

A MOVE TOWARDS A DYNAMIC
CREDIT SYSTEM

The various abuses rampant in the practice of the money lending business, whether alleged or real, often give rise to the question whether this system can be practicably replaced by a better source at credit.¹ No doubt such replacement is ideal, yet in essence it would go no further than a mere theoretical solution.² The consequence could possibly be the undesirable proliferation of unlicensed moneylenders, - unless of course there is a corresponding change in public attitude and patronage; as well as the availability of an efficient, accessible and dynamic alternative, capable of absorbing a substantial portion of the borrowers' needs. Yet, to begin with, public co-operation is not easy to procure. Public attitude and co-operation are complementary in nature; to secure one, one must secure the other. Therefore, the replacement of moneylenders must remain secondary. In this respect it has been suggested that

"despite their well-known shortcomings, moneylenders are not easily replaced by a better source of finance. It is easier to make them a constructive element in the economy than to replace them entirely. Developing other channels of finance

¹ Nik Abdul Rashid, "The Law and the Poor", in The Aetiology of Poverty, Persatuan Ekonomi, Universiti Malaya. (To be published).

² Interview with the Senior Assistant Registrar, High Court, Kuala Lumpur, on 24th June, 1976.

is, of course, also desirable both in itself and as a means of improving the operations of moneylenders".³

The subsequent discussion is therefore proceeded upon this premise, with substantial reliance on the ideas and suggestions put forward by Davenport.⁴

He says that the ideal approach to the problem is to open the system to increase competition,⁵ by way of creating greater availability of credit through the more easily supervised channels, for example through the expansion of the banking system. Advisory services and assistance directed towards informing the public of alternative sources are also said to intensify competition; standardize and stabilise interest rates.⁶ One way to achieve this is through the mass media;⁷ another by setting up an impartial source of information which would assist borrowers, a majority of whom are ignorant or unaware of the alternative channels open to them.⁸

³ Robert W. Davenport, Financing the Small Manufacturers in
D. ... McGraw-Hill Publications, (1967), p. 111

⁴ Ibid, p. 111

⁵ Ibid, p. 112

⁶ Ibid, p. 112

⁷ Eg. by way of television documentaries and newspaper write-ups.

⁸ Where all other channels are closed, borrowers can at least be informed of their rights and liabilities under the Moneylenders' Ordinance, 1951.

The "alternative" channels that will be discussed in this chapter relates in particular to al banks and non-bank financial institutions in existence in this country.⁹ The emphasis however, is on commercial banks which constitute a "repository of financial resources"¹⁰ and are generally more equipped, with a relatively wide network of offices and staff, and business experience. It is these merits which are inherent in the banking system that must be exploited to the maximum so that its capacity to mobilize resources and meet credit needs will expand.

The Bank Simpanan Nasional for example has not fulfilled its objective for the extension of credit to its depositors¹¹ mainly because it is not ready to do so.¹² In form it is still a post office and at present the services it renders remain postal in nature. On the strength of its present organizational set-up, no loans and advances can be extended to its depositors. Credit facilities as such can only be made possible through a 'Regionalization Programme' with adequate branch coverage, security arrangements and staff. In other words loan schemes can only be carried out where the organizational structure is sound, and sufficiently equipped with qualified credit officers and managers. In

⁹ Davenport's suggestions cover the mobilisation of commercial banks; savings institutions; and the encouragement of finance companies; official and quasi-official organisations. In addition he ted the improvement of supporting and monitoring services.

¹⁰ Davenport, op. cit., n. 3, p. 137

¹¹ Section 5(b)

¹² Interview with the Branch Manager of Bank Simpanan Nasional, Petaling Jaya, on 3rd July, 1976.

this respect Bank Simpanan Nasional is still in the process of organization. In view of the composition of its depositors, of whom a substantial figure comprises of the rural people, it is highly desirable that such credit facilities be utilized as soon as possible as they would signify a considerable contribution to the government's concerted efforts to satisfy the credit needs of the rural population. In addition, the mobilisation of the Bank's resources would indirectly result in increased competition for the moneylending business.

At this juncture it should be noted that Bank Simpanan Nasional is just one solitary incident of unmobilized resources. On the whole, the growth in commercial bank credit, which had slowed down significantly in 1974, expanded at a more rapid pace in 1975.¹³ According to the Bank Negara Report,

"In 1975, the commercial banks continued to direct a substantial proportion of their loans and advances to finance manufacturing activities and building constructions and property development, including a steady flow of loans to individuals for the purchase or construction of houses . They also responded satisfactorily to the varied demands for credit facilities by the bumiputra community and small borrowers".¹⁴

¹³ Malaysia, Bank Negara Annual Report and Statement of Accounts, Government Printer, 1975, p. 67.

¹⁴ Ibid, p. 67

Hence the belief that bank credit is not available to small borrowers, is unfounded. In fact, "loans to small borrowers who were particularly vulnerable in a recession, expanded steadily in 1975".¹⁵ In accordance with the direction of bank lending introduced by the Bank Negara in 1975,¹⁶ bank credit is reasonably distributed among the sectors at national priority, namely the bumiputra community, small borrowers and potential house owners. Of the total increase in loans and advances in 1975, 29 per cent was directed to bumiputra individuals and bumiputra-controlled enterprises.¹⁷ Credit to small scale enterprises, involving loans of \$150,000/- or less, increased by 26 percent, accounting for 16.4 per cent of the total loans and advances at the end of 1975.¹⁸ Housing credit extended to individuals for the purchase of construction of homes also increased to that of 24.5 per cent.¹⁹ Loans to professionals and individuals for a wide range of purposes other than for housing also rose, by 8.4 per cent in 1976.²⁰ Hence the tendency of commercial banks has been to cater for the needs of essentially small borrowers, either through Personal or Term loans on an ordinary basis or under the

¹⁵ Bank Negara Report, op cit, n. 13, p. 67

¹⁶ Ibid, p. 71

¹⁷ Ibid, p. 73

¹⁸ Ibid, p. 74, 75

¹⁹ Ibid, p. 75

²⁰ Ibid, p. 72

Credit Guarantee Corporation Scheme;²¹ or through the extension of overdrafts on similar bases as above. Further development of the banking system as such would only accelerate and improve present activities.

The Bank Bumiputra²² for example, grants personal loans to individuals for business purposes and for acquiring property and other assets, on a monthly, quarterly or annual basis. The rate of interest is 10 to 12 per cent per annum with a one-half per cent increase in default of payment. Loans under the Credit Guarantee Corporation Scheme are essentially for Bumiputras but not restricted as such. Applications by non-Malays are also entertained. The rate for both secured or unsecured loans under this scheme is 8.5 per cent per annum, out of which one-half per cent is paid by the Bank to the Corporation as guarantor. Loans of \$30,000/- and less are granted to borrowers on a clean basis. Loans involving sums above \$30,000/- however, must be secured, although guaranteed by the Corporation. The maximum sum that can be borrowed in this case is \$200,000/-.

Hence the scheme, together with the directives issued by Bank Negara and the quota which commercial banks must meet in respect of

²¹ Bank Negara Report, op. cit., n. 13, p. 76

This scheme "provides guarantee cover for loans and advances made available by commercial banks to small enterprisers to finance their operational and capital requirements. The guarantee cover operates automatically once credit granted under the scheme are provided by the commercial banks and can be invoked in the event the loans extended become non-recoverable. Under the scheme the Banks are required to pay a guarantee fee of one-half per cent per annum on the credit outstanding. In return, the Corporation guarantees 60 per cent of all the non-recoverable debts registered under the scheme."

²² Interview with Encik Azman Yaakob, Sub-Accountant, Bank Bumiputra on 16th July, 1976, whereby the following information is obtained.

Bumiputras and small borrowers, are all geared towards satisfying the needs of these groups, who formerly are not provided with such opportunities.

Overdraft²³ facilities are also flexible. Authorisation from the Head Office is not necessary. The Officer-in-charge is given the discretion to determine the amount of overdraft to be extended to the Bank's customers.²⁴ Normally overdrafts are granted upon a mere understanding between a customer and the Officer-in-charge.²⁵

The considerations which the Bank takes into account in processing loans and overdrafts are mainly the credit-worthiness and repayment capacity of the customers. Loans for additional working capital for business ventures normally require the assessment of the reliability of the project; the cash flow of the applicant; the management of the business and the credit worthiness and repayment capacity of the guarantors as well.

Hence it seems that the needs of the borrowers can be satisfied by commercial banks quite as readily and easily as they can be satisfied by moneylenders. Indeed the trend since the 1960's has been the catering

²³ The maximum sum that can be granted is \$2 million.

²⁴ The Bank however requires a weekly report on the overdrafts extended and checks it against the customers. The Officer-in-charge of overdrafts must give an explanation where he acts in excess of his authority.

²⁵ Such overdrafts can be easily procured if the customer's salary is directed straight into his account with the Bank

the needs of their customers more effectively, and extending their services to smaller towns and remote areas. Yet although the country is relatively well-served with banks with a population per banking office ratio of 30,000²⁶ this is hardly adequate competition for moneylenders; nor does it justify their replacement since the banking system has its own share of shortcomings.

Theoretically, commercial banks do afford relatively easy accessibility to a great proportion of the borrowing public. But in reality, that same proportion are unaware and ignorant of this accessibility. The mental element of fear is also involved to a certain degree. The tendency is to shun banks because they cannot relate to an institution which is not part of their life. The moneylenders on the other hand have become traditionally accepted as the source of credit; devoid of rigidity and red tape, but flexible, convenient, informal and speedy. The relative ease with which moneylenders provide loans irrespective of the purpose of the loan is in itself an attraction. This is evident from the fact that a majority of the people in the lower income groups resort to moneylenders, despite the risk of being charged excessive rates of interest. Hence, a dynamic system must penetrate the barrier which isolates a majority of the people from the banking system, in order to diminish the importance of moneylenders. Otherwise the opportunities it has to offer would be meaningless. In addition, the advantages inherent in the banking system would only be a white elephant.

²⁶ Bank Negara Report, op. cit. n. 13, p. 19

One of such merits which renders mobilisation of commercial banks attractive is the fact that the system is controllable. Supervision of banking practices is essentially done by the Bank Negara, through regular inspections, surveillance and close monitoring of a bank's operations.²⁷ In practice, inspections by Bank Negara entail the inspection of the major aspects of a bank's operations including management competency.²⁸ Section 33 of the Banking Act, 1973 for example, provides that:

"the Central Bank shall from time to time investigate under conditions of secrecy, the books, accounts and transactions of each licensed bank and of any branch, agency or office outside the Federation opened by a licensed bank incorporated in the Federation."

Section 34 further provides that:

"the Minister may at any time direct the Central Bank to make an investigation, under conditions of secrecy, of the books, accounts and transactions of a licensed bank, if he has reason to believe such bank is carrying on its business in a manner detrimental to the interests of its depositors and other creditors, or has insufficient assets to cover its liabilities to the public, or is contravening the provisions of this Act or of the Central Bank of Malaysia Ordinance, 1958."

²⁷ Bank Negara Report, op. cit. n. 13, p. 19

²⁸ Ibid, p. 19

Section 39 further provides that:

(1) Where -

(a) a licensed bank informs the Central Bank -

(i) that it considers that it is likely to become
unable to meet its obligations; or

(ii) that it is about to suspend payment;

(b) a licensed bank becomes unable to meet its
obligations or suspends payment; or

(c) after an investigation is made under section 33 or
34 the Central Bank is of the opinion that a
licensed bank -

(i) is following unsound or improper practices;

(ii) is likely to become unable to meet its
obligations or is about to suspend payment;

(iii) has contravened or failed to comply with any
provision of this Act;

(iv) has contravened or failed to comply with any
condition imposed on its licence; or

(v) is likely to be carrying on its business in a
manner detrimental to the interests of its
depositors,

the Central Bank, with concurrence of the Minister, may exercise such one
or more powers specified in sub-section (2) as it deems to be necessary.

(2) Subject to sub-section (1), the Central Bank may -

- (a) issue orders to the Bank to take such steps as the Central Bank may consider necessary to rectify the matter and the bank shall carry out such orders within such time as may be prescribed by the Central Bank;
- (b) prohibit the bank from extending any further advances, loan or credit facility for such period or periods as may be specified and subject to such exceptions if any and other conditions as the Central Bank may impose;
- (c) remove from office any of its directors or appoint any person as its director;
- (d) appoint a person to advise the bank in the proper conduct of its business.
- (e) assume control of or carry on, the business of the bank or appoint some other person to assume control of and carry on, the business of the bank; or
- (f) present a petition to the High Court for the winding up of the bank by the Court.

Hence from the inspections and investigations it carries out, Bank Negara is able to determine whether or not a particular bank needs special surveillance.²⁹ Consequently the board of directors of the bank concerned are required to take the appropriate remedial action.³⁰ Other measures

²⁹ Bank Negara Report, op. cit, n. 13, p. 20

³⁰ Ibid, p. 20

include moral suasion; imposition of penalties; suspension from extension of new loans; removal of bank officers and directors;³¹ and re-organization of bank nt.³² As a last resort to protect public interest, Bank Negara can even assume management of a bank.³³ The soundness of the banking system depends not only on efficient administration, adequate staff, simple procedures and the range and nature of services commercial banks have to offer. The integrity of the system is even more vital. The elements of confidence, competence, professionalism must be maintained; and Bank Negara's role in this respect is to ensure that they are maintained. Hence commercial banks are subject to a higher authority which possesses powers of supervision and control not only in respect of policies but also of management. Such controls are not evident in the moneylending system.³⁴

At present, Bank Negara is particularly concerned with limitations and deficiencies of commercial banks as illustrated below:

- (1) The ineffectiveness of boards of management which often neither formulated policy nor actively supervised the affairs of the banks. Frequently

³¹ By virtue of Sec. 40(c), Banking Act, 1973

³² Bank Negara Report, 10c. cit.

³³ Ibid, p. 20

³⁴ Moneylenders cannot be effectively supervised or controlled due to the absence of a body totally dedicated to preserve the system from malpractices.

³⁵ Bank Negara Report, op. cit., n. 13, p. 19

there would develop within a board a concentration of power in a single board member who had virtually assume absolute powers to the detriment of the bank. In many instances board members were also preoccupied with businesses of their own, creating situations of conflict of interests.

- (2) The practice of excessive lending to board members and companies in which board members have interest, self-serving practices among board members and bank executives were not uncommon. Loans to board members, their businesses and nominees, including concerns where they had interests, in several cases accounted for a significant proportion of the bank's total loans and advances. Furthermore, loans to certain board members and advances to bank executives involved concerns of doubtful viability and poor prospects for profit.
- (3) The involvement of bank executives and senior bank officers in non-banking activities with the aid of bank resources. The more common activity included speculation in real estate and the stock exchange, and the financing of questionable transactions.
- (4) The general lack of a dynamic approach on the role of bank branches. Most commercial banks viewed their branches as mere deposit centres. The discretionary powers of branch managers especially in respect of loan approvals, were usually quite limited. The supervision

of branch operations in a good number at banks left much to be desired in terms of strict banking standards.

- (5) Laxity in the maintenance of a high standard of banking practice. The administration of loans, the conduct of internal audit and the provision of banking services in many banks needed substantial improvements.

Hence, despite the merits and advantages discussed, the banking system is in reality defective and quite imperfect. However, Bank Negara seems confident that existing checks and remedies are, for the present, reasonably sufficient in effecting timely correction.³⁶ It is also not hesitant to seek new legislative powers to deal effectively with changing environment.³⁷ In respect of excessive lending to board members, the banking legislation has in fact been revised and tightened.³⁸ However, solutions based on revisions of the law is pointless if the board members themselves do not recognise and appreciate the gravity of their responsibilities as "prime mobilisers of public funds."³⁹ Improper profit-motivated practices of moneylenders are at least excusable as they result from mobilisation of "private funds."

The fact remains, however, that defects, abuses and limitations within the banking system may be counteracted with relative ease. Not

³⁶ Bank Negara Report, op. cit. n. 13 p. 20

³⁷ Ibid, p. 20

³⁸ Ibid, p. 20

³⁹ Ibid, p. 19

only is Bank Negara competent in its role, the corrective measures themselves are subject to constant and continuous review. The moneylending system however lacks the practical checks and remedies mentioned. One stark defect is the absence of accountability to a higher authority, as was discussed earlier. The controls provided by the Moneylenders' Ordinance, 1951 can hardly be called adequate, let alone effective. Hence much is left to the conscience and integrity of moneylenders. The temptations of wealth and profit, backed by greed often lead to the unscrupulous exploitation of ignorant and helpless borrowers. No such exploitation can be successfully executed in respect of bank credit.

Although the writer is aware that even with the most intensive mobilisation of bank resources the system may never be able to absorb every petty and varied credit need, yet, present activities can be extended, improved and perfected, perhaps through the expansion of the physical or geographical areas of operation. The system's present stage of development are indeed suggestive indications of its potentiality as a highly efficient and dynamic source of credit. The writer feels that combined with a conducive economic and political climate, the present situation can be improved substantially. Indeed "the evolution of commercial banking in Malaysia has been profound since independence, especially in the last five years..... The ability of the commercial banks to adapt themselves to drastic changes of the past few years, both in the domestic economy and internationally, reflects their overall resilience".⁴⁰ With proper development and expansion of commercial banking a dynamic credit system is not wishful thinking. Let us now turn to government agencies.

⁴⁰ Bank Negara Report, op. cit., n. 13, p. 18

The Development of Government Agencies

Apart from undertaking the mobilisation of commercial banks, it has also been suggested⁴¹ that the development of government agencies would contribute significantly towards creating a dynamic credit system, in addition to creating competition for the moneylending business. Since many enterprises start off as small businesses, government efforts in increasing credit for small business enterprises have also been intensified, with special emphasis on the needs of the Malays and other indigenous people.⁴² The government agencies involved in this effort include MARA, MIDF, The Malaysian Industrial Estates Sdn. Bhd. (MIEL), Bank Bumiputra, the Urban Development Authority (UDA), SEDCs and Bank Pembangunan.⁴³ In order to assess the contribution rendered as such, the writer finds it necessary to evaluate the working and achievements of a few prominent government agencies in Malaysia, and see whether they are sufficiently developed, or whether they can be further improved in the light of the present economic situation. However, due to the number involved, the writer finds it impossible to include all the government agencies in existence, and has therefore limited this aspect of the study to three agencies, namely MARA, UDA and MIDF. Their relevance to the study as such can be appreciated by the fact that their objectives are solely designed and directed towards providing easy credit

⁴¹ Robert W. Davenport, Financing the Small Manufacturers in
D. McGraw-Hill Publications, (1967)p.111

⁴² Malaysia, Third Malaysia Plan, 1976-80, Kuala Lumpur
Government Printer, 1976, p. 31

⁴³ Ibid, p. 31

arrangements to small borrowers. In this respect they constitute yet another alternative channel of credit, apart from commercial banks.

(1) MAJLIS AMANAH RAKYAT (MARA)⁴⁴

Under the MARA Loan Scheme, all efforts are directed towards providing financial and advisory assistance to ⁴⁵ . Loan facilities are essentially geared towards assisting small bumiputra businessmen either to start off a business venture or to expand existing enterprises. Advisory services on the other hand are extended mainly to enable bumiputra businessmen to obtain finance from commercial banks through the Credit Guarantee Corporation Scheme. This involves the recommendation by MARA of its clients to commercial banks so as to facilitate access to bank loans where the capital requirement exceeds the amount which MARA can provide. The service rendered involves the preparation of the necessary working paper to be submitted to the bank in question. The availability of this service ensures that credit needs beyond MARA's capacity to finance can be effectively met by commercial banks.

⁴⁴ The information given below is obtained through an interview with Cik Saniah Haji , Development Officer (MARA Loans Division), on 3rd August, 1976.

⁴⁵ "MARA provided advice for 7,463 clients and ⁴⁶ about 27 feasibility studies. The Advisory Services Division has also provided consultancy and intensive follow-up services to small businessmen applying for loans from MARA". Malaysia, Third Malaysia Plan, op. cit., n. 42, p. 31

With regards to the types of loans available under the scheme, efforts are concentrated towards providing only loans of a commercial and industrial nature. In this respect there are five major categories of loans; commercial; manufacturing; transportation; construction;⁴⁶ and services. Where commercial loans are concerned, credit is given for both retail and wholesale trading. Transportation Loans are given for the purchase of taxis, buses or lorries. Loans for services are given in respect of both personal and professional services. This not only facilitates the setting-up of restaurants, barbershops, hotels and so on, which necessarily involve personal services, but also enable professionals like lawyers, accountants, architects, doctors and dentists to set up their own practice.

The limits to capital requirements are however, rather low. The maximum amount that may be borrowed is \$10,000/- in respect of Working Capital; \$40,000/- for Building Construction; and \$50,000/- for Fixed Assets. In this connection, the period of loan is 36 months for Working Capital; 9 to 18 months for Building Construction; and 60 months for Fixed Assets.

The interest rates however are relatively low; $5\frac{1}{2}$ per centum per annum for loans of \$5,000/- and below; and 7 per centum per annum for loans above \$5,000/-. Terms for repayment are also reasonable. Apart from construction loans, repayment is normally by way of equal monthly instalments.

⁴⁶ Loans are given for construction of buildings for example the erection of a mosque.

Security arrangements are also fairly reasonable. Loans involving sums less than \$10,000/- require no tangible security; two guarantors are deemed to be sufficient security. Where the amount involved exceeds \$10,000/-, the security required by MARA usually takes the form of land, building, shares; or charges in respect of vehicles or fixed assets. From the above observations it can be seen that the credit facilities provided by MARA are essentially directed towards assisting small borrowers. However, such assistance is not as readily available as it may seem.

A vital consideration for eligibility to loans is the viability of the project to be financed and the amount of risk involved. Skill and experience in the project or business enterprise to be undertaken by the borrower is also important.⁴⁷ To avoid mismanagement, loans are normally given to the 'owner-operator', who is also required to make his own monetary contribution towards the venture. Subject to the above, any bumiputra applicant between 21 to 60 years of age is eligible for loans under the MARA Loan Scheme.

The question remains as to whether MARA is sufficiently organized as to be able to absorb the growing volume of credit needs. In terms of geographical coverage, there are MARA branches in each of the eleven states in Peninsular Malaysia, as well as Sabah and Sarawak. In form, it is a

⁴⁷ Applicants for vehicle loans must possess permits to operate the vehicle in question, Professionals applying for loans in respect of professional services must be qualified professionals of a particular profession.

relatively autonomous organization, having a free hand in the allocation of loans, policy-making and administration. In these areas it is not accountable to the government and therefore not subjected to its stultifying influences. With political pressures kept at bay it can function more efficiently and effectively.

In respect of loan administration, responsibility is delegated to loan managers of the various states. This reduces bureaucratic red tapeism, the result of which is speedy loan evaluation. The Head Office merely supervises loans extended by the branch managers. It sets the target for the amount of loans to be issued and checks whether such targets are reached.

The Head Office therefore only checks on the performance of the branches and controls allocations made by them. As such the needs of borrowers are not adversely affected by bureaucratic delays.

Between 1970 and 1975 the number of MARA loans including guarantees and the total volume of credit entailed amounted to 27,700 loans worth \$163 million.⁴⁸ "However the level of financial assistance provided to its clients has not kept pace with the growing volume of credit but it is expected that this will improve during the course of the Third Malaysia Plan".⁴⁹

⁴⁸ Malaysia, Third Malaysia Plan, op. cit. n. 42, p. 31

⁴⁹ Ibid, p. 31

(11) URBAN DEVELOPMENT AUTHORITY (UDA)⁵⁰

Whilst moneylenders are motivated by profit and cautioned by the risk at loss occasioned by non-payment, institutions like UDA places greater emphasis on meeting targets and fulfilling quotas set by the government. At the outset UDA was overconcerned with extending as many loans as there were applications. But this led to the failure of many projects whose viability were not considered at the stage when such loans were being processed. However the format has been changed since the establishment of the Entrepreneur Research and Development Section consisting of two units; Entrepreneur Identification and Project Identification, whereby both the applicant and the project to be financed are assessed to ensure success. The applicant is required to disclose personal and business data, upon which his application would be assessed.⁵¹

UDA, like MARA is also solely dedicated towards assisting Bumiputras and as such loans are extended on easy and reasonable terms. The interest rate⁵² payable on loans is based on the sum borrowed; 9 percentum per annum for loans of \$50,000 and below; and 9½ percentum per annum for loans above \$50,000.

⁵⁰ The information given below is obtained from a series of interviews with Encik Kasim Sotin, Senior Business Development Officer, UDA, on 23rd, 26th and 31st July, 1976.

⁵¹ This is then followed by an interview. The average time taken for loans to be processed is one month.

⁵² Governed by paragraph 2, third schedule Perbadanan Pembangunan Bandar Act, 1971.

Repayment depends on a number of factors, for example the cash flow and income generation of the borrower.⁵³ The forms of loans⁵⁴ available are Renovation, Equipment and Deposit Loans. In addition, UDA also provides ready premises, for example shop premises and office space on terms that are less onerous than what normal market conditions might dictate. This is to facilitate the entry of bumiputra businessmen into strategic locations in urban areas with a view to restructuring society in those areas in furtherance of the national policy of increasing bumiputra participation in commerce and industry. Since this involves the physical emplacement of bumiputra businessmen in urban areas, UDA's assistance take the form of purchases, leases, preparation and renovation of premises.

UDA is geographically covered by branches in Muar, Kuala Trengganu and Alor Setar, unlike MARA which has branches in all the thirteen states. But it is submitted that this is adequate coverage.⁵⁵ Made up of young officers who are fresh and enthusiastic; flexible and open to new ideas, it has the potentials of a dynamic organization.

⁵³ According to paragraph 4(a) third schedule, UDA may postpone for any time not exceeding five years the payment of any sum due for principal and interest or for either principal or interest. Under paragraph 4(b) it may also extend the period for the repayment of any loan.

⁵⁴ Loans for working capital had been withdrawn.

⁵⁵ Interview with Encik Kasim Sotin, Senior Business Development Officer, UDA, on 23rd July, 1976.

(III) MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE (MIDF)⁵⁶

MIDF's objective is to speed up industrial development in Malaysia, by giving financial aid and advice to manufacturers who want to set up an industry or to modernise and expand an existing one. This is in the form of Medium or Long Term Loans for the purchase of land, machinery and equipment and the erection of buildings; Factory Mortgage Loans for the construction of modern factory premises; Equity Participation and Underwriting of shares; Hire-purchase Finance for the purchase of major industrial machinery and equipment; Share Issues which consist of a range of services in capital floatation, maintenance of registers and the underwriting of share or debenture issues or other forms of equity or loan capital. The interest rates depend on the loan and nature of the project. The minimum rates are determined by the MIDF Board, and reviewed from time to time according to major developments in the capital market and the cost of MIDF's own borrowings. Repayments can be made by monthly, quarterly or half-yearly instalments with a grace period of 3 to 18 months so that if a manufacturer starts a new venture or carries on a major expansion, he would only start re-paying on the capital once normal operations are underway. Advice is given in respect of a borrower's requirements, capital needs, capital structure, marketing and so on. Assessment is based on various factors, for example the project to be financed, the planned operation, the estimated profitability, the management, shareholders, directors, managers and the key personnel for the company.

⁵⁶ The following information given below is obtained from an interview with Cik Mardina Abdul Rashid, Project Evaluation Officer, MIDF.

Any manufacturer, big or small, domestic or foreign is eligible for MIDF loans. Important considerations relate to the soundness and profitability of the venture. Basically, MIDF displays a tendency to be overcautious in its lending policy strictly limiting its loan ratio on a one to one basis, a dollar loaned for a dollar invested by the borrower. It also discourages small loans⁵⁷ as procedural costs tend to be costly and uneconomical. This is not surprising as it is a private financial institution with funds subscribed by a number banks, insurance companies and other financial institutions both foreign and international like the International Finance Corporation of the World Bank. In 1963 it was re-organized to play a bigger role in the country's industrilization programme. In order to carry out these added responsibilities, its capital was further increased and broadened by a substantial subscription from the government⁵⁸ and extended credit facilities from the World Bank.

As a private body it is therefore profit-motivated, and one way to reap profit is to absolute certain that loans advanced are not subject to great risk. In this connection the rationals for strict adherence to the 1 : 1 ratio is to ensure that borrowers would not put industries in jeopardy. The writer feels that this is however hard on bumiputra individuals.⁵⁹

Loans of \$50,000/- and below are termed as small.

The government's shareholding constitutes 30 per cent of the total.

⁵⁹ For bumiputras the ratio is 1 : 1.5

It is observed that MIDF does not really cater for small borrowers' needs. MARA and UDA on the other hand only satisfy bumiputra needs. The common feature in respect of three institutions discussed is that they are all specialized; the MARA and UDA Loan Schemes are designed to assist bumiputra businessmen; and MIDF, the manufacturers.⁶⁰ As such the development of such institutions or for that matter commercial banks, will not solve the problem of fulfilling the small and diverse needs of most borrowers. Although development may lessen dependency on moneylenders, it will not eliminate it altogether.

⁶⁰ Special Unit for bumiputras.