A Review on Development Financial Institutions in Malaysia

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ABSTRACT

The Malaysian financial system comprises a diversified range of institutions that serve the varied and complex needs of the domestic economy. The banking industry can be divided into the conventional financial and Islamic financial systems respectively. These two systems co-exist and operate in parallel. The non-bank financial institutions such as development financial institutions and insurance companies exist in conjunction with banks to create platforms for savings. The development financial institutions (DFIs) in Malaysia are specialised financial institutions established by the Government with a specific mandate to develop and promote key sectors that are considered to be of strategic importance to the overall socio-economic development objectives of the country. The aim of this study is to review the existing development financial institutions in Malaysia and their specific function.

Key Words: Development Financial Institutions, Financial system, Islamic financial system, Conventional Financial System

ABSTRAK

Sistem kewangan di Malaysia terdiri daripada pelbagai jenis institusi yg setiap satu daripadanya ditubuhkan agar dapat memenuhi keperluan dan keperluan ekonomi negara. Secara amnya, Industri perbankan boleh dibahagikan kepada sistem kewangan Islam dan system kewangan konvensional. Kedua-dua sistem ini wujud dan berfungsi secara selari. Institusi kewangan bukan bank seperti institusi kewangan pembangunan dan syarikat insurans bersama sama dengan bank berfungsi untuk mewujudkan platform khas bagi tujuan simpanan. Institusi kewangan pembangunan (IKP) di Malaysia adalah institusi kewangan khusus yang ditubuhkan oleh Kerajaan dengan mandat khusus untuk membangun dan memajukan sektor-sektor utama yang
INTRODUCTION
A financial system is the system that covers financial transactions and the exchange of money between investors, lender and borrowers. A financial system can be defined at the global, regional or firm specific level. Financial systems are made of intricate and complex models that portray financial services, institutions and markets that link depositors with investors.

The financial system consists of financial markets and financial institutions. In financial markets, different economic units buy and sell financial instruments. Financial institutions are firms that provide financial services to different economic units in an economy. Examples of financial institutions include commercial banks, insurance companies, pension funds, mutual funds, investment banks, and finance companies. Financial markets can either be money markets or capital markets. The main difference between money markets and capital markets is that while money markets are wholesale markets where financial institutions and businesses adjust their liquidity by borrowing or lending for short periods of time, capital markets are where business firms obtain funds for long-term investment projects and where individuals finance the purchases of long-term assets.

There are few roles of financial system that have been highlighted. Among the roles of financial system is as a saving investment relationship. Financial system induce the public to save by offering attractive interest rates. These savings are channelized by lending to various business concerns which are involved in production and distribution. Financial system also help in growth of capital market and infracstructure of the country. The presence of financial system will generate more employment opportunities in the country. The money market which is a part of financial system, provides working capital to the businessmen and manufacturers due to which production increases, resulting in generating more employment opportunities. The best part of the financial system is that the seller or the buyer do not meet each other and the documents are negotiated through the bank. In this manner, the financial system not only helps the traders but also various financial institutions. Financial system will help in balancing the growth in every sector in the economy system. Financial system also have a capability of attracting foreign capital while helps in fiscal discipline and control of economy.

The Malaysian financial system is made up of two components, the financial intermediaries and the financial markets. Bank Negara Malaysia (BNM) and the banking industry consisting of banks, Islamic banks and investment banks make up the banking system. In Malaysia, Islamic and conventional banking systems coexist and operate in parallel. In addition, non-bank financial intermediaries (NBFIs) complement the banking system in mobilising savings and meeting the requirements of specific sectors. These institutions play an important role in the development of the capital market and in providing social security. In terms of structure, financial institutions can
broadly be divided into two components, i.e., the banking system and the NBFI. Historically, the banking system has been the largest financial intermediary in terms of total assets. The system comprises of Bank Negara Malaysia (BNM), banks, Investment Banks and Islamic Banks. On the other hand, Non-bank financial intermediaries (NBFIs) can be broadly classified into four groups of institutions, namely; provident and pension funds, insurance companies (including takaful), development financial intermediaries, and other financial intermediaries.

The key players within this segment of the financial system are pension and provident funds, insurance companies and development financial institutions. Many studies have been done previously to explore on the functions of pension and provident funds and also insurance companies. However, less exposure have been given to development financial institutions. In fact, many people are not aware on the roles and functions of development of financial institution. Due to this, this paper will review the development of financial institutions in Malaysia and explore their roles and functions.

**LITERATURE REVIEW**

Development financial institutions (DFIs) are part of the whole financial system and play important and complementary roles along with other financial institutions in supporting the economic development plan (Islam, 2015). Development Finance Institutions (DFIs) are specialised development banks that are usually majority owned by national governments. DFIs can be bilateral, serving to implement their government’s foreign development and cooperation policy, or multilateral, acting as private sector arms of International Finance Institutions (IFIs) established by more than one country.

Historically, DFIs have been created by governments around the world to promote economic growth and support social development. They typically provide credit and a wide range of capacity-building programs to households, SMEs, and even larger private corporations whose financial needs are not sufficiently served by private banks or local capital markets. In doing so, they seek to promote strategic sectors of the economy, such as agriculture, international trade, housing, tourism, infrastructure, and green industries, among other sectors. (Martinez, 2017)

Same cases in Malaysia, the DFIs in Malaysia are specialised financial institutions established by the Government with specific mandate to develop and promote key sectors that are considered of strategic importance to the overall socio-economic development objectives of the country. These strategic sectors include agriculture, small and medium enterprises (SMEs), infrastructure, maritime, export-oriented sector as well as capital-intensive and high-technology industries. (BNM, 2017). They provide financing, vis-à-vis special programmes and loan schemes, often at more favourable rates than those offered by the commercial banks. They provide a range of loan products, from short-term to long-term financing in the form of term loans, guarantees, revolving credit and contract financing among others. In addition, they also provide technical assistance and help provide a platform for networking and promotion for their clients.

Although many of the institutions were created several decades ago, data shows that many governments around the world still see them as a relevant instrument to pursue economic goals. It is estimated that around 20% of all development financial institutions currently in operation
around the world were created in the past 17 years. A further 33% were set up during the 80s and 90s – the decades in which mass privatizations took place in various parts of the world. Research done by Massa and Velde (2011) proved that development finance institutions (DFIs) can help tackle the effects of a growing number of global challenges on poor countries, for example climate change, financial crises and global security. The development of DFIs can be an important locomotive for promoting economic growth particularly through providing medium and long term financing to the productive investment activities where the financing activities of the conventional banking system are mostly limited. Furthermore, the DFIs can also promote the small and medium-sized industries which have no or limited opportunities to access to the stock market and the commercial banks to meet their financial needs. DFIs can tap this opportunities and expand their financial services to those potential productive sectors of the economy (Islam, 2015).

Financial sustainability and good governance of development financial institutions are critical elements that cannot be compromised. To achieve that, the institutions need to have well-defined mandates, be subject to high standards on corporate governance and transparency, and be regulated and supervised with standards applicable to other financial institutions. Moreover, owners of development financial institutions need to have the ability to properly monitor their business activities, assess their social and economic impact, and compare their interventions versus other public policy alternatives. (Martinez, 2017)

**METHODOLOGY**
This study is using secondary data which is library research and this is just conceptual paper of study.

**EMPIRICAL RESULTS**

Development Financial Institutions in Malaysia

Table 1 : The DFIs prescribed under Development Financial Institutions Act 2002 (as at November 2013)

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<tr>
<th>NO.</th>
<th>NAME OF DEVELOPMENT INSTITUTIONS</th>
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<tr>
<td>1</td>
<td>Bank Pembangunan Malaysia Berhad</td>
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<td>2</td>
<td>Bank Perusahaan Kecil &amp; Sederhana Malaysia Berhad (SME Bank)</td>
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<tr>
<td>3</td>
<td>Export-Import Bank of Malaysia Berhad (EXIM Bank)</td>
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<tr>
<td>4</td>
<td>Bank Kerjasama Rakyat Malaysia Berhad</td>
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<tr>
<td>5</td>
<td>Bank Simpanan Nasional</td>
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<td>6</td>
<td>Bank Pertanian Malaysia Berhad (Agrobank)</td>
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</tbody>
</table>

Source: Bank Negara Malaysia, 2017
Table 2: The other DFIs (not prescribed under Development Financial Institutions Act 2002)

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<th>NO.</th>
<th>NAME OF FINANCIAL INSTITUTIONS</th>
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<td>1</td>
<td>Malaysian Industrial Development Finance Berhad</td>
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<td>2</td>
<td>Credit Guarantee Corporation Berhad</td>
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<td>3</td>
<td>Lembaga Tabung Haji</td>
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<td>4</td>
<td>Sabah Development Bank Berhad</td>
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<td>5</td>
<td>Sabah Credit Corporation</td>
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<td>6</td>
<td>Borneo Development Corp. (Sabah) Sdn Bhd</td>
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<td>7</td>
<td>Borneo Development Corp. (Sarawak) Sdn Bhd</td>
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Source: Bank Negara Malaysia

The Development Financial Institutions Act 2002 (DFIA) was enacted in February 2002 as a comprehensive regulatory and supervisory framework to facilitate the overall policy development of DFIs. The Act provides comprehensive mechanisms to ensure DFIs perform their mandated socio-economic functions. The DFIA serves to strengthen the financial and operational soundness of DFIs.

Bank Pembangunan Malaysia Berhad

Bank Pembangunan Malaysia Berhad provides medium to long term financing to infrastructure, maritime, high technology, and oil and gas sectors. Its products and services include private debt securities, including bonds issuance, commercial papers (CP), and medium term notes’ (MTN) programs; Islamic securities, such as Sukuk issuance, Islamic CP, and MTN programs; and syndicated term financing/club deal transactions. The company offers project finance, contract finance, deferred payment loans, private finance initiatives, and structured finance. It also offers various special funds and schemes, including tourism infrastructure funds, tourism infrastructure development funds, maritime funds, maritime development funds, contract financing schemes, differed payment schemes, and private finance initiative schemes. In addition, the company offers short-term money market instruments and fixed deposits; and advises, structures, and arranges optimal financing solutions for corporate clients to raise financing through debt (and equity) capital markets and/or through loan syndications/club deals. Bank Pembangunan Malaysia Berhad was formerly known as Bank Pembangunan Dan Infrastruktur Malaysia Berhad and changed its name to Bank Pembangunan Malaysia Berhad in September 2005. Bank Pembangunan Malaysia Berhad was incorporated in 1973 and is based in Kuala Lumpur, Malaysia.

Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank)

The main objective of this institution is to developing a group of diverse and competitive small and medium enterprises (SMEs) towards achieving sustainable economic growth. SMEs are crucial to the economic growth process and play an important role in the country's overall production network. In 2005, the National SME Development Council (NSDC) approved the use of common definitions for SMEs in the manufacturing, manufacturing-related services, primary agriculture and services sectors. These definitions are applied by all Government Ministries and Agencies involved in SME development, as well as by the financial institutions. The use of common definitions for SMEs strengthen government efforts to create effective policies and
support programmes for specific target, make it easier to provide technical and financial assistance to SMEs; and allow for the identification of SMEs in the various categories and levels.

**Export-Import Bank of Malaysia Berhad (EXIM Bank)**

Export-Import Bank of Malaysia Berhad (EXIM Bank) was incorporated on 29 August 1995 as a government owned development financial institution through a wholly owned subsidiary of the Minister of Finance Incorporated. The Bank was established to promote reverse investment and export of strategic sectors such as capital goods, infrastructure projects, shipping, value added manufactured products and to facilitate the entry of Malaysian companies to new markets, particularly to the non-traditional markets. As an agency under the purview of the Ministry of Finance, EXIM Bank’s mandated role as specified by the Government is as to provide credit facilities to finance and support exports and imports of goods, services and overseas projects with emphasis on non-traditional markets as well as the provision of export credit insurance services, export financing insurance, overseas investments insurance and guarantee facilities. The Bank’s clientele consists of large corporations, SMEs, foreign governments and foreign companies and cover all sectors ranging from trading, manufacturing and infrastructure.

**Bank Kerjasama Rakyat Malaysia Berhad**

Bank Kerjasama Rakyat Malaysia Berhad, an Islamic cooperative bank, provides personal and business banking products and services in Malaysia. Its personal banking products and services include savings, deposits, and eCurrent accounts; personal, home, car, and education financing, as well as pawn broking; debit, credit, merchant, and other cards; and financial planning. Its business banking products and services include micro and business financing, and micro enterprise fund; rural development financing; credit guarantee corporation scheme; and CO-OP and entrepreneur programs. Its products and services also include consumer banking, commercial financing, investments, and mobile and online banking services. Bank Kerjasama Rakyat Malaysia Berhad was formerly known as Bank Agong Kampong Bekerjasama-sama Persekutuan Tanah Melayu Dengan Tanggongan Berhad and changed its name to Bank Kerjasama Rakyat Malaysia Berhad in 1973. The company was founded in 1954 and is based in Kuala Lumpur, Malaysia. It has regional offices and branches in Malaysia.

**Bank Simpanan Nasional**

BANK Simpanan Nasional Sdn. Bhd. provides personal and Islamic banking services. The company offers deposits, debit/credit cards, loans, alternative banking channels, and other banking services. It also provides financial planning, asset/wealth management, and financing solutions; and micro finance products. The company was formerly known as Post Office Savings Bank and changed its name to BANK Simpanan Nasional Sdn. Bhd. in December 1974. The company was founded in 1902 and is headquartered in Kuala Lumpur, Malaysia. The company has subsidiaries in Kuala Lumpur, Malaysia.
Bank Pertanian Malaysia Berhad (Agrobank)

Bank Pertanian Malaysia Berhad offers financial services and banking facilities for the agricultural sector. It provides credit and financing to the rural agricultural industry. The company offers saving accounts, current accounts, and other deposit services; personal and business financing facilities; short term revolving facilities for working capital; and electronic banking services. It also provides Simpanan Wadiāh, Agro BSA-I, and AgroTani-I, Agro Tani-i (Foreign), and AgroMuda-I savings account; AgroPrimaS Deposit-i Account; Agro Perdana-i Wadi‘ah GIRO facility; and Fixed Return Islamic Account-i (FRIA-i) investment account for individuals. In addition, the company provides AgroCash-I and Special Advance for Investment Assets-i (SAFIA-i), and Hartani-I financing facilities; Ar Rahnu, an Islamic pawn broking scheme; and Sahabat Agro (AgroprimaS), a Shariah-compliant marketing programme. Further, it operates Modal Usahawan 1Malaysia (MUS1M-i), Tanaman Semula Kelapa Sawit-i (SAWIT-i), Term Financing-I, Paddy-i (Tawarruq), Kemudahan Pembiayaan Modal Kerja-i (Tawarruq), Machinery & Equipment Financing-i (MAEF-i), Agro Cash Line-i, Strategic Alliance Financing-i (SALF-i), Financing Programmes, Fund For Food (3F), Agro Bakti Financing Programme for agricultural businesses. The company also offers retail Internet banking, self-service terminals, agent banking, debit card, bill payment, safe deposit boxes, fund transfer, and advisory services. Bank Pertanian Malaysia Berhad was founded in 1969 and is based in Kuala Lumpur, Malaysia.

Malaysian Industrial Development Finance Berhad

Malaysian Industrial Development Finance Berhad, an investment holding company, provides finance, leasing, and industrial hire-purchase services to industries and businesses in Malaysia. The company offers investment banking services, including debt capital market, corporate finance, underwriting of equities, treasury activities, and equity broking services. It also provides fund management services to statutory bodies, private pension funds, insurance companies, state government-related funds, charities and foundations, and corporations; and manages unit trust funds. In addition, the company offers development finance services, such as medium and long-term Shariah-based and conventional financing to small and medium enterprises and corporations for the implementation of new projects, as well as for the expansion, modernization, automation, and relocation programs in the manufacturing, manufacturing-related services, and services sectors. Further, it provides Islamic banking, investment advisory, factoring, loan management, venture capital, money broking, and mezzanine financing services, as well as engages in property holding business. The company was incorporated in 1960 and is headquartered in Kuala Lumpur, Malaysia. Malaysian Industrial Development Finance Berhad is a subsidiary of Permodalan Nasional Berhad.

Credit Guarantee Corporation Berhad

Credit Guarantee Corporation Malaysia Berhad provides credit guarantee to small and medium-sized enterprises (SMEs) and the business community to obtain credit facilities from financial institutions. It provides assistance to SMEs with inadequate collateral or without collateral or track record to gain access to credit. The company offers access to various guarantee schemes, including conventional, Islamic, and government-funded schemes, as well as direct lending. It serves SMEs primarily in agricultural, commercial, and industrial sectors in Malaysia. The
company was founded in 1972 and is based in Petaling Jaya, Malaysia with additional branches in Malaysia.

**Lembaga Tabung Haji**

Lembaga Tabung Haji, a government-linked financial organization that provides savings services to Muslims who are planning pilgrimages to Mecca. It engages in the investment of accumulated funds and monitoring of investment functions. The company was formerly known as Pilgrimage Management and Fund Board and changed its name to Lembaga Tabung Haji in 1997. Lembaga Tabung Haji was founded in 1969 and is based in Kuala Lumpur, Malaysia.

**Sabah Development Bank Berhad**

Sabah Development Bank Berhad, together with its subsidiaries, provides various financial products and services in Malaysia. Its lending products include project finance; bridging loans; fixed assets finance; and working capital finance. The company also provides loan syndication, corporate advisory, venture capital/equity participation, financial intermediary, and Islamic banking services, as well as project rehabilitation services. In addition, it is involved in the investment and property holding activities; trading of gold dinar and silver dirham; operation and maintenance of water treatment facilities; and provision of floating, storage, and offloading system, as well as operates as a service provider for operations and maintenance of offshore facilities in the oil and gas industry. Further, the company operates as a concessionaire to supply treated water to the Sabah state government; manufactures, processes, and trades oilfield specialty chemicals, chemicals used for oil recovery, barite ore, and barite powder; and researches and develops floating production supporting units, as well as provides engineering, fabrication, construction, installation, commissioning, project management, operation, and management services for power, oil, and gas projects. Additionally, it is involved in the exploring, developing, producing, operating, and maintaining of oil and gas fields; and discovering, exploring, extracting, drilling, pumping, drawing, treating, purifying, blending, distributing, supplying, and transporting of gas, petroleum, and other related products. The company also offers nominee and insurance agency; management fund; asset leasing; and management services, as well as ship operations and support services for the oil and gas sector. The company was formerly known as Bank Pembangunan Sabah Berhad and changed its name to Sabah Development Bank Berhad in 1978. Sabah Development Bank Berhad was incorporated in 1977 and is based in Kota Kinabalu, Malaysia.

**Sabah Credit Corporation**

Sabah Credit Corporation provides and facilitates financial credits to promote and encourage private investment in agriculture, light industry, development of rural and urban housing, shophouses, and public utilities and amenities. It offers financing facility to civil service employees serving in the State of Sabah (State and Federal Department, State Local Authorities, and State and Federal Statutory bodies); employees of government link companies where payments through direct salary deduction is possible; and employees of established private companies in Sabah. The company also provides housing loans that include private housing and house refinancing loans; and project loans, which include bridging, shophouses, agriculture and
animal husbandry, professional, business, and Bumiputera special loans. Its project loan facilities are available for the financing of projects or businesses, such as agriculture and animal husbandry, purchase of shophouses, business, bridging, professional, and a Bumiputera special scheme. In addition, it offers mortgage, community, and organic farming loans. Sabah Credit Corporation was formerly known as North Borneo Credit Corporation and changed its name to Sabah Credit Corporation in 1972. The company was incorporated in 1955 and is based in Penampang, Malaysia.

Borneo Development Corp. (Sabah) Sdn Bhd

Borneo Development Corporation (Sabah) Sdn Bhd, “BDC Sabah”, a private limited company incorporated on 15th May, 1992 is wholly-owned by the State Government of Sabah. BDC is classified as a development finance institution and acknowledged by Bank Negara Malaysia to carry on the business of development finance and building credit. Since 1962, BDC has been active in financing new or expansion projects for various industries such as manufacturing, retailing, carpentry, transport, printing and hotels under the project financing scheme in Sabah. In the early 80’s, this area of activity has been replaced by end-financing in terms of prominence. BDC now provides end financing to purchasers of properties developed by BDC and other developers. These include residential, commercial, industrial buildings and other landed properties. Since March 1990, BDC has been appointed by the Sabah State government as the Manager of the Sabah Government Supplementary Housing Loan Fund (for civil servants who are BDC loanees). BDC also is firmly established in property development. Since 1971, BDC has completed numerous development projects in Kota Belud, Kota Kinabalu, Tawau, Sandakan and Lahad Datu. The projects comprised of residential, commercial, industrial and high rise buildings.

Borneo Development Corp. (Sarawak) Sdn Bhd

Borneo Development Corporation (Sarawak) Sdn Bhd is a STATE GOVERNMENT-OWNED company and has a role to initiate development projects and diversity Sarawak's economy and its rich natural resources. The company is a much sought-after property developer by landowner who intend to develop their land, on joint-venture basis for residential, commercial and/or industrial purposes. Buyers can be assured of attractive prices for properties which are delivered in time and good quality.

The Company is also involved in project-management, manufacture of building materials and build schools, hostels, infrastructure and recreational facilities. To-date, BDC has built over 6000 residential, 400 industrial and 200 commercial units all over the state. It also has created townships such as Kenyalang Park abd Taman BDC Stampin (Kuching), Rejang Park (Sibu), Nyelong Park (Sarikei), and Limbang Industrial Park. BDC was established in 1958 and by 1975 it became a joint-venture company owned by the State Government of Sabah and Sarawak. In 1992, BDC (Sarawak) Sdn. Bhd. was set up, ending the joint-venture.
CONCLUSION
Development financial institutions are among the institutions that play an important role in the economic growth. As specialised institutions, Development Financial Institutions provide a range of specialised financial products and services to suit the needs of the targeted sectors. Ancillary services in the form of consultation and advisory services are also provided by Development Financial Institutions to nurture and develop the identified sectors. Development Financial Institutions therefore, complement the banking institutions and act as a strategic conduit to bridge the gaps in the supply of financial products and services in the interest of long-term economic development. This paper is a conceptual paper which review the existing development financial institutions in Malaysia. Perhaps in future, many more study can be conducted to see the performance or the impact of these institutions towards the economy.

References:


