to almost a third of the loan capital raised for the 108 firms given pioneer status from 1958 to 1964. These loans helped create as much as one-third of the employment in pioneer industries during this time.

MIDF supported projects in almost every sector of the manufacturing industry, including chemicals, heavy building materials, textiles, steel, wood products, animal feed and cement. Its smaller loans went towards helping to establish a range of new industries as diverse as joinery workshops, printing presses, tyre-retreading plants, sawmills, curry powder factories, shoe manufacturers and plastic fabricators.
While most of its loans were for smaller enterprises, MIDF also supported some larger industries, with a particular focus on technology transfer.

Chairman Tan Sri Dr. Foo said in the Annual Report 1965 that MIDF could act as a catalyst in bringing together local and foreign investors in joint ventures, "particularly when the acquisition of know-how was as important as capital."

As such, he said MIDF was considering making a substantial investment in the iron and steel industry, noting that the lack of heavy industry was one of the more obvious shortcomings in the Malaysian economy.

"Large, balanced and integrated industrial complexes form a basis for stimulating other ancillaries, and frequently provided the key that opened wide areas for new investment opportunities."

— said chairman Tan Sri Dr. Foo Yin Chiew.

The full benefit of industrialisation would be realised with the integration of small and large industries.

Towards this end, MIDF invested in a joint venture between Malayawata Steel Projects and Japan's Yawata Group, to build Malaysia's first integrated steel mill, Malayawata in 1964. MIDF had also invested in an automobile joint venture through a loan to Swedish Motor Assemblies to build an assembly plant for Volvo cars in 1967.

Its beneficiaries of other large loans in the 1960s included Malayan Flour Mills to build the first modern flour mill in Malaysia near Lumut in Perak; Tasek Cement Ltd. in Ipoh to double the capacity of the first wholly locally-owned cement mill in Malaysia; and Malaysian Lamps Ltd. (a subsidiary of Phillips of Holland) to set up a plant in Petaling Jaya to assemble electric bulbs to meet most of the nation's requirements. MIDF also financed Textile Corporation of Malaya to expand its mill in Johor Bahru to increase its weaving capacity and employment by 50% for the production of cotton yarn and grey cloth.

In 1968, after diversifying into the services sector, MIDF granted a loan to Far Eastern Development (M) Bhd to build Malaysia's first international hotel, the Kuala Lumpur Hilton.

Malayan Flour Mills' factory in Perak, which was built by one of the early loans provided by MIDF in the 1960s.

DEVELOPING CAPITAL MARKETS

Beyond making industrial loans and equity investments, MIDF also helped manufacturing enterprises to gain access to the young capital market. It was a pioneer in offering underwriting and issuing house services in Malaya, a role which the World Bank appraisal of MIDF in 1963 had described as having achieved "considerable success".

MIDF had assisted in bringing a number of major companies to list on the Malayan Stock Exchange, which was launched in 1960, with some of these flotations making the news for being among the larger public offerings in Malaya at that time.

MIDF's first foray into this arena was in September 1961 when it sponsored and underwrote the public flotation of Dunlop Malayan Industries Ltd. This newly-incorporated company was offering 4.68 million shares for subscription to the public, as part of its fund raising to build Malaya's first rubber tyre plant in Petaling Jaya. As the issue was heavily oversubscribed, MIDF did not have to subscribe any amount.

In February 1966, MIDF became the underwriter for Chemical Co. of Malaysia Ltd.'s issue of $24 million worth of shares and debentures to the public to finance its chemical and fertiliser plants in Klang to produce chlorine and fertiliser. This was one of the largest deals in the Malaysian* market at that time.

*Malaya was unified with Sabah, Sarawak and Singapore on 16 September 1963 to become Malaysia.

The share offer of $4.22 million worth of shares of Malaysia's first steel mill, Malayawata, was also partly underwritten by MIDF in September 1967. The integrated iron and steel mill was the first heavy industry of its type in Malaysia.

Like its loan business, MIDF's activities in share listing and underwriting also came under some criticism in the early years for its focus on the bigger companies "which already had the know-how and hardly required the services of MIDF or underwriters in a market which was starved for stock." A comment was made that MIDF could do better by assisting small, but successful, industries to come to the market—to put the industrialisation of Malaysia and the stock market on a much sounder basis.

Things improved later, and by the end of its first decade, MIDF had successfully floated and underwritten 14 public share issues and two debenture stocks, valued at $97 million and $17 million, respectively.

Guests at the opening of Bangunan MIDF on Jalan Tun Razak on 3 September 1979.

BUILDING FACTORIES

After its restructuring in 1963—an exercise that had significantly enlarged its resources—MIDF began an expansion of its services beyond merely providing financial support to young industries. Around that time, MIDF typically offered standard pattern factories for about $35,000 to $45,000, exclusive of land prices. This plan, however, remained largely out of the reach of the average small industrialist, and MIDF was criticised for not coming up with a better plan for the "small man who cannot afford even hire-purchase terms for a self-contained factory." It was noted that a programme of 'factories for hire' had been advocated in the 1955 World Bank report, which had made, among others, recommendations for the development of Malaya's secondary industries.

To address these shortcomings, MIDF ventured into the building of low-cost factories for the small manufacturer, offering a service that was regarded as crucial for industrialisation in the early years. To facilitate this, MIDF established its first wholly-owned subsidiary, Malaysian Industrial Estates Ltd. (MIEL), with an initial investment of $1 million in September 1964. It would build industrial sites around Malaysia, with a range of modern standard factories for small manufacturers. Later, MIEL also ventured into building owner-designed factories, and offered technical advice on factory layout and machinery requirements.

> "One aspect that makes me very pleased with the activities of MIDF is that it has taken measures to correct imbalances in the private sector."
>
> **— said Tun Abdul Razak Hussein**

According to guidelines issued by MIEL in 1964, these units would be offered for sale or lease to industrialists, who could apply for a mortgage finance from MIEL for up to 15 years as well as hire purchase financing of industrial equipment for up to three years. Financing was also available from MIDF.

This one-stop concept alleviated the difficulties faced by small enterprises in building their own factories by doing away with the need to acquire land or obtain a lot in an industrial estate, get the permits and engage a contractor to build the plant. Due to the economies of scale, MIEL was able to do this more efficiently and cheaply.

Deputy Prime Minister Tun Abdul Razak Hussein cutting the ribbon at the official opening ceremony of Kawasan MIEL Batu Tiga on 10 September 1968.

MIEL acquired land around Malaysia to build its estates, beginning with seven acres purchased from Petaling Jaya Development Corporation in 1964. It also bought land in Butterworth in the same year and acquired five acres in Bintawa near Kuching, its first parcel in East Malaysia, in 1969. By the end of the decade, it had land banks around Malaysia.

It completed its first project in Mak Mandin, Butterworth in 1965, consisting of 16 low-cost factories costing $37,000 each, followed by a second industrial estate with 21 factories in Petaling Jaya. The factory units were snapped up as fast as they were built.

The small industries operating in MIEL industrial estates turned out a wide range of goods, such as tools, steel and wooden furniture, plastic products, leather goods, paper products, steel and iron products, printing inks, school chalk, shoes and foodstuff. A survey covering 27 small manufacturing units in Petaling Jaya and Mak Mandin in 1968 found that they had increased their sales from $8.1 million to $10.3 million in total after a year's operation, and employment rose from 665 to 844 people.

By 1968, MIEL had completed its third industrial estate in Batu Tiga, Selangor. Kawasan MIEL Batu Tiga was opened by Deputy Prime Minister Tun Abdul Razak Hussein on 10 September 1968. He also opened Bangunan MIDF at 117 Jalan Ampang, the $1.6 million new headquarters of MIDF, on the same day.

In his opening speech, Tun Abdul Razak said that the spirit of unity was evident in the way MIEL carried out its functions. Noting that MIEL had allocated factories for small entrepreneurs as well as Bumiputera entrepreneurs, he said "this shows a definite step in the right direction of unity of big and small enterprises going ahead hand in hand with one common purpose."

Eight months later, on 13 May 1969, the communal clashes erupted.