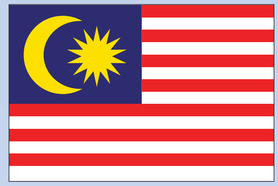

Islamic Development Bank Group

MEMBER COUNTRY PARTNERSHIP STRATEGY FOR MALAYSIA, 2012-2015

Partnering for Achieving the Status of High Income Country

Jumada-II 1433H
(May 2012)

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Islamic Development Bank Group

MEMBER COUNTRY PARTNERSHIP STRATEGY FOR MALAYSIA, 2012-2015

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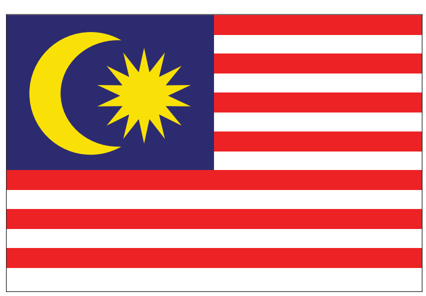

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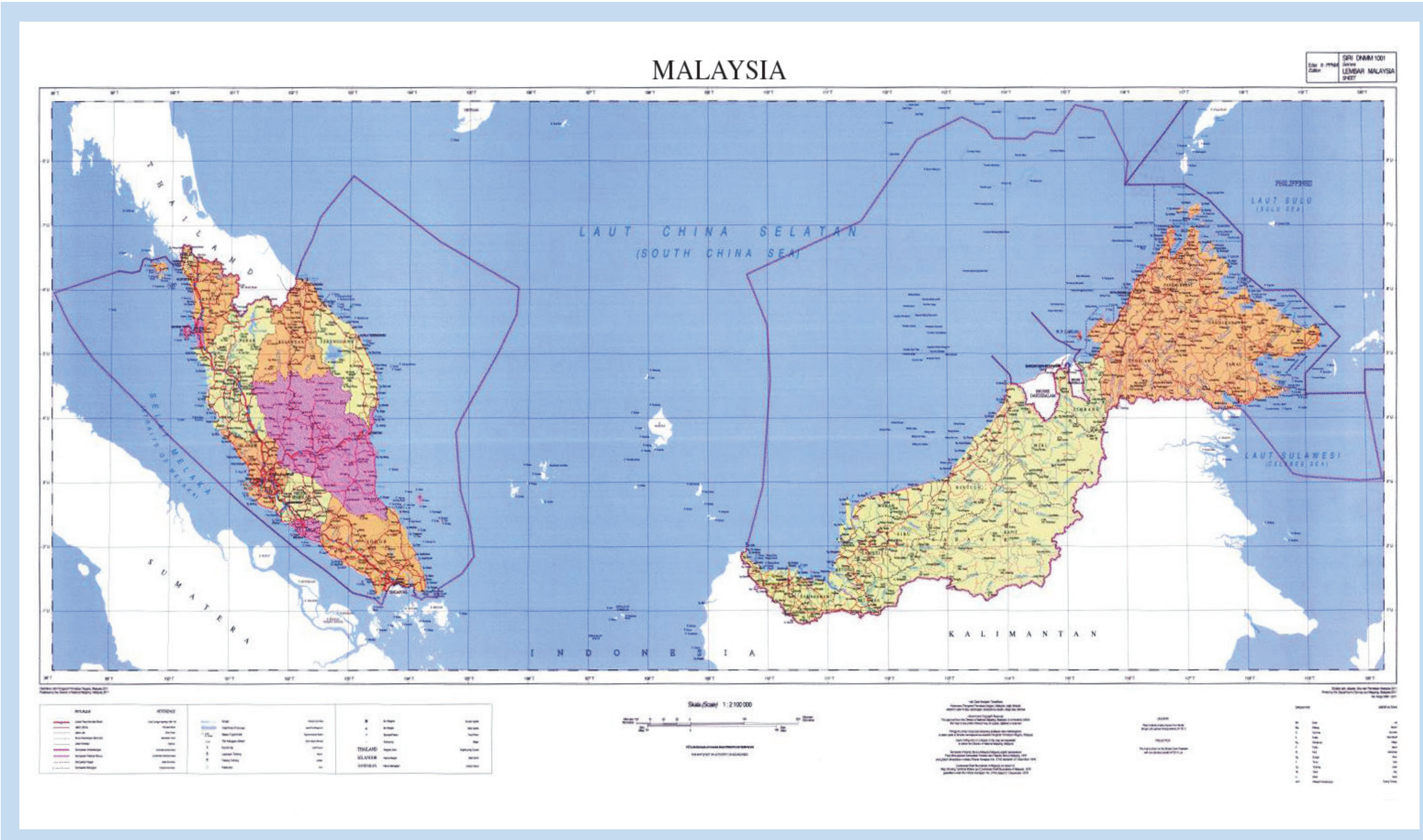
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Fiscal Year (Malaysia)
1st July – 30th June

Abbreviations and Acronyms

ADB	:	Asian Development Bank
APIF	:	Awqaf Properties Investment Fund
ASEAN	:	Association of Southeast Asian Nations
BNM	:	Bank Negara Malaysia
CIS	:	Commonwealth of Independent States
EIU	:	Economic Intelligence Unit
ETP	:	Economic Transformation Program
EU	:	European Union
FDI	:	Foreign Direct Investment
GDP	:	Gross Domestic Product
GLC	:	Government Linked Companies
GOM	:	Government of Malaysia
HDC	:	Halal Industries Development Corporation
IBFIM	:	Islamic Banking and Finance Institute of Malaysia
ICD	:	Islamic Corporation for the Development of the Private Sector
ICIEC	:	Islamic Corporation for Insurance of Investment and Export Credit
IDB	:	Islamic Development Bank
IDB Group	:	IDB, ICIEC, IRTI, ICD, ITFC
IDB-MDP	:	IDB Microfinance Development Programme
ICT	:	Information and Communication Technologies
IFAD	:	International Fund for Agricultural Development
IFSB	:	Islamic Financial Services Board
INCEIF	:	International Centre for Education in Islamic Finance
IRTI	:	Islamic Research and Training Institute
ISRA	:	International Shariah Research Academy for Islamic Finance
ISTIC	:	International Science Technology and Innovation Centre for South South Cooperation
ITFC	:	International Islamic Trade Finance Corporation
ITAP	:	Investment Technical Assistance Program
KLIFD	:	The Kuala Lumpur International Financial District
MARDI	:	Malaysia Agriculture Research and Development Institute
MATRADE	:	Malaysian External Trade Development Corporation
MC	:	Member Country
MCPS	:	Member Country Partnership Strategy
MDBs	:	Multilateral Development Banks
MDGs	:	Millennium Development Goals
MIDA	:	Malaysian Investment Development Authority
MIFC	:	Malaysia International Islamic Financial Centre
MTCP	:	Malaysian Technical Corporation Programme
MTN	:	Medium Term Note
NEM	:	New Economic Model
NKEA	:	National Key Economic Areas
OIC	:	Organization of Islamic Conference
OIC-CERT	:	Islamic Conference Computer Emergency Response Team
PPP	:	Public Private Partnership
PRSP	:	Poverty Reduction Strategy Paper
ROKL	:	Regional Office Kuala Lumpur
R & D	:	Research and Development
RBF	:	Results Based Framework
SEZ	:	Special Economic Zones
SIP	:	SME Investment Programme
SMEs	:	Small and Medium Size Enterprises

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EXECUTIVE SUMMARY

Malaysia is one of the founding members of the Islamic Development Bank (IDB). It is also a member of all the IDB Group entities (ICD, ICIEC, ITFC and IRTI). Since inception, the IDB Group has contributed to the development of the country by financing 117 operations with total financing of $1.4 billion, including project financing, trade financing, and technical and special assistance programs.

The growth story that has transformed Malaysia to be an upper-middle income country can be divided into two main phases: *First phase,* high economic growth during 1967-1997 when Malaysia (as one of 13 countries in the world) sustained growth of more than 7% per annum. The main driver of economic growth was surging domestic private investment rate at 26.9% of GDP accompanied by supportive public investment rate of 12.4% of GDP during 1990-1997[1]. *Second phase:* (post-Asian financial crisis) relatively slow economic growth during 2000-2011 of around 5% per annum mainly due to perceptible drop in domestic private investment rate at 10.5% per annum while public investment performed countercyclical role to partly offset the slowdown in private investment.

The remarkable story of socio-economic transformation of Malaysia resulted from visionary and inclusive development policies. However, at this stage of economic development, Malaysia appears to be facing the so-called "Middle Income Trap". In the postwar era, like many countries in similar circumstances, Malaysia had rapidly moved into upper middle-income group capitalizing on low-cost skilled labor, easy technology adoption, and openness to FDI and trade. In the next phase of its economic development, Malaysia needs to embark on more inclusive development and new sources of growth, which can propel the economy to reach high income status by 2020.

The Tenth Malaysia Plan, covering the period 2011-2015, targets an annual economic growth of 6% and to raise GNI per capita from its current level of $9,575 to $12,139 by 2015 and to over $15,000 by 2020 through inclusive and sustainable growth. In order to achieve these objectives, the New Economic Model is being implemented through an Economic Transformation Program, which envisages an investment outlay of MYR1.4 trillion ($523 billion), of which 92% will be sourced from the private sector.

As part of the MCPS engagement process, a Growth Diagnostic Framework was applied to identify major binding constraints to achieving target economic growth of 6% per annum over the Plan period. Using this Framework, Country Economic Work (2012) titled "Diagnosing the Malaysian Economy: Basis for IDB Group Member Country Partnership Strategy"[2] was undertaken through an extensive consultative process between the key stakeholders (*i.e*. public sector, private sector, academia, business community, and civil society) in the country.

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[1] Malaysian National Accounts and the World Bank, World Development Indicators do not provide data on private investment prior to 1990.

[2] Country Economic Work (2012) titled "Diagnosing the Malaysian Economy: Basis for IDB Group Member Country Partnership Strategy" (to be published).

In order to benchmark performance and identify major challenges, key economic indicators of Malaysia were compared with a number of peer countries in the Asia region *viz*. China, Hong Kong, India, Indonesia, Korea, Philippines, Singapore, Taiwan, Thailand, and Viet Nam.

Based on country and sectoral diagnostics, the key insight is that Malaysia needs to build an enabling environment in which the private sector is encouraged to invest in innovation and improve returns on investment through resolving bureaucratic issues (*i.e.* in terms of improving the efficiency and effectiveness of investors dealing with matters related to starting a business, dealing with business construction permits, registering property, and getting credit), and to move up the technological value chain products for the highly competitive export market. This will require Government policies that support and enhance productive use of capital and skilled labor, scale up public sector expenditure on research and development, and improve global competitiveness.

This MCPS for the period 2012-2015 is designed to align IDB Group Work Program that helps ease some of the binding constraints and, thereby, support sustained economic growth of Malaysia in its endeavor to achieve advance country status. As a result, the following two key pillars are identified for future partnership between the IDB Group, the Government of Malaysia and the Private Sector.

Pillar I: Private Sector Development: Under this pillar, the main focus areas are Public Private Partnerships; Private Sector Support; Resource Mobilization; and Business Improvement Advisory.

Pillar 2: Reverse Linkages: Under this pillar, major areas include Islamic Finance; Science, Technology and Innovation; SMEs Development; Halal Industry; Education; and Promotion of Trade and Investment.

For Private Sector Development, <u>Public Private Partnership (PPP) related areas</u> include project financing in Core Infrastructure (such as transportation, energy and information and communication technologies) and Social Infrastructure (such as education and health); sharing of expertise with the PPP Unit of the Prime Minister‘s Department. The Bank has already identified the opportunity to provide debt and equity support to the Perdana University Hospital project.

<u>Proposed areas under Private Sector Support</u> include working with EXIM Bank of Malaysia; SME financing through domestic financial institutions; and trade financing activities. <u>Resource Mobilization will be carried out</u> by issuing local and global Sukuk, under the IDB Group Medium-Term Note Program; supporting the development of Islamic capital markets by Sukuk issuances of various tenures as well as investing in the Sukuk of the Malaysian Government, Government Linked Companies and Malaysian Corporate; and explore innovative Shariah-compliant products; and improving business environment by providing the required advisory services.

For Reverse Linkages, there are opportunities through which Malaysia can transfer the knowledge and expertise to other IDB member countries under win-win-win scenario. Malaysian institutions (as Providers), through supporting Reverse Linkages, will benefit from improved market development and business opportunities in the areas of Islamic finance such as building enabling environment for Islamic finance; to flourish globally; replicating the successful Hajj financing model (Tabung Haji) in member and non-member countries; and strengthening Islamic financial institutions through equity investment, and institutionalizing the Zakat and Waqf concept in Malaysia. For implementation of Reverse Linkages, there will be key players: (i) Malaysian's institutions as 'Providers'; (ii) Member Countries' institutions as 'Recipients': and (iii) the relevant Entities/ Sector Departments in the IDB Group as 'Facilitators'. In addition, the IDB Regional Office in Kuala Lumpur (ROKL) will serve as a nerve centre for identification of Reverse Linkages opportunities and operational activities.

Science, Technology and Innovation related areas include offering standard science, technology, and innovation management resources; harnessing the existing Malaysian Technical Corporation Programme; initiating Technology Certification Program; and capacity development in Technical and Vocational Education.

SMEs Development include knowledge transfer through National SME Developmental Council; SME Strategic Reform Initiatives under "New Economic Model"; establishing SME Fund in partnership with SME Bank; and developing R&D Innovation Hub for IDB member countries.

Other proposed areas of engagement with Malaysia under the Reverse Linkages Pillar include Halal Industry Development through promoting a common Halal Quality Standard and offering specialized training programs for Halal sector related SME's and governmental institutions in other member countries of the IDB Group. For promoting Trade and Investments, proposed areas include supporting EXIM Bank Malaysia by developing Shariah-compliant credit insurance products and developing collateralized financing programs for SMEs; increasing palm oil production, renewable energy development; establishing Halal Market Place; creating OIC level cyber security projects; and developing a Malaysian University Model.

During the MCPS exercise, the IDB Mission was presented with a number of ready projects, which are in various phases of development, and the IDB Group will consider financing those projects, which mature first and have the highest development impact. The IDB Group relevant Departments/ Entities will work closely with the line Ministries to implement the focused programs during the MCPS period (2012-2015) aiming to contribute in a meaningful and focused manner in partnering with Malaysia to achieve high income and advanced country status by 2020.

I.

COUNTRY CONTEXT: SOCIO-ECONOMIC DEVELOPMENT AND CHALLENGES

i. Introduction

1. The IDB Group Member Country Partnership Strategy (MCPS) aligns the Strategic Thrusts of the IDB Vision 1440H (2020) with the development priorities of the Government of Malaysia (GoM). The four-year (2012-2015) Group strategy is developed based on extensive consultations with the key stakeholders including public sector, private sector, business community, academia, and civil society.

2. The MCPS aims to achieve the following objectives. *First*, it lays out the IDB Group's multi-year strategy for assisting Malaysia for achieving the status of high income and advanced economy by aligning it with the government's medium-term priorities underlined in Tenth Malaysia Plan (2011-2015). *Second*, it aims to help the country in addressing some of the binding constraints to achieving sustainable economic growth. *Third*, the MCPS aims to identify ways and means of sharing the Malaysian experience with other member countries through 'Reverse Linkages', to the benefit of both, Malaysia and other member countries. *Finally*, the MCPS aims to further strengthen IDB Group's collaboration and cooperation with other development partners in Malaysia.

3. The MCPS strategy is developed based on an in-depth diagnostic analysis/ Country Economic Work undertaken by the IDB Group Team in parallel to the MCPS exercise. This work is entitled "Diagnosing the Malaysian Economy: Basis for the IDB Group Member Country Partnership Strategy". It provides in-depth diagnostic analysis of the overall economy as well as its key sectors using the latest information and data.

4. The MCPS document is structured as follows. This Section describes country context, socio-economic development, challenges and binding constraints to economic growth. **Section II** summarizes Malaysia's key development priorities of the Tenth Malaysia Plan. **Section III** provides a brief review of, and lessons learned from, past interventions of the IDB Group in Malaysia. The design of IDB Group partnership strategy, and its alignment, selectivity and focus through extensive consultative process are described in **Section IV**. The IDB Group MCPS-focused programs are described in **Section V.** The Final **Section VI** outlines MCPS program implementation and the way forward.

ii. Country Context

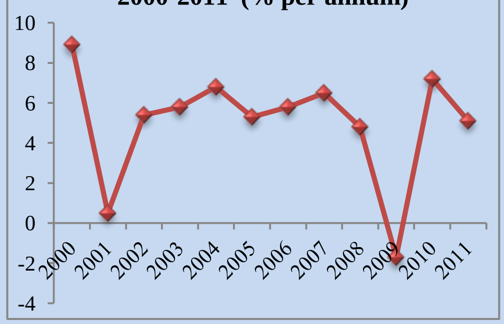
5. Malaysia was formed as a federation in 1963 when the former British colonies of Singapore and the East Malaysian states joined the Federation. Approximately two years later, Singapore left the Federation. Malaysia is a multiracial country consisting of Malays, Chinese, Indians, Ibans, Kadazans and other ethnic groups. Malaysia practices parliamentary democracy based on the Federal System of Government. The country is a constitutional monarchy with three branches of government: the legislative, judiciary and executive. Islam is the official religion of the country. The head of government is the Prime Minister, who appoints the Cabinet among the members of Parliament or House of Senate with the consent of the monarch. During the 22-year term of Prime Minister Mahathir bin Mohamad (1981-2003), Malaysia was successful in diversifying its economy from dependence on exports of raw materials to expansion in manufacturing, services, and tourism. Based on the Population Census 2010, total population of Malaysia was 28.6 million in 2010 with growth rate of 2% per annum and estimated to increase to 28.9 million in 2011 with growth rate of 1.3% per annum. Covering an area of about 330 thousand square kilometers, the population density is 87 persons per square kilometer.

iii. Recent Economic Development

6. Since gaining independence (more than five decades ago), Malaysia has achieved remarkable successes, particularly, in terms of socio-economic development. From a low-income agrarian country dependent on rubber and tin, Malaysia has emerged as a modern, industrial, high-middle income nation with strong economic fundamentals. Malaysia's successful implementation of various socio-economic policies over the years with significant support from the private sector, provide a solid platform on which the country could base its next phase of development to achieve high income and developed nation status by 2020. Major macroeconomic developments are summarized below.

7. The country achieved strong and sustainable economic growth. Despite several regional and global challenges such as the Asian financial crisis of 1997-98, the post-September 11 (2001) recession, outbreaks of Severe Acute Respiratory Syndrome (SARS) in 2000-2003, avian flu in 2003-2006, increases in world oil and food prices in 2007-2008, , and global financial and economic crisis in 2008-2009, Malaysia has made significant strides in achieving sustainable economic growth, on average of over 5% during the decade (2000-2011), mainly due to strong economic fundamentals[3] (Figure 1.1). In particular, in the post global economic crisis period, after a

Figure 1.1. Real GDP Growth, 2000-2011 (% per annum)



Source: Economic Planning Unit, The Malaysian Economy in Figures (various Issues)

contraction of economic growth by 1.6% in 2009, Malaysia has recovered fast as its real GDP grew by 7.2% in 2010, owing mainly to a rise in private domestic demand (both consumption and investment) and higher capacity utilization returning to pre-crisis period (currently around 85%). The Government stimulus packages and higher development spending under the Ninth

[3] World Bank (2008), Growth Report by the Commission of Growth and Development has identified Malaysia as one of 13 countries in the world that has sustained growth of more than 7% for over 25 years (1967-1997).

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Malaysia Plan (2006-2010) have also contributed to a rebound in economic activities. The sources of recent output growth demonstrated a shift from externally-driven demand to domestically-oriented demand with the economy recorded a steady pace of growth of 5.1% in 2011.

8. Domestic demand remains the major driver of economic growth. According to the World Bank Report (April 2011), domestic demand contributed the largest share, accounting for 10.4 percentage points of total GDP growth in 2010 while the growth was contracted by 3.3 percentage points due to decline in external demand. Among domestic demand factors, private consumption contributed 3.6% and private investment 1.4% and will likely be key growth drivers in 2012, with rural areas benefitting from elevated commodity prices and urban areas from continued growth in the manufacturing and services sectors. Leading indicators such as rubber prices, stock market index, consumer sentiment index, and number of retrenched workers suggest that consumer spending will remain buoyant in the coming years. Solid employment and modest wage increase in line with improving external demand as well as buoyant commodity prices are expected to support household income and consumption. Similarly, private investment is likely to rise with the implementation of projects under the Government's Economic Transformation Program (ETP), which is being largely driven by the private sector.

9. Malaysia successfully implemented production diversification strategy. Diversification strategy had two components: *first,* was the diversification of agriculture from rubber into the cultivation of oil palm (and other crops) on a large scale; and *second* was the diversification away from primary into secondary industries, especially manufacturing. Diversification was successful – the current share of rubber fell from 38% to 15% in total national output. Rubber accounted for almost 70% of the total agricultural output, which declined to about 65%. The 1970s steered into a new phase of economic growth, marked by the rapid rise of construction and manufacturing and a strong strategic emphasis on equitable or fair distribution, specifically through affirmative action policies. By 1990, the economy became more industrialized, despite being buffeted by massive shocks.[4] The 1991-2000 growth phase faced with the difficult years of the Asian financial crisis and the period of exchange controls. The more recent phase (2001–2011) is one of slow growth phases following the more competitive external economic conditions that have heightened some of Malaysia's economic vulnerabilities.

10. In terms of sectoral performance, services sector remained the main source of economic growth. During 2000s, annual average growth in the services sector was 6.2%, attributed mainly due to strong performance in the finance, insurance, real estate and business services, wholesale and retail trade, hotel industry, transport and communication. The share of services sector in GDP also increased from 49.3% in 2000 to 57.7% in 2010. Currently, 87% of the SMEs are concentrated in the services sector. During the last five years, SME growth outperformed the overall economic growth. However, there are some important areas of concern for SMEs such as the issue of low

[4] The oil crises of 1973-1974 and 1978-1979 and the global slowdown in demand for electronics and primary commodities in 1985-1986.

productivity, slow innovation and lack of financing.

11. **The manufacturing sector was hit hard by the global recession but recovered remarkably in 2010.** The manufacturing sector grew by 3.5% per annum during 2001-2010. Since the manufacturing sector is largely dependent on global demand, it was adversely affected by the global recession with a negative growth of 9.3% in 2009. This was largely due to the sharp deterioration in the demand for export-oriented products. Subsequently, the manufacturing sector's share of GDP declined from 30.9% in 2000 to 27.6% in 2010. Nonetheless, in 2010, the manufacturing sector strongly recovered with a positive growth of 11.4%.

12. **Compared to other key sectors, growth in the agriculture sector remained relatively slow.** During 2000s, the agriculture sector grew by 3.2% per annum. The slower growth was mainly attributed to a decline in the output of rubber and sawlogs, which is due to a reduction in rubber hectrage and controlled logging for sustainable forest management. However, increases in the production of oil palm, livestock and fisheries supported the growth of the agriculture sector. The share of agriculture in the GDP declined marginally from 8.6% in 2000 to 7.3% in 2010.

13. **Fiscal consolidation is firmly on track after the global financial and economic crisis in 2008 and 2009.** The Federal Government successfully reined in the deficit at 5.6% in 2010 and 5.0% of GDP in 2011. The target fiscal deficit is 4.7% in 2012. Prior to the crisis, the Federal Government budget deficit had been steadily reduced from 5.2% in 2002 to 3.2% in 2007. However, the budget deficit rose to 7% of GDP in 2009 when the Government implemented two stimulus packages to support aggregate demand when commodity prices and the external sector collapsed. The Government is committed to strengthening public finances over the medium-term. Several initiatives have been taken to rein in expenditure and improve revenue collection. The measures include rationalising fuel subsidies, cutting back on non-critical expenditure, maximising utilisation of Government resources, introducing 'value management' in development projects to ensure value for money and cost optimization. A stringent monitoring system has been instituted to ensure timely implementation of projects while outcome based budgeting will be introduced in stages beginning 2013. Revenue enhancement will be through broadening the tax base. Tax administration will be improved through greater ICT usage while tax audit, investigations and enforcement will be stepped up to minimize leakages. Medium-term fiscal targets pursued include reducing the budget deficit to about 3% of GDP and observing a debt to GDP ratio of about 50% of GDP by 2015.

14. **Country's current account declined but still remained significantly high.** The country's current account surplus increased substantially from 9.8% of GNP in 2000 to 18.3% in 2008. However, due to the adverse impact of the global financial and economic crisis, the current account surplus fell to 11.8% of GNP in 2011. Higher foreign capital inflows including FDI and workers' remittances improved the balance of payments position of the country.

15. **Malaysia has been successful in diversification of its exports.** During the last two decades, country's exports moved from mainly agricultural and mining to high-value

added manufacturing products. The share of manufactured exports in total merchandise exports increased from 65% in 1991 to 72% in 2010. In contrast, the share of exports of forestry declined from 8% to 1%, rubber from 3% to 1%, and oil and gas from 14% to 11%, while the share of palm oil exports increased from 5% to 8% during the same period.

16. The destination of Malaysia's exports also changed over the years. During the last two decades, the significant change was observed in case of exports to West Asia, as the share of exports increased from 2% of total exports in 1991 to 23% in 2010 to West Asia and from 10% to 12% to Newly Industrializing Economies (NIEs) during the same period. Exports shares declined to other regions such as ASEAN (29% to 25%); North America (from 18% to 10%); EU (from 15% to 11%); and rest of the world (ROW) (from 26% to 19%) between 1991 and 2010.

17. Inflation remained modest: Over the last decade, the average inflation remained 2.2% per annum. However, consumer price inflation had risen from 1.5% in 2000 to a maximum of 5.4% in 2008 mainly due to a rise in food and oil prices. This rising trend is also consistent with most countries in the region experiencing similar inflationary trends, though the inflation rates were much higher in competing Asian countries such as India at 13.2% and Vietnam at 9.2% in 2010. Although inflation rate was back to the normal level of 1.7% in 2010, but again rose to 3.2% in 2011. Core inflation rate (y-o-y) remained lower than CPI inflation (i.e. 1% in December 2010 and 2.1% in December 2011.[5]

18. Country's Banking sector has ample liquidity and remained well-capitalised. Total outstanding loans from the banking system in Malaysia significantly increased from MYR315 billion in 2000 to MYR1,004 billion in 2011. However, it remained lower compared to the cumulative deposits which increased from MYR363 billion to MYR1,300 billion during the same period, leaving the surplus liquidity of MYR255 billion ($82.6 billion) in 2011. During 2000-2011, the average growth in loans by commercial banks was 11.3% while the growth in deposits was 12.5%. It is worth noting that the average lending rate by commercial banks declined from 7.7% in 2000 to 5.1% in 2011.

iv. Social Development

19. Malaysia has steadily improved its Human Development Index ranking and is categorized as a high human development country. According to 2011 UNDP Human Development Index (HDI) – a composite of education, health and per capita income indicators – Malaysia ranked 61 out of 187 countries. Since 1980, Malaysia has shown sustained and enhanced improvement in all the three components of HDI. It is worth noting that Malaysia has largely achieved or is on track to achieve its MDGs well ahead of 2015 target.[6]

20. Remarkable achievement in reducing poverty. Based on the national poverty line (defined as MYR750 per capita

[5] Ecmlibra Investment Research, Consumer Price Index (February 2012)

[6] United Nations Country Team (April 2011), Malaysia: The Millennium Development Goals at 2010.

per month), poverty declined from 49.3% in 1970 to only 3.8% in 2009, due to the implementation of targeted poverty eradication programs in both rural and urban areas. Hardcore poverty has reduced to almost zero in 2010. Despite this great success, some deep pockets of poverty remain among some groups and in remote parts of the country. In particular, the incidence of rural poverty (8.4%) was significantly higher compared to urban poverty of 1.7% in 2009 (Figure 1.2). During the Tenth Malaysia Plan period, the Government plans to reduce poverty further to 2% by 2015.

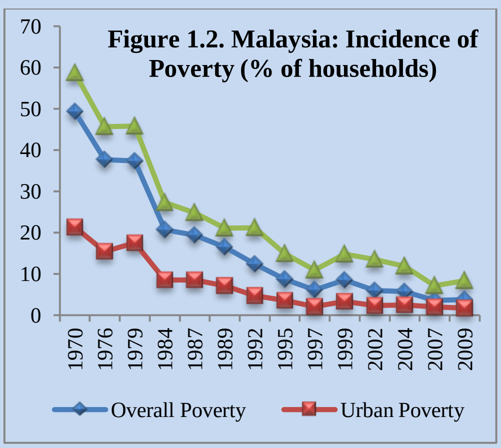


Figure 1.2. Malaysia: Incidence of Poverty (% of households)

Source: Economic Planning Unit, Government of Malaysia

21. Malaysian economy remains at almost full employment level. The unemployment rate declined from the maximum level of 7.4% in 1986 to 3.1% in 2011. Due to global financial and economic crisis, the unemployment rate increased slightly to 3.7% in 2009. However, the employment situation recovered from the crisis and returned to the pre-crisis/ normal level of 3.1% in 2011. Recovery in employment appears in all the major sectors including manufacturing, construction, agriculture, and services. Real wages in the manufacturing sector have risen to fairly high compared to the pre-crisis level, owing to persistently high number of available vacancies. The economy is expected to remain at full employment level with an estimated unemployment rate of 3.1% in 2015.

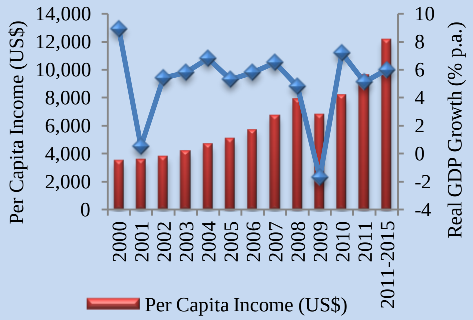
v. Major Issues/ Challenges Facing the Country

22. Despite above-mentioned remarkable socio-economic performance achieved during the last decades, the country is facing a number of domestic as well as external challenges, which may affect its medium-term growth prospects. The major challenges facing the country are described below.

23. In order to achieve high income advanced country status by 2020, Malaysian economy needs to grow by an average annual growth rate of around 6% during the 10th Plan Period, taking into account the risks associated, notably from the return of high food and fuel prices, sluggish recovery in rich nations, debt-ridden in some European countries and USA, and instability due to volatile capital inflows. Further, the main risks to medium-term growth have been identified as reform implementation risks, slow progress on fiscal consolidation, and the quality of public service delivery. Economic growth also needs to be based on more innovations with greater emphasis on the quality of capital and high labor efficiency in its production system through addressing the long-standing problem of brain drain and the lack of skilled labor. This translates into the course of achieving high income status that the country will have to raise current GNI per capita from $9,575 in 2011 to a high-income target of $12,139 by 2015 and to over

$15,000 by 2020 through inclusive and sustainable growth (Figure 1.3).

Figure 1.3. Malaysia: Real GDP Growth and Per Capita Income



Source: Economic Planning Unit, The Malaysian Economy in Figures

24. Despite remarkable achievements during the last decade, Malaysia appears to be facing the so-called the "Middle Income Trap". In the post-war era, like many countries, Malaysia developed rapidly and moved into middle-income status. Out of 101 middle-income economies in 1960, only 13 countries escaped this middle-income trap and became high income by 2008.[7] The factors that propelled high growth in Malaysia during its rapid growth phase were low-cost labor and easy technology adoption, which disappeared when the country reached upper-middle-income level, forcing it to find new sources of growth in the coming years.[8] Much more is needed for transition from middle income to high-income status. In particular, high level of investment (both domestic and foreign) with new technologies and improved quality of physical and human capital is needed. The business environment needs to be further improved. Innovation needs to be supported. Improved logistics and connectivity are vital for rapid growth. With regard to improving global competitiveness, innovative-conducive environment, technological readiness, and skill-mach are the key factors.[9]

25. The structural reforms required in the manufacturing sector pose significant challenges in terms of strengthening skills mix and maintaining its competitiveness. For many years, manufacturing has been the strongest sector in the country, which is now being progressively replaced by the services sector. Still, the manufacturing sector is a major contributor to GDP growth. The structural reforms required in this sector pose significant challenges in terms of skills mix and competition, and a strong desire to move up the technology chain to produce higher value-added technology-intensive products. There is a misalignment between the skills mix produced by the current education and training systems and the needs of the manufacturing industry, which results in lower quality output. Moreover, there is an intense competition, both regionally and internationally, for appropriate human capital with high-end and high-tech skills.

26. Malaysia's firms are facing a number of business constraints in the country. According to Global Competitiveness Report 2011-2012, business firms in Malaysia are concerned about bureaucracy and the regulatory burden in terms of entry, operating and exit costs, access to financing, restrictive labor regulations, dealing with construction

[7] These countries include Equatorial Guinea, Greece, Hong Kong, China, Ireland, Israel, Japan, Mauritius, Portugal, Puerto Rico, Republic of Korea, Singapore, Spain and Taiwan.

[8] World Bank (2012), "China 2030 Building a Modern, Harmonious, and Creative High-Income Society".

[9] World Bank (2010), "Robust Recovery, Rising Risks", Section III on Escaping the Middle-Income Trap.

permits, and inadequately educated and skilled workforce.

27. Despite full employment rate in Malaysia, there is a worrying trend of growing unemployment among the young graduates. Malaysia has increasingly large and young population with approximately 50% of the population below 25 years of age. The unemployed graduates (with College Degree and above) increased from 27,700 in 2008 to 33,800 in 2010 while unemployed graduates (with Diploma) rose from 26,400 to 31,700 during the same period. The increasing number of unemployed graduates was due to more graduates produced and joined the labour market. Although the number has increased, the unemployment rate of graduates decreased from 3.2 percent in 2008 to 3.1 percent in 2010[10].

28. Malaysia economy is facing brain drain. According to the World Bank (2011)[11], the number of skilled Malaysians living abroad has tripled in the last two decades, with two out of every 10 Malaysians with tertiary education opting to leave for either OECD countries or Singapore which took 54% of Malaysia's graduate migrants, compared to just 20% in the 1990s. Some 15% went to Australia, 10% to the USA and 5% to Britain. These four countries accounted for over 80% of the entire Malaysian Diaspora. Young Malaysians going overseas for higher education, in many instances opt to remain in those countries, contributing to brain drain. Therefore, the Government is focusing on enhancing employment opportunities for people with higher education and research skills.

29. Income inequality continues to remain a challenge. Since 1970, income inequality steadily fell for two decades as Gini-coefficient (a measure of income inequality, which ranges from zero to 1 with a higher number indicating greater income inequality) declined from 0.51 in 1970 to 0.46 in 1992, but more or less stagnated at this high level. It is worth noting that Malaysia remained outside the efficient income inequality range of 0.25 – 0.40 throughout the period. The Gini-coefficient in Malaysia remained higher compared to other countries in the region such as India (0.37), Indonesia (0.37), Vietnam (0.38), China (0.42), and Philippines (0.44). Furthermore, the vast majority of the bottom 40% percentile of the society is Bumiputra (73% of the total) had an average household income of MYR1,440. The Bumiputra generally have limited economic mobility and a weak ability to secure high-paying jobs in the private sector and income opportunities. Most of them are living in the rural areas with inadequate quality of education and health services, and limited access to quality utilities.

30. According to recent household income surveys, income growth has been strong only for the top 20% of income earners while bottom 40% of households have experienced the slowest growth in average incomes. In order to reduce inequality, Malaysia needs to raise economy-wide income-earning opportunities by encouraging mobility of workers and improving labor market competition while reducing rigidities; promoting investment in human capital through enhancing basic education in under-served areas, improving

[10] The Department of Statistics, Government of Malaysia (2011).

[11] World Bank Senior Economist Philip Schellekens, Kuala Lumpur, April 28, 2011.

vocational training system and strengthening employable and industry-led skills development; and providing social protection for the poor and vulnerable by strengthening the poverty focus of social safety net programs, refining targeting mechanisms to reach the needy and moving towards a coordinated social protection system.

31. There is a challenge is to reduce regional disparities through balanced development in five Growth Corridors, which is one of the key objectives of the Tenth Malaysia Plan. Among various states, Kuala Lumpur has the highest per capita GDP of MYR51 thousand while Kelantan with the lowest per capita GDP of MYR8 thousand in 2009. Six out of 15 states are having the per capita GDP below the national average GDP per capita. During the 9^{th} Plan period, the Government embarked on a number of initiatives to promote balanced regional development and accelerate growth in designated geographic areas. As a result, five Growth Corridors namely Iskandar Malaysia, Northern Corridor Economic Region, East Coast Economic Region, Sarawak Corridor and Sabah Development Corridor, are identified with the key objective of reducing regional disparities during 10^{th} Malaysia Plan (2011-2015).

vi. Binding Constraints to Economic Growth

32. Based on Country Diagnostic Work undertaken by the IDB Group MCPS Team for Malaysia (2012) entitled "Diagnosing the Malaysian Economy: Basis for the IDB Group Member Country Partnership Strategy" through extensive consultative process with the key stakeholders (i.e. public sector, private sector, academia, business community, and civil society) in the country, the following Binding Constraints to Economic Growth are identified.

(i) Low level of private investment (both local and foreign investments) appears to be the binding constraint to sustainable high economic growth, while private investment is constrained mainly due to:

- Low level of returns to investment
- Microeconomic risks (i.e. investors dealing with matters related to starting a business, dealing with construction permits, registering property, and getting credit)

(ii) Weak software of growth also appears to be the binding constraint to achieving high economic growth, mainly in the areas such as

- Weakening global competitiveness
- Low quality of higher education and training skills and limited technological readiness
- Low spending on R&D
- Low labour productivity
- Inadequately exploiting Reverse Linkages potential of the country

vii. Country Risk Rating and Outlook

33. The sovereign credit ratings of Malaysia reflect the country's strong external position, deep and liquid domestic capital markets, a well managed financial system, and a moderate level of gross public sector external debt. The credit standing of Malaysia has been underpinned by its open, diversified, and competitive economy, with a moderately flexible labour market, relatively developed infrastructure in the region, ample supporting industries, and a high rate of savings. The ratings are also supported by the fact that the Government's economic policies are generally pragmatic. In addition, it has made efforts to enhance transparency and corporate governance, thereby improving Malaysia's business environment. The sovereign credit outlook is stable and adequately supported by recent positive trends in economic performance and policy management, as well as the Government's efforts to liberalize investment laws, foster competition, and place the country on high-income growth path (Table 1.1).

Table 1.1. Malaysia: Risk Rating and Outlook

	Long-Term	**Short-Term**	**Outlook**
Standard & Poor's	A-	A-2	Stable
Moody's	A3		Stable
Fitch	A-	F2	Stable

Source: Rating Agencies (January 2012)

34. The constraints on the rating are Malaysia's moderately weak fiscal profile for the rating category. The gradual pace of fiscal consolidation stems from rising expenditures, narrow revenue base, over-dependence on oil related revenues, which are volatile in nature as well as weak private investment.

35. Positive rating factors would be prioritization of fiscal consolidation, resulting in lower-than-expected deficits and a sustained drop in government debt ratios, coupled with measures to strengthen the fiscal revenue base and lessen energy dependence. Conversely, if the fiscal deficit remains unchanged or increases, resulting in higher net debt in the medium-term, and failure to offset a likely decline in oil-related revenue would be negative factors for the ratings. Concrete progress on the Government's structural reform agenda to raise the investment rate, average incomes and GDP growth, would strengthen credit fundamentals and exert upward pressure on the ratings.

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II.

MALAYSIA'S DEVELOPMENT STRATEGY

i. Malaysia's Development Strategy

36. Recently, the Government of Malaysia has adopted the New Economic Model (NEM)[12] to be implemented through an Economic Transformation Program (ETP). The NEM constitutes key pillars, which will enable Malaysia to become an advanced nation with inclusiveness and sustainable economic growth in line with the goals set forth in Vision 2020 launched in 1991. The four pillars of national transformation include (i) 1Malaysia: People First, Performance Now, initiated in April 2009; (ii) Government Transformation Program with Seven Key Result Areas; (iii) Economic Transformation Program with Six Strategic Reform Initiatives, launched in March 2010; and (iv) Tenth Malaysia Plan (2011-2015) launched in June 2010.[13]

37. The ETP has laid out 12 National Key Economic Areas (NKEAs), which are expected to make substantial contribution to economic growth and receive prioritized public investment and policy support. Under the 12 NKEAs, the Government has identified 131 entry point projects (EPPs) and 60 business opportunities (BOs) where the target is to have 92% of total investments across the projects funded by the private sector. The Government has identified 52 high impact projects worth MYR63 billion. These projects will be implemented through PPP, which will ensure sharing risk and return. In addition, a Facilitation Fund of MYR20 billion and a Green Technology Financing Scheme of MYR1.5 billion have been established under the 10th Plan and is expected to attract private investment worth at least MYR200 billion. As of November 2011, about 82% or 108 projects out of the 131 Entry Point Projects, the key drivers of the ETP, are taking off. These projects, worth about MYR177 billion in investments, are expected to contribute MYR237 billion to gross national income (GNI) and to create 389,263 new jobs.

ii. Tenth Malaysia Plan (2011-2015)

38. The Government has approved the Tenth Malaysia Plan for the period 2011-2015, which is being implemented based on strategic thrusts, programs and allocations, which are needed to realize Vision 2020 and to advance the nation to a high-income and developed country status, and to make Malaysia a resilient and competitive country by 2020. The New Economic Model is being used as the framework for development and to achieve the objectives of 10th Plan and Vision 2020. The 10 Big Ideas and five key strategic thrusts of the 10th Malaysia Plan are summarized below.

[12] Tenth Malaysia Plan, 2011-2015, Economic Planning Unit, Prime Minister's Department, June 2010.

[13] New Economic Model for Malaysia, National Economic Advisory Council, Federal Government Administrative Centre, March 2010.

Ten Big Ideas to uplift Malaysia to a High Income and Advanced Nation Status

- Internally driven, externally aware
- Leveraging on diversity internationally
- Transforming to high income through specialisation
- Unleashing productivity-led growth and innovation
- Nurturing, attracting and retaining top talent
- Ensuring quality of opportunities and safeguarding the vulnerable
- Concentrated growth, inclusive development
- Supporting effective and smart partnerships
- Valuing environmental endowments

Key Strategic Thrusts of Tenth Malaysia Plan (2011-2015)

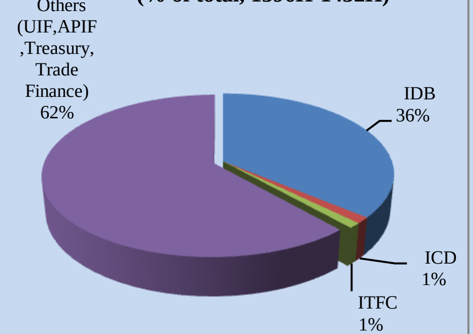
- Designing Government philosophy and approach to transform Malaysia
- Creating conducive environment for unleashing economic growth
- Moving towards inclusive socio-economic development
- Developing and retaining a first-world talent base
- Building an environment that enhances quality of life

III.
IDB GROUP INTERVENTIONS IN MALAYSIA: LESSONS LEARNED

i. Overview of IDB Group Operations in Malaysia

39. Malaysia joined the IDB Group in August 1974 as one of the founding members and is now member of all the IDB Group entities (ICD, ICIEC, ITFC and IRTI). All these entities have contributed to the development of the country. In cumulative terms, Malaysia has received IDB assistance for 117 operations with an amount of $1.43 billion including project financing operations ($514 million), trade financing operations ($396 million), treasury operations ($381.2) million, and the remaining were technical assistance and special assistance operations (Figure 3.1).

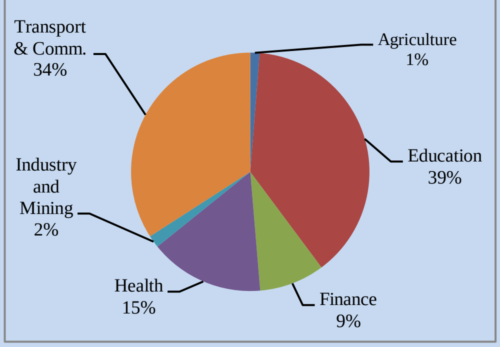
Figure 3.1. IDB Group Operations by Entities in Malaysia (% of total, 1396H-1432H)



Ordinary Capital Resource Operations by IDB

40. For project financing, the IDB financed 30 operations from Ordinary Capital Resources (OCR) with an amount of $514 million. For OCR financing, the largest share of operations was in the education sector with an amount of $198 million (39%) and transport and communication with $175 million (34%), followed by health with $80 million (15%), and finance with $46 million (9%) (Figure 3.2).

Figure 3.2. IDB OCR Operations by Sectors in Malaysia (% of total, 1396H-1432H)



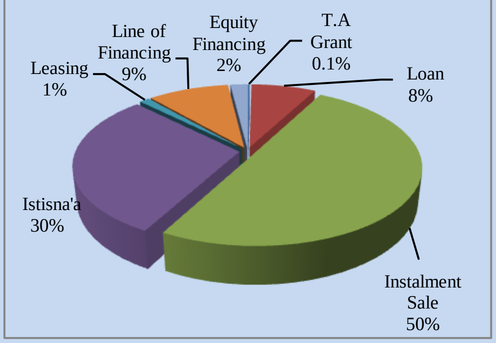
41. The dominant mode of financing has been Installment Sale with a total financing of $255 million (50%) followed by Istisna'a with $167 million (30%) and the remaining mode of financing were Lines of Financing (9%), Loan (8%), Equity Financing (2%), Leasing (1%), and TA Grants (0.1%) (Figure 3.3).

ii. IDB Group Operations by Entities

(i) Operations by IDB

42. IDB operations in Malaysia are undertaken in the forms of Public Private Partnerships (PPP); Islamic Financial Services; Treasury Operations, and Science

Figure 3.3 IDB OCR Projects Financing by Modes (% of total, 1396H-1432H)



and Technology, which are briefly described below:

Public Private Partnerships (PPP)

43. Currently, the IDB is financing two toll road projects with an aggregate investment of MYR570 million through PPP in Malaysia. These two toll road projects are part of the development of the Greater Kuala Lumpur area. The first toll road project is South Klang Valley Expressway with the construction of a 43 km expressway in the Southern region of Klang Valley Malaysia. The total project cost is MYR1,582 million of which IDB financing amounting to MYR270 million. The second project is Kuala Lumpur Selangor Expressway with construction of a 33 km expressway in the Northern region of Klang Valley. Total project cost is MYR1,435 million, of which IDB's participation is MYR300 million. Both projects are co-financed with Bank Pembangunan Malaysia. The funding provided by the IDB was undertaken by issuing local currency Sukuk.

Islamic Financial Services

44. The IDB has undertaken numerous operations related to Islamic financial services in Malaysia. It has approved equity participation in an Islamic financial institution based in Malaysia - Syarikat Takaful Malaysia Berhad (STMB). Given its mandate of developing commercial Waqf land in member countries, the IDB has

IDB Funded Project through Public Private Partnership (PPP) in Klang Valley, Malaysia.

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developed and financed its $76 million Waqf project involving construction of Shariah Court Houses in Selangor on Built-Lease-Transfer basis. Awqaf Properties Investment Fund (APIF) and IDB have jointly invested $24 million into the Project.

45. The IDB has also partnered with Bank Negara Malaysia (BNM) in various operations, for building capacity of institutions in other IDB member countries, with the broader aim of development of the global Islamic financial sector. In this context, an MOU between IDB and BNM was signed in 2004, which covers, among other areas of cooperation (primarily intra-OIC trade), development of Islamic financial markets and Takaful. BNM has also proven to be an important partner in providing training on Islamic finance to many institutions including regulatory bodies and financial institutions from other member countries, which are beneficiaries of IDB technical assistance. The areas of capacity building include regulation and supervision of Islamic financial institutions, Islamic banking operations, risk management, and other areas. The IDB has also co-operated with BNM on creating awareness of Islamic microfinance in IDB member countries through the BNM Financial Inclusion Advisors (FIA) Programme.

46. The IDB is also one of the founding members of the Islamic Financial Services Board (IFSB), an Islamic international Islamic standard setting body headquartered in Kuala Lumpur. Founded in 2002, the IFSB promotes the development of a prudent and transparent Islamic financial services industry through introducing new or adapting existing international standards consistent with Shariah principles within the Islamic banking, Takaful, and capital market sectors. The IDB has continued to support IFSB in a number of ways including providing technical assistance/grant to develop prudential and supervision standards for Islamic financial market.

47. To address the challenges facing the industry especially about their liquidity management, the IDB and ICD, participated in the formation of the International Islamic Liquidity Management Corporation (IILM), hosted by Malaysia and headquartered in Kuala Lumpur. The other founding partners include BNM and other participating central banks. The main aims of the IILM are to facilitate cross-border liquidity management among institutions offering Islamic financial services and to foster regional and international co-operation to build a robust liquidity management infrastructure at national, regional and international levels.

Key Lessons Learned from Islamic Finance Operations

48. Despite the fact that Islamic finance industry is quite well-developed in Malaysia, there are areas that may be further enhanced. Some key challenges facing the Islamic financial services industry include:

<u>Awareness:</u> There remains the need to enhance awareness about the commercial values of Islamic finance instruments amongst retail and corporates customers and the growing usage of Islamic finance has transcend beyond Muslims customers.

<u>Standardization and Harmonization:</u> There is further need to promote standardisation of documentations globally in supporting the Islamic finance cross-border business from Malaysia.

<u>Product Innovation:</u> There is an opportunity to foster product innovation with distinctive features in order to open up new and enterprising avenues through Islamic finance.

<u>Talent and Research Development:</u> There is an on-going need to cater for the talent

demand of the industry in particular in enlarging the pool of talent that is both Shariah and finance conversant. Research on under-explored areas need to be intensified further e.g. Islamic venture capital.

Waqf Opportunities: The concept of Waqf as a tool of utilizing Shariah-compliant financing for development and poverty alleviation remains under-utilized in Malaysia. This area requires special attention from the concerned authorities and viable projects can be identified.

IDB Treasury Operations

49. The past and current IDB Treasury activities in Malaysia can be grouped into three major categories namely: (i) Placement of Funds; (ii) Investments; and (iii) Resource Mobilization, which are briefly described below.

Placement of Funds

50. The IDB uses a set of credit risk evaluation criteria to determine the eligibility of a financial institution for dealing with the Bank. A number of financial institutions in Malaysia are already on the IDB list of approved financial institutions for commodity Murabaha placements. The placements cover mainly US Dollar and Malaysian Ringgit although IDB can also deal in other currencies like Euro, Pound Sterling and Japanese Yen. Besides accepting the fund placement, the IDB also accepts placement of funds from Islamic financial institutions from Malaysia and other countries as a means to provide liquidity management services especially to newly-established Islamic financial institutions. In terms of volume, the level is still low, partly due to the excess liquidity situation in the local Malaysian market and competitiveness of the rate offered. This could be potentially due to preference of Islamic financial institutions in Malaysia to manage their liquidity needs through the Islamic Interbank Money Market platform. In the case of tenor, these financial institutions prefer only short-term placements, although the IDB is also interested in the medium-term placements.

Investments

51. In addition to the funds placements, the IDB also invests its funds in various financial instruments in the Malaysian financial markets. However, this is currently restricted to Malaysian Ringgit denominated instruments like Sukuk issued by local corporations and Government Linked Companies (GLCs). Moreover, the IDB is also supporting the US$ denominated Sukuk issued by the Government of Malaysia and other Government related agencies/ institutions. The IDB also participated in the co-financing of the Shariah Court Houses in Selangor with Amanah Raya, with total participation of MYR80 million.

Resource Mobilization

52. The IDB established a Malaysian Ringgit 1 billion Medium-Term Note (MTN) Program in Malaysia in 2008 and has issued MYR400 million Sukuk under the Program, which was established to enable the IDB to be an active player/ issuer of Sukuk in the local currency markets. The Sukuk was listed on Bursa Malaysia. The proceeds from the Sukuk issuance were used to finance two Toll Road projects, South Klang Valley Expressway and KL-Kuala Selangor Highways in Malaysia. In addition, a portion of the proceeds was also used to finance the development of Shariah Courts Houses in Selangor. In addition to MYR Sukuk Program, the IDB also listed its $3.5 billion Program on Bursa Malaysia as part of the IDB's participation under Malaysian Islamic Financial Centre (MIFC) initiatives. Under the US Dollar MTN Program, the IDB issued a total of close to $3.0 billion Sukuk denominated in various currencies such as US Dollar, Singapore Dollar, Saudi Riyal and Pound Sterling, in which Malaysian investors participated. The IDB is planning to utilize the available balance in the MYR MTN program to finance existing projects and new projects to be identified during the MCPS period, including the proposed IDB involvement in the Perdana University Hospital project, which is currently being considered as PPP project for possible financing. The size of the MTN program can be further increased if required for financing local currency projects. There is also a possibility to issue MYR Sukuk under the US$ MTN Program to finance US$ denominated projects in Malaysia or by swapping the proceeds to Malaysian Ringgit, for the local currency financing - if it is more cost effective to do so. Besides issuing Sukuk in the Malaysia capital markets, the IDB also supports the issuance of Sukuk by local issuers either in the primary or secondary markets subject to pricing and internal investment guidelines.

Key Lessons Learned from Past Treasury Operations

53. Following are some of the key lessons learned by the IDB through its past interventions:

<u>Non-Competitive Rates Offered for Placements of Liquid Funds:</u> Rates offered were not competitive compared to those offered in other markets especially from the GCC market for foreign currency transactions. This could be partly due to limited demand for foreign currency denominated deposits.

<u>Volatile Prices for Investments:</u> There are ample choices of local currency Sukuk with adequate liquidity. However, under certain market conditions, the prices in the secondary markets are very volatile, which affects IDB's ability to provide continuous support to the local markets.

<u>Low Demand for Resource Mobilization:</u> There is no benchmark pricing for the IDB local currency Sukuk, thus complicating the price discovery process. Intensive marketing efforts and support from the local authorities is still needed to allow the IDB to be more active in the local Sukuk markets. The US$ denominated Sukuk attracts relatively lower demand from the local institutional investors compared to the local currency Sukuk due partly to the low rate of return offered on the IDB Sukuk being a AAA rating institution and investment guidelines applicable to the local investing institutions.

Science and Technology Cooperation

54. The Science and Technology Cooperation (STC) related activities have been essentially Reverse Linkage exercises for which knowledge and expertise were shared by the Malaysian entities for the benefit of other member countries involved. As such, most of the entities/agencies involved in collaboration with the IDB are quite familiar with the concept of Reverse Linkages (in its various modalities) based on operations already implemented. Most of the Bank's STC interventions in Malaysia consists of partners from the tertiary institutions namely International Islamic University of Malaysia (IIUM), Universiti Sains Malaysia (USM), sector specific agencies (e.g. Institute Medical Research (IMR), Malaysian Agriculture Research and Development Institute (MARDI), CyberSecurity Malaysia, and Government Linked Companies (GLCs) (e.g. Multimedia Development Corporation (MDEC). The main governmental counterpart for the STC in Malaysia is the Ministry of Science, Technology and Innovation (MOSTI) and the Economic Planning Unit (EPU). In the past operations, the major S&T areas included Self-Reliance on Vaccine Production Program; Inter-Islamic Network for Tropical Medicine (INTROM) (under COMSTECH Inter-Islamic Networks); and various S&T and Technical disciplines include Electrical and Electronic Engineering, Agriculture (upstream and downstream), Islamic Finance, Cyber Security, and Biotechnology.

IDB Scholarship Programs

55. Under three Scholarship Programs of the IDB namely Undergraduate Scholarship; Merit (PhD/ Post Doctorate) Scholarship; and Masters Scholarship, 13000 students have benefited mostly from least developed member countries (LDMCs) and Muslim communities in non-member countries. Out of 784 students benefiting from Merit Scholarship and Masters Scholarship Programs, 27 students are from Malaysia. So far, 272 IDB Scholarship holders got their higher education from Malaysian Universities. For placing more of its scholarship holders in Malaysian Universities, the IDB has signed an MoU with Ministry of Higher Education of Malaysia. Currently, eight Malaysian Universities are hosting students under IDB Scholarship Programs. Malaysia is now offering quality higher education in various fields on competitive cost and has become an attractive destination for student from IDB member countries.

(ii) International Islamic Trade Finance Corporation (ITFC) Operations

56. Since the inception of IDB Group operations, Malaysia has benefited from the trade financing activities. International Islamic Trade Finance Corporation (ITFC) trade financing for Malaysia over the years has focused on providing lines of financing for banks and supporting import and export operations of some large corporate clients. As of March 2012, total import trade financing was $140 million while export trade financing was $108 million. Given the special economic position of Malaysia within IDB member countries and also consistent with Group's strategic objective of promoting intra-trade between member countries, the IDB Group supported trade promotion activities, which were aligned with development priorities of the Government of Malaysia.

Key Lessons Learned from Past ITFC Interventions

57. Key lessons learned from past ITFC operations in Malaysia are the following:

<u>Limited Market Presence:</u> The decreasing trade finance operations in Malaysia reflect the limited involvement and market presence of ITFC. The Malaysian market is a competitive one with the corporate clients being well-served by the local banks in Malaysia.

<u>Limited Financing Products</u>**:** With Malaysia as one of the developed financial hubs in the region, ITFC's limited financing products face tough competition in the area of flexibility. ITFC's products for the required market segment are not attractive to the clients. It is also well-understood that the top-tier clients are not in need of trade financing as they are sufficiently cash rich, and have relatively cheaper funding sources available through local banking system.

<u>Non-Competitive Pricing:</u> Compared to ITFC, the Malaysian banks offer a better competitive pricing and efficient banking

services to the corporate clients. Therefore, customers value and compare the competitiveness of each banks' products based on the available standard criteria.

Bank Guarantee: The ITFC securities criteria and limited banking products do not fit well in the Malaysian lending scenario. Many clients were reluctant to the idea of a bank guarantee when proposed.

(iii) Islamic Corporation for the Development of the Private Sector (ICD) Operations

58. Islamic Corporation for the Development of the Private Sector (ICD) - the private sector development arm of the IDB Group - is operational in Malaysia since its inception and it has approved $17.5 million worth of projects in the country. All the approved projects in the country are in the financial sector and ICD used equity as a mode of finance for its projects. Malaysia's share in ICD's total approvals has remained in the vicinity of 0.8% since inception. Recently, the share of Malaysia in ICD's total approvals has increased to 2.1% in 1432H (2011). Additionally, in 2011, ICD has assigned a regional representative in IDB Group Regional Office Malaysia to work closely with the private sector and further identify areas for the development of the private sector within the country and also in the region. Apart from direct investments, ICD is also partnering with several key institutions in Malaysia such as Tabung Haji, Cagamas, INCEIF, Bank Negara Malaysia and other financial institutions in the areas of Islamic finance, co-financing as well as capacity building. In addition to funding projects from its own resources, ICD also invests in projects through Unit Investment Fund (UIF) facilities. To-date, it has provided $46.8 million worth of funding to the country through the UIF Facility. As of September 2011, the cumulative figure of funding from ICD's own resources and UIF facility reached $64.3 million.

59. During the 1st quarter of 2012, ICD had approved $10.5 million for equity investment in Hajj advisory company, TahaAlam Sdn Bhd ("TaHa"), which is a new organisation jointly established by ICD and Theta Edge Berhad (Theta Edge) (a subsidiary of LembagaTabung Haji (TH). The main aim of the company is to assist other member countries in their Hajj and Umrah needs as well as to encourage savings of the poor. TaHa will operate in four business areas within the Hajj and Umrah industry, namely advisory, management, logistics and financial services. This is one of the best examples of Reverse Linkages, which Malaysia can take lead in IDB member countries.

Key Lessons Learned from Past ICD Interventions

60. Key lessons learned by ICD from its past operations in the country are summarized below.

Low Cost of Finance: The excess liquidity in the country enables the local financial institutions to offer funding at a lower rate than majority of international financial institutions including ICD. As a result of this factor, ICD appears to be more successful in doing business with second-tier and third-tier clients and financial institutions.

Local Currency Risk: ICD is currently unable to provide direct SWAP currency/ hedging products to its potential clients. Therefore, in pursuit of minimizing its local currency risk, ICD targets clients with US$ revenue streams, which provide natural hedging for the organization.

Large Size of Investment: Several projects identified in the country require large amount of financing. However, the current strategy and practices of ICD generally make it less feasible to adequately respond to the high investment requirements by the private sector.

Long Tenor of Projects: The current regulations and business strategy of ICD allows a maximum tenor of 7 years. On the other hand, some project financing deals with private entities require much longer tenor to match the cash-flow projections of the project.

Limited Channels for Lines of Financing: One of the main goals of ICD is to improve the access of SMEs to finance through offering lines of financing (LoF) to financial institutions in the member country. However, the number of institutions offering products to SMEs is already diverse and they are subsidized by the Government. Access to finance for SME is already developed in Malaysia.

(iv) Islamic Corporation for Insurance of Investment and Export Credit (ICIEC) Operations

61. Islamic Corporation for Insurance of Investment and Export Credit (ICIEC) is the insurance arm of IDB Group. With its unique nature of operations, ICIEC is the only entity that has its stand-alone rating of Aa3 by Moody's. Malaysia has joined and ratified ICIEC AOA (Articles of Agreement) on 1st August 1994 and is currently holding 2,740 shares in ICIEC capital (2% of total capital). Malaysia is one of the few member countries of the IDB, which has capabilities of high-technology exports and value added products. This makes Malaysia an ideal target country for ICIEC to play an important role in expanding Malaysian exports to discover new markets.

62. ICIEC has issued 8 policies in favor of Malaysian Exporters and Banks. Approvals for export credit insurance cover for Malaysian exporters, banks, and investors amounted to $343 million, while approvals issued to cover imports by Malaysian importers amounted to $53 million.

63. The total amount of business insured by ICIEC for the exports sector of Malaysia is close to $50 million favoring Malaysian exporters. ICIEC is looking forward to expand its activities in Malaysian markets with a larger role to play, as it is an important strategic market.

64. Under Foreign Investment Insurance Services, ICIEC has received 4 applications close to $184 million. Moreover, ICIEC has recently initiated a high-level discussion with the Bank Negara Malaysia (BNM) and major commercial banks within the country to discover the possibility that ICIEC's policies are acceptable collateral for the banks to extend financing against the export receivables addressing the solvency requirements of Basel III.

65. With regard to cooperation with Export-Import Bank of Malaysia (EXIM), ICIEC continues to extend technical assistance and cooperation to national export credit agencies in its member countries. In this regard, the Corporation signed a Reinsurance Facility Agreement (RFA) in 2005 with EXIM and the national Export Credit Agency (ECA) of Malaysia. Further, Amman Union is also an important strategic initiative between ICIEC, Dhamman, and Eximbank Malaysia.

66. In addition to insurance operations, ICIEC, representing Investment Technical Assistance Program (ITAP), had also signed an MOU with MIDA in September 2005, and organized a number of familiarization and training programs with MIDA, MIGA, EPU, and UNCTAD. The MIDA has a cross border investment initiative, which aims to identify investment opportunities for Malaysian companies planning to expand their business globally. ITAP continues to help MIDA's cross border investment initiative by inviting partners from other IDB member countries. Joint cross border missions can be organized in countries where ITAP has active country programs during the MCPS period.

Key Lessons Learned from Past ICIEC Interventions

67. From the lessons learned during past interventions, ICIEC has revamped and formulated its strategy on more scientific grounds. In particular, under Marketing Strategy and Export Credit Insurance, given the strong technical capabilities of Malaysia to produce high-technology exports, the country is considered target market for next four Years' Sales and Marketing Strategy. The Corporation will be concentrating on identifying key players in this segment and providing risk mitigation solutions to them, which would not only help exporters in Malaysia to secure existing portfolio but also would facilitate the exporters to penetrate into the new markets, especially in Africa. Further, ICIEC will soon designate a local staff in KL Regional Office of the IDB Group as a key initiative to penetrate in Malaysian Market.

(v) Islamic Research and Training Institute (IRTI) Activities

68. Since its inception, IRTI has been closely working with Malaysian institutions in both public and private sectors. It had organized 22 research seminars, conferences and workshops/ forums on various topics in Malaysia. IRTI has also conducted 12 training programs in Malaysia on various topics in the area of Islamic Banking and Finance with the participation of 344 trainees both from Malaysia and across the world. Recently IRTI, with the collaboration of Insaniah University College, Malaysia, has launched a distance learning MSC degree in Islamic Finance and Banking. IRTI is also in the process of developing shorter-duration certification programs in Islamic Banking and Finance in partnership with International Centre For Education In Islamic Finance (INCEIF), Malaysia. Apart from support to academic and training institutions through sponsorship and co-organizing various events, IRTI seeks to directly influence the process of knowledge building and dissemination through several encouragement programs and schemes. These programs include scholarships and research grant, visiting scholar schemes, and annual IDB prize for the benefits of distinguished scholars of Islamic economics and banking for their seminal contribution to the field. The distinguished IDB Prize in Islamic Economics for the year 1430H was awarded to Dr. Zubair Hassan, INCEIF, Malaysia and the IDB Prize in Islamic Banking and Finance for the year 1433H was awarded to Tan Sri Dr. Zeti Akhtar Aziz, Governor of Bank Negara Malaysia, in recognition of her substantial contributions to the development of Islamic banking and finance.

iii. Other Donors' Support to Malaysia

69. After the Asian financial crisis, the Government of Malaysia has stopped public sector borrowing from multilateral donors since 1999. However, recently ADB and World Bank are re-engaging Malaysia in various non-sovereign financing activities, which are highlighted below.

Asian Development Bank

70. The Asian Development Bank's (ADB) last operational strategy for Malaysia was prepared in 1997. More recently, in

October 2011, the ADB has prepared Interim Country Partnership Strategy (CPS) for Malaysia, 2011–2012. This country partnership is on an interim basis. The indicative resource envelop (non-sovereign lending) during 2011-2012 is about $150 million. The main thrusts of the interim CPS are as follows:

- National anchoring of regional cooperation and integration effects (i.e. energy connectivity with neighboring countries)
- Catalyzing private investments (i.e. Public Private Partnership (PPP) to finance infrastructure)
- Highlighting knowledge in the partnership (i.e. advisory and capacity development support)

71. Prior to 1999, the ADB had provided assistance to Malaysia through 77 operations worth $2 billion.[14] Major sectors of the support had been agriculture, education and energy. Further, the ADB issued a number of Malaysian Ringgit bonds since 2004, most recently in 2007. The ADB is working closely with the Islamic Financial Services Board based in Malaysia, in the development of prudential standards, monitoring indicators, and model regulation. Malaysia is also one of the key participants in a regional effort supported by the ADB to strengthen integration between equity markets in the region.

World Bank

72. Malaysia has not borrowed from the World Bank since 1999. However, the World Bank continues to provide technical assistance and brings international experience and expertise to support the Government's objective of transforming Malaysia into a high-income country status. Areas of focus include macroeconomic monitoring, public sector finance, private sector development, labour market reform, skills development and social protection.

73. In the past, the World Bank assisted Malaysia in 91 projects worth $4.5 billion,[15] with support focusing mainly for reducing poverty, reforming the financial sector, developing infrastructure and rural economy, and building social capital.

[14] Asian Development Bank and Malaysia-Fact Sheet

[15] http://www.worldbank.org/en/country/malaysia

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IV.

DESIGNING IDB GROUP PARTNERSHIP STRATEGY: ALIGNMENT, SELECTIVITY AND FOCUS

i. Consultations with Key Stakeholders for Designing Partnership Strategy for Malaysia

74. For designing Partnership Strategy, the IDB Group Technical Mission visited Malaysia during 12-19 January 2012. The mission held wide-range consultations with key stakeholders in order to formulate a comprehensive IDB Group Strategy for the country for the period 2012-2015. The Mission held bilateral meetings with various line ministries, and government agencies, Bank Negara Malaysia, and commercial banks. Consultations were also carried out with representatives from the private sector, business community and academia under the overarching theme of 'Partnering for Achieving the Status of High Income Country' to formulate multi-sector and area-focused strategy.

75. Besides bilateral meetings, the Mission also organized two workshops in Kuala Lumpur and Putrajaya, in collaboration with the Ministry of Finance in order to be acquainted with the main development issues and challenges and priority needs of the country. These consultation workshops were held on 16

IDB Group MCPS Team and Participants of Concultation Workshop on "Private Sector Development'
with H.E. the President, IDB Group, 16 January 2012, Kuala Lumpur, Malaysia

January and 18 January 2012 in Malaysia, which were attended by over 120 participants, from both the private and public sectors. The main purpose of the workshops was to provide a platform for creative engagement and to identify priority areas for the preparation of the IDB Group MCPS for Malaysia. The key objectives of the workshop were as follows:

- Stimulate open engagement among key policy- and decision-makers in discussing major development issues and challenges facing the country
- Identify major challenges and opportunities that can influence Malaysia's development in the next 5 years
- Identify priority areas of development for potential partnership of Malaysia with the IDB Group and other IDB member countries through Reverse Linkages

ii. Outcome of Consultations

76. The following sub-section provides a summary of what was discussed by the participants as potential areas for designing partnership strategy and challenges facing various sectors of the economy, and of these, some are considered by the IDB Group for designing the MCPS focused-programs (discussed in the next Section V).

A. Islamic Finance

- Utilize Malaysia's Bursa *Suq Al Sila* in managing liquidity of Islamic Finance Institutions and promoting equity participation by the IDB Group
- Utilize Malaysian's expertise and financial infrastructure to mobilize Waqf assets from around the world
- Enable establishment of endowments in worthy areas
- Expand and scale up Takaful business

Dr. Ahmad Mohamed Ali (first from left), the President, IDB Group, and Tan Sri Dr Wan Abdul Aziz Wan Abdullah (second from left), Secretary General of Treasury, Ministry of Finance, Government of Malaysia, in the Concluding Session of the First Workshop on 'Private Sector Development'
16 January 2012, Kuala Lumpur, Malaysia

capacity in member countries through increasing liquidity by syndication and rating

- Increase equity investments among OIC countries through listing of Shariah-compliant Exchange Traded Funds
- Create a listed instrument that is indexed to various stocks, for example, based on the top-ten local stocks of each participating exchange

B. Halal Industry

- Establish a one-stop Centre for strengthening Halal industry with the features of Shariah Council for Halal products; standardisation, accreditation, certification and adoption processes; Halal capacity building; Halal Stock Exchange; Halal Logistics and Transportation; and Halal supply chain
- Establish Halal Industry Fund
- Promote Halal food to international market
- Increase funds available for investment in Halal industry
- Make Islamic finance available to Halal food producers

C. Education

- Encourage continuous learning for basic, vocational, technical and tertiary education
- Provide professional certification
- Open branch campuses of Malaysian universities in member countries
- Set up Arabic Council and standardize and promote Arabic language
- Set up assessment center to create Islamic education standards

D. Agriculture and Food

- Maintain sustainability in food

Eng. Mohammad Jamal Al-Saati (first from left), Director, Country Programs Department, Islamic Development Bank, and Dato Dr. Mohd Irwan Serigar bin Abdullah (second from left), Deputy Secretary General, Ministry of Finance, Government of Malaysia, in the Opening Session of the Second Workshop on "Reverse Linkages', 18 January 2012, Putrajaya, Malaysia.

production

- Increase food production among member countries via ‘Reverse Investment’
- Reverse Linkages to promote agriculture (upstream and downstream) and food security among member countries
- Promote quality Halal food for exports
- Adopt modern quality process technology
- Provide platform for exchange of know how about agriculture development
- Stimulate Reverse Linkages for Malaysian producers
- Develop women entrepreneurs in food industry and increase income level and job opportunities for women

E. Energy and Renewable Energy

- Fund infrastructure for power sector
- Position Malaysia as power country and energy exporter
- Develop policies on energy among OIC countries
- Provide shared resources on energy capacity building
- Realize the full potential of Renewable Energy (RE) resources among member countries
- Enhance awareness of RE and encourage human capital development in RE
- Promote development of RE policies and strategies among member countries
- Increase supply of sustainable, clean and low-carbon energy
- Produce technology and innovation breakthroughs
- Develop new business models for RE

F. Science, Technology and Innovation

- Promote technology commercialisation
- Develop innovation exchange to

Participants in MCPS Concultation Workshop on ‘Reverse Linkages’, 18 January 2012, Putrajaya, Malaysia commercialize available R&D

- Create new innovative products
- Promote development and adoption of standards and certification about S&T
- Establish Technology Acquisition Fund
- Provide Clearing House for Intellectual Properties
- Enable development of innovation database of member countries
- Strengthen innovation eco-system in member countries

G. Zakat

- Establish proper mechanism for Zakat Utilization
- Develop innovative and effective ways of Zakat fund; e.g. R&D, Training, Innovation Fund, Commercialization Fund, Halal Food Production, Micro Finance etc

H. Trade and Competitiveness

- Create climate for increased economic growth and investment by establishing trading ecosystem
- Establish economic clusters for member countries
- Empower local industry with critical knowledge and market intelligence to compete in global marketplace
- Provide business matching platform
- Increase funds available for investment
- Provide trade information and easy access to existing databases
- Create meta-directories as platform for business matching
- Enable Malaysian companies and those in member countries to compete globally
- Develop further Oil and Gas Storage Terminal Hub (one of Malaysia's Economic Transformation Programme) with IDB equity partnership
- Promote oil and gas trading between regional players, especially those licensed in Malaysia, Indonesia and Brunei

I. Information and Communication Technology

- Make e-commerce safer
- Ensure cyber hygiene; currently little/no censorship on internet
- Protect critical national information infrastructure
- Develop ICT products with security features
- Promote content sharing
- Exploit social media
- Create single window for business/trade facilitation
- Improve broadband infrastructure, in particular high-speed backbone network infrastructure
- Promote ICT use in enhancing productivity
- Increase internet penetration and access speed and provide more affordable access

J. Health

- Establish Reverse Linkages opportunity in health sector
- Attract medical tourist patients (health tourism)

- Obtain accreditation for Malaysian healthcare and health services providers
- Promote health Takaful among OIC countries
- Make healthcare affordable to all especially the elderly and aging population

V.

IDB GROUP MCPS-FOCUSED PROGRAMS

i. Identification of Key Pillars for Partnership Strategy

77. Based on development challenges facing the country along with sector diagnostics (Section I); Government development priorities underlined in Tenth Malaysia Plan (2011-2015) (Section II); the lessons learned from IDB Group past interventions in Malaysia (Section III); and extensive consultations with key stakeholders (i.e. public sector, private sector, business community, academia, civil society) in the country and with a view to optimizing IDB's comparative advantages (Section IV), the IDB Group partnership strategy is designed for Malaysia for the period 2012-2015. The following two key pillars were identified for the future partnership among the IDB Group, the Government of Malaysia and the Private Sector.

Pillar I: Private Sector Development

Pillar 2: Reverse Linkages

78. The MCPS focused areas/ programs under both pillars are aligned with the Government development priorities as well as the strategic thrusts of the IDB Vision 2020 (Figure 5.1). The focused programs are described as follows:

ii. Pillar 1: Private Sector Development

79. In aligning with the Government's priority of providing a leading role to the private sector in implementing its Economic Transformation Program (ETP), the IDB Group will consider providing support on various private sector development initiatives such as Public Private Partnership (PPP); Private Sector Support; Resource Mobilization; and Business Improvement Advisory, as described below:

(i) Public Private Partnerships

80. The IDB is already involved in PPP projects in Malaysia such as South Klang Valley Expressway Project and Kuala Lumpur Selangor Expressway Project. Going forward, in line with the recommendations made during these consultative meetings, the IDB Group will consider providing support in some of the following PPP related areas: (i) project financing in core infrastructure (such as transportation, energy and Information and Communication Technologies (ICT) and social infrastructure (such as education and health); (ii) sharing expertise with the PPP Unit of the Prime Minister's Department (e.g. exchange of staff); and (iii) participate in supporting ICT/ Internet backbone infrastructure.

(ii) Private Sector Support

81. more closely with EXIM Bank of Malaysia; (ii) financing manufacturing activities; (iii) SME financing through domestic financial institutions; and (iv) trade financing activities.

Figure 5.1. IDB Group Partnership Strategy for Malaysia: Alignment, Selectivity and Focus

10 Big Ideas to move Malaysia into a High-Income Nation

1. Internally driven, externally aware; 2. Leveraging on diversity internationally; 3. Transforming to high-income through specialisation 4. Unleashing productivity-led growth and innovation; 5. Nurturing. attracting and retaining top talent; 6. Ensuring quality of opportunities and safeguarding the vulnerable; 7. Concentrated growth, inclusive development; 8. Supporting effective and smart partnerships; 9. Valuing environmental endowments; and 10. Government as a competitive corporation

Key Strategic Thrusts of Tenth Malaysia Plan (2011-2015)

1. Designing Government philosophy and approach to transform Malaysia; 2. Creating conductive environment for unleashing economic growth; 3. Moving towards inclusive socio-economic development; 4. Development and retaining a vfirst-world talent base; 5. Building an environmen that enhances quality of life

IDB Group Team Consultations with Key Stakeholders in Kuala Lumpur and Putrajaya, for Designing Partnership Strategy for Malaysia

Pillar-1

Private Sector Development

- Public Private Partnerships
- Private Sector Support
- Resource Mobilization
- Business Improvement Advisory

Pillar-2

Reverse Linkages

- Islamic Finance
- Science, Technology and Innovation
- SMEs Development
- Halal Industry
- Trade and Investment

IDB Group Thematic Strategies (6 Key Thrusts)

1. Comprehensive Human Development and Poverty Reduction; 2. Infrastructure Development/ Prospering the People; 3. Economic Cooperation and Regional Integration; 4. Islamic Financial Sector Development; 5. Private Sector Development; and 6. Capacity Development

IDB 1440H (2020) Vision (9 Strategic Thrusts)

1. Reform IDB; 2. Alleviate Poverty; 3. Promote Health; 4. Universalise Education; 5. Prosper the People; 6. Empower the Sisters of Islam; 7. Expand the Islamic Financial Industries; 8. Facilitate Integration of IDB Member Country Economies among Themselves and with the World; 9. and Improve the Image of the Muslim World

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82. The IDB Group may also consider supporting the private sector by: (i) working more closely with EXIM Bank of Malaysia; (ii) financing manufacturing activities; (iii) SME financing through domestic financial institutions; and (iv) trade financing activities.

(iii) Resource Mobilization

83. In issuing local and global Sukuk, the IDB Group has listed its Medium-Term Note (MTN) Program on Bursa Malaysia. The IDB Group will continue to support the development of Islamic capital markets by issuing local currency Sukuk of various tenors while investing excess liquidity in Sukuk of the Malaysian Government, Government Linked Companies (GLCs) and Malaysian Corporates. In collaboration with local banks, the IDB Group would aim to work towards new Shariah-compliant products related to resource mobilization and derivatives.

(iv) Business Improvement Advisory

84. In order to support the Government's efforts in improving business and investment climate, the IDB Investment Technical Assistance Program (ITAP) intends to assist the country in improving the ease of doing business.

iii. Pillar II: Reverse Linkages

85. As a result of its development success, Malaysia has expertise and comparative advantage in various areas including Islamic Finance; Science and Technology and Innovation; Small and Medium Enterprises (SMEs) Development; Halal Industry; and Trade and Investments Policies. Through Reverse Linkages initiative, the IDB Group will play a facilitating role in sharing Malaysian expertise with other member countries in the following areas:

(i) Islamic Finance

86. Malaysia has proved to be a global leader in Islamic finance, therefore, its rich experience can be shared through various partnership opportunities between institutions in Malaysia and other member countries through: (i) building enabling environment for Islamic finance through technical assistance and capacity building (e.g. cooperation with Bank Negara Malaysia to share regulatory experiences); (ii) leveraging on other key institutions such as Islamic Banking and Finance Institute Malaysia (IBFIM), International Shari'ah Research Academy for Islamic Finance (ISRA), International Centre for Education in Islamic Finance (INCEIF), International Islamic University Malaysia, and other higher learning institutions; (iii) replicating the successful Hajj financing model (Tabung Haji) in member and non-member countries; and (iv) strengthening Islamic financial institutions through equity investment. In addition to the above, the IDB Group will also explore means to assist in institutionalizing the Zakat and Waqf concept in Malaysia, by financing Awqaf Projects through IDB managed Awqaf Properties Investment Fund (APIF), for improving the lives of the less privileged.

(ii) Science, Technology and Innovation

87. Malaysia has indicated its willingness to assist other member countries in developing their capacity in the areas of Fisheries, Agriculture, Cyber Security, and Innovation. For each area of assistance, there is a focal point to coordinate with the IDB to identify the type of assistance and member countries to benefit from the expertise available. The focal points have been selected based on the resulting bilateral meetings of the MCPS Team with Malaysian entities. The focal points are: (i) Department of Fisheries for fisheries; (ii) Malaysian Agricultural Research and Development Institute (MARDI) for agriculture; (iii) Cyber Security Malaysia (also current Chair of the Organisation of the Islamic Conference Computer Emergency Response Team (OIC-CERT) for cyber security; and (iv) International Science, Technology and Innovation Centre for South-South Cooperation (ISTIC) for innovation.

88. The assistance will consist of capacity development through (i) offering standard science, technology, and innovation (STI) management resources (e.g. training); (ii) harnessing the existing Malaysian Technical Corporation Programme (MTCP) (e.g. short-term specialised training courses) and initiating Technology Certification Program (i.e. international accreditation); (iii) capacity development in Technical and Vocational Education (i.e. promoting relevant employment); and (iv) sharing expertise and knowledge by Federal Land and Development Authority (FELDA) in the areas of Palm Oil production; Malaysian Agriculture Research Institute (MARDI) in the areas of rice cultivation and fisheries; Department of Fisheries (DOF) in the area of Aquaculture; and Ministry of Science and Technology (MOSTI) in information infrastructure/ Cyber Security.

(iii) SMEs Development

89. Malaysia can assist other member countries (MCs) through: (i) National SME Developmental Council; (ii) SME Strategic Reform Initiatives under "New Economic Model" (NEM) (i.e. innovation exchange); (iii) development programmes by SME Corporation; and (iv) development of R&D Innovation Hub for OIC countries.

(iv) Halal Industry

90. Malaysia is a global leader in the promotion and development of Halal industry. The country can help expand this industry through: (i) developing and promoting a common Halal Quality Standard for both IDB member countries and non-member countries (i.e. creating a Halal ecosystem); (ii) coordinating and utilising expertise from both IDB MCs and non-MCs for the promotion of the Halal industry; (iii) offering specialized training programs (i.e. international accreditation) for Halal sector related SME's and governmental institutions in member countries; and (iv) establishing a one-stop center for the Halal sector.

(v) Trade and Investment

91. Several partnership initiatives were discussed to support Reverse Linkages such as ICIEC and EXIM Bank Malaysia can help other IDB MCs in developing Shariah-compliant credit insurance products and in developing collateralized financing programs for SMEs. Similarly, in collaboration with ITFC, Chambers and Commodity Exchanges in other MCs can collaborate with Union of Malaysian Chambers of Commerce and Industry. ITFC can also undertake joint projects to disseminate the work of Malaysian Commodity Exchanges, warehouse receipt system, including that of licensed warehousing, collateral management, and capacity development programs for Trade Promotion Organizations (TPOs) to promote intra-OIC trade. Additionally, Reverse Linkages programs may be developed to promote palm oil development in OIC member states including Sub-Saharan Africa region. Such programs could also explore renewable energy development in selected OIC countries, initiate Economic Cluster Mapping for intra-OIC trade, promote Halal Food Industry/establishing Halal Market Place, explore rice cultivation project, and explore opportunities for establishing livestock and meat processing projects. Leading Malaysian banks would be invited to co-finance with IDB in other member countries. Electricity Commission of Malaysia has expressed interest in providing regulatory support to IDB member countries. In addition, other initiatives may also be considered such as creating OIC level cyber security projects, renewable energy (biomass and solar) and development of a Malaysian University model.

iv. Readily Implementable Initiatives for IDB Group Partnership Strategy for Malaysia

92. The Government of Malaysia and the IDB Group agreed that, in line with the pillars of partnership strategy and potential areas of cooperation emanating from the consultative meetings highlighted above, some concrete and readily implementable initiatives need to be identified in the areas of promotion of Islamic finance; export financing as well as match-making for Malaysia's investment access to MENA and ASEAN regions and promotion of Halal industry standards. Some of the low hanging suggested initiatives are as follows:

Building Enabling Environment for Islamic Finance

93. The IDB Group can facilitate provision of technical assistance aimed at capacity building of Islamic financial services industry in its member countries, particularly, in MENA and Central Asia regions through Reverse Linkages. Some possible areas are sharing Malaysian expertise, particularly through Bank Negara Malaysia in facilitating development of Islamic financial sector through the development of regulatory and supervisory frameworks for Islamic financial institutions, and the development of Islamic capital markets. The IDB Group can assist in needs assessment and match-making not only for capacity development but also in enabling public and private sector institutions in Malaysia to undertake equity and other investments in Islamic financial institutions in IDB member countries. In this regard, a Reverse Linkage Workshop was organized at IDB Headquarters in Jeddah in February 2012 whereby IDB facilitated discussions between Bank Negara Malaysia and the central banks of several member countries.

Replicating the Successful Hajj Financing and Management Model

94. The IDB Group can also facilitate the replication of the successful Hajj financing and management model of Malaysia in its member countries and non-member countries. Recently, the ICD via its joint venture company (TahaAlam Sdn Bhd), with Tabung Haji subsidiary, is in discussions with a few governments in replicating the Tabung Haji business model for the benefit of the countries with large Muslim population. Malaysian expertise in Hajj financing and management may be disseminated in a similar manner to other interested IDB member countries and non-member countries. This is a win-win situation for all stakeholders, as Malaysia as a provider, would gain recognition of its leadership in Hajj financing and management while the beneficiary country adopts a tested and working business model. Due to the importance of this initiative, during the 1st quarter of 2012, ICD had signed a Joint Venture Agreement with Theta Edge Berhad a subsidiary of Tabung Haji, in establishing Hajj advisory company, to undertake the Hajj services activities in other selected member countries.

Institutionalizing Management of Waqf properties

95. The IDB Group is currently assisting in strengthening and institutionalizing the management of Waqf in Malaysia by financing Awqaf projects through IDB managed Awqaf Properties Investment Fund (APIF). As was the case with the development of Shariah Court Houses in Selangor, the IDB Group can work with Malaysian Waqf Board and Teraju (Peneraju Bumiputera), in Prime Minister’s Department to identity and invest in those Waqf lands, which meet APIF’s investment criteria, for potential commercial development. Under this model, sustainable revenue generating properties are developed on Waqf lands, whereby the income from the developed property is used for the benefit of the needy and to repay APIF.

Collaborating for the Advancement of Science, Technology and Innovation

96. The IDB Group will collaborate with the Malaysian Agriculture Research and Development Institute (MARDI) to provide expertise and training in breeding of rice for different ecology in Nigeria and sending an expert in rice production to Mali. The IDB Group may also work with the International Science, Technology and Innovation Centre for South-South Cooperation (ISTIC), to organize training in the area of STI Policy focusing on the theme of "Embracing Structured Innovation for Socio-Economic Transformation" and providing regional training on technopreneurship.

Creating a Halal Ecosystem and Promoting the Halal Industry Standards

97. The IDB Group can also work with Malaysia in development and application of a Halal ecosystem through a common Halal Quality Standard for both IDB member countries and non-member countries.

Perdana University Hospital Project

98. The IDB has already identified the opportunity to provide debt and equity support to the Perdana University Hospital project subject to satisfactory due diligence.

VI.
MCSP PROGRAM IMPLEMENTATION AND THE WAY FORWARD

i. Implementation of MCPS Focused Program

99. During the MCPS exercise, the IDB Mission has been presented with a number of ready projects, which are in various phases of development, and the IDB Group will consider financing those projects, which mature first and have the highest development impact. The IDB Group relevant Departments/ Entities will work closely with the line Ministries to implement the focused programs during the MCPS period (2012-2015) aiming to contribute in a meaningful and focused manner in partnering with Malaysia to achieve high income and advanced country status by 2020 (Table 6.1).

100. For the implementation of MCPS-focused programs, there are some key factors both at the level of IDB Group as well as the Government of Malaysia that can make the MCPS implementation successful. Some of the key success factors are described below.

ii. Key Success Factors: IDB Group Level

IDB Group Presence on the Ground

101. Malaysia is hosting IDB Group Regional Office in Kuala Lumpur (ROKL) since 1994, which is one of the four regional offices of the Group. The Regional Office is playing a key role in formulating and implementing programs in Malaysia. The Regional Office is already playing active role in the portfolio management, which will further enhance the follow up mechanism on different activities and consequently a better implementation of MCPS focused-programs. Currently, the ROKL is hosting ICD, private sector support arm of the IDB, while representatives of other entities will also be located in the same Office, in due course to enhance their operations in Malaysia. It will also act as facilitator in Reverse Linkages programs.

Competitive Pricing Policy

102. The lessons learned from IDB Group past operations in Malaysia and during the MCPS consultation process, price competitiveness of various financing modes were extensively raised by both public and private sectors. They indicated that the markup charged by the IDB and its entities is relatively higher compared to other MDBs and private sector financial institutions. It was suggested that the IDB Group entities might consider addressing pricing policy issue during the MCPS process.

Limited Financing Products and Guarantees

103. With Malaysia as one of the developed financial hubs in the region, ITFC, ICD and ICIEC's limited financing/ insurance products face tough competition due to limited flexibility. In particular, the

Table 6.1: IDB Group MCPS Focused Programs for Malaysia, 2012-2015

Key Pillars	Focused Areas of Interventions	Government of Malaysia Ministry/ Department	IDB Group Entity/ Department
Private Sector Development	***Public Private Partnership*** ➢ Project financing in core infrastructure (transport, energy, information and communication technologies and social infrastructure) ➢ Exchange of expertise with the PPP Unit in Prime Minister's Department ➢ Resource mobilization for the projects from local market through Sukuk ***Investment, SMEs Development, Agriculture*** ➢ Transfer of knowledge, expertise and resources/investment between Holding Companies, IDB Group and IDB member countries ➢ Organizing joint Investment Forum for investment into/out of Malaysia from/to member countries ➢ Investing in areas such as Oil, Gas and Energy -Renewable Energy, Palm Oil – for export/ trade, Financial Services – exporting the services, Business Services (Syndication, Co-Financing), Electronics and Electrical, Education – private Universities/school (Syndication, Co-Financing, Ijarah),Healthcare – private hospital, Ijarah, Agriculture – including food security ➢ Advisory services for corporate clients to raise financing ➢ Targeting export-oriented SMEs ***Resource Mobilization*** ➢ Issuance of a new Malaysian Ringgit Sukuk (or foreign currencies swapped to MYR) to finance local currency projects ➢ Participation in Sukuk issued by Malaysian corporate, GLCs and the Malaysian Government in both domestic and global markets ➢ Facilitating member countries initiatives to issue Sukuk in the Malaysian Market		PPP Division, ICD, ICIEC, PPP, ITFC Treasury Department, Investment Department
Reverse Linkages	***Islamic Finance*** ➢ Building enabling environment for Islamic finance through Technical Assistance and capacity building with Malaysian Institutions such as Bank Negara Malaysia, IBFIM, INCEIF, ISRA, IIUM, and other higher learning institutions ➢ Replicating the successful Hajj financing model (Tabung Haji) in MCs and non MCs ➢ Strengthening Islamic Financial Institutions through equity investment ➢ Exploring the opportunity of Malaysian Islamic Banks and Financial Institutions to invest in MCs ➢ Institutionalization of Zakat and Waqaf concept ➢ Linkages of Malaysian universities and training institutions for the financial industry to provide short courses, seminars, professional certifications in Islamic finance to institutions in various IDB member countries	Bank Negara Malaysia, IIUM	IFSD, Investment Department, IRTI, ICD, ICIEC/ITAP
	Science Technology and Innovation ➢ Transfer the knowledge to other MCs in areas of Fisheries, Agriculture, Cyber Security and Innovation ➢ Transfer of FELDA knowledge and expertise with a strategy of expanding its operations (through joint ventures with member country GLCs and private entities) overseas ➢ Malaysia as bridge between IDB and Far East Economies in area of Science Technology and Innovation	Department of Fisheries, MARDI, Cyber Security Malaysia, ISTIC, FELDA, MTCP	STC
	Halal Industries ➢ Development and promotion of a common Halal Quality Standards for both IDB MCs and non-MCs ➢ Offering specialized training programs (i.e. international accreditation) for Halal sector related SMEs and government institutions in Member Countries ➢ Establishing one-stop center for the Halal sector	Standard Malaysia; HDC Malaysia; JAKIM	ICD; ICIEC
	SMEs Development of MCs through ➢ National SME Development Council ➢ SME Strategic Reform Imitative under " New Economic Model" ➢ Development programmes by SME Corporation ➢ Developing R&D Innovation Hub for OIC Countries ➢ Establishing SME Fund in partnership with SME Bank	National SME Development Council; SME Corporation Malaysia	ICD; ICIEC

ITFC securities criteria do not fit well in the Malaysian lending scene. Some clients were reluctant to the idea of a bank guarantee when proposed. Due to this reason, the IDB Group products for the required market segment need to be made attractive to the clients.

iii. Key Success Factors: Country Level

Government Support to IDB Group Entities and Funds

104. Strong Government support to IDB Group Entities and initiatives are considered to be a key success factor for the MCPS process. As the facilitator of IDB Vision 1440, Malaysia has contributed extensively in the reform process of the IDB and understands most of its activities. Malaysia is a major partner in many initiatives. As part of the MCPS "Reverse Linkages" initiative, the Government of Malaysia could consider partnering with IDB entities through providing in kind and intellectual support to activities in least developed member countries (LDMCs) of the IDB. As a high middle-income member country of the IDB, the Government of Malaysia may consider intensifying its partnership with the Islamic Solidarity Fund for Development (ISFD) particularly through additional contribution to the Fund for its poverty reduction activities and replicating its success stories.

Sharing Malaysian Knowledge and Expertise

105. Malaysia has matured over the years in many fields and is now capable to transfer the knowledge to many other IDB member countries in various fields. The Government of Malaysia has been fully supportive of the idea of Reverse Linkages. Through the successful implementation of MCPS for Malaysia, the IDB Group aims to capitalize on Malaysia's extensive experience and willingness to provide support to other IDB member countries as has been demonstrated by the strong leadership of Malaysia. This will not only assist the IDB member countries but will generate opportunities for Malaysian businesses across the Muslim World. The IDB Group Regional Office in KL is planned to be strengthened and transformed into a Center of Excellence in partnership with Malaysia's relevant Ministries/ Departments.

Private Sector to serve as Main Vehicle for Development

106. The private sector has been considered the key driver of the 10^{th} Malaysia Plan and Malaysia Vision 2020. About 92% of funding for Economic Transformation Program (MYR1.4 trillion) is projected to come from the private sector. The Government of Malaysia plans to reform the business regulations to improve processes, modify the competition law to foster a healthy and market driven private sector; expand its exports to OIC member countries; and encourage greater investments. The private sector entities of the IDB Group can support the strategic thrust of 'Cluster Development', which is intended to transform several cities in Malaysia as destinations to attract high tech investments and knowledge workers. The IDB Group can add value through linking local companies with potential investment opportunities in member countries particularly in Central Asia, Middle East and Africa regions. The IDB Group's support for trade development would not only underpin the Big Idea of

"Leveraging on Diversity Internationally" by improving the export competiveness of the Malaysia but can play a key role in identifying investment opportunities in IDB member countries. In addition, the IDB Group will jointly work with the Government of Malaysia to attract FDI from its member countries through organizing joint Investment Forums.

Conducive Environment for PPPs

107. The Malaysian Government has been supporting the private sector in infrastructure development for over 30 years. Its main goal is to transform the economy through strategic public private partnerships (PPP) projects implementation. In order to achieve this goal, a centre of expertise, the PPP Unit, has been established under the Prime Minister's Department. The investment under the PPP initiative has been mostly taking place in infrastructure projects but there is a huge potential to explore the opportunities in the social infrastructure. The PPP Division of the IDB Group in collaboration with Government of Malaysia will explore the investment opportunities in the social and infrastructure sectors under the PPP initiative.

Results Matrix-I for Pillar 1: Private Sector Development					
Development Goals / Targets	**Current Challenges/ Binding Constraints**	**Development Outcomes**	**Expected Intermediate Results / Milestones**	**Proposed Areas of Interventions**	**Expected Output**
(i) Public Private Partnership (PPP)					
Accelerate economic growth by private investment mainly through PPP initiative in areas such as: • Strategic infrastructure projects as part of the National Key Economic Areas (NKEAs)/ Entry Point Projects (EPPs) • The Kuala Lumpur International Financial District (KLIFD) is a joint development project to strengthen and centralize Kuala Lumpur's finance hub. • Klang Valley Mass Rapid System (KVMRT)	➢Fierce competition from neighboring countries/ cities ➢Public transport remains inadequate ➢Natural assets remain untapped ➢Competitive biddings from other key real estate and infrastructure players ➢Convincing the global SMEs or Conglomerates to part take in the KLIFD ➢Competitive bidding cost might be prohibitive ➢Long-time period for resolving land acquisition issues/disputes, particularly for road projects	➢To drive rapid growth in parallel with upgrading the city's livability ➢Achieving a top-20 ranking in the EIU Livability Index Survey ➢Creating jobs over and above the employment that will be created specifically by the other NKEAs. ➢The KLIFD wants to be a destination for the Islamic finance industry ➢Attracting the world's most dynamic firms within priority sectors	➢Exploring the financing possibility of Perdana University and Hospital ➢Continuums interaction with the Malaysian Private Sector and PPP Unit to consider more opportunities ➢ADB IDB Infrastructure Fund to consider more opportunities in Malaysia	➢Project financing in core infrastructure such as transport, energy, information and communication technologies and social infrastructure ➢Sharing expertise with the PPP Unit ➢Considering the financing of the ICT/Internet backbone infrastructure. Once the required information has been provided and assessed ➢Contributing to the establishment of economic cities and technological innovation centers depending on review of the information provided	➢IDB PPP Unit in collaboration with Government of Malaysia will identify projects for investment ➢IDB PPP Unit will work on a comprehensive framework for exchange of expertise with PPP Unit under the Prime Minister's Department. ➢Investing in the new economic cities

(ii) Private Sector Support					
Private Sector as a main vehicle of Development under 10th Malaysia Plan and Vision 2020 **Raising private investment for Economic Transformation Programs (ETP)** **SMEs Development through TCP, SIP, and Innovation**	➢ Products and services may require some value add and competitive collaboration with current relevant players; co-branding ➢ Competitive bidding and proposition from other key international players ➢ Member countries may have already established other links ➢ To obtain buy-in from all parties due to political and business interests issues ➢ Not ready to compete at regional or international levels ➢ Insufficient availability of skilled workforce ➢ Insufficient access to funding sources (trade finance and venture capital) familiar with their industries ➢ Fierce competition and protectionism policies of international markets	➢ Diversified options and resources for funds, partners and etc ➢ Strong Bilateral arrangements between organizations (local and international) ➢ Cross fertilization of resources, knowledge and technology to ensure maximum impact and achieve objective results for all stakeholders	➢ Organizing different Malaysian-IDB Group Investment Business Forums to attract the Investors to Malaysia from MCs	➢ SMEs financing through domestic and international financial institutions ➢ To be in line with government's strategy and ETP, thus proposed area of intervention in the following areas: ➢ Oil, Gas and Energy - Renewable Energy ➢ Palm Oil – for export/ trade ➢ Financial Services – exporting the services ➢ Tourism (Syndication, Co-Financing) ➢ Business Services (Syndication, Co-Financing) ➢ Electronics and Electrical ➢ Wholesale and Retail (Syndication, Co-Financing) ➢ Education – private school (Syndication, Co-Financing, Ijarah) ➢ Healthcare – private hospital, Ijarah ➢ Agriculture – including food security ➢ Advisory services for corporate clients to raise financing and establishing new projects ➢ Encouraging trade with other IDB member countries ➢ Developing new guarantee mechanism for Malaysian market	➢ ICD will target those industries prioritized by the Government ➢ ICD will actively engage with stakeholders and collaborate with government related agencies and financial institutions in providing services and products: • MATRADE • MIDA • SMECorp Malaysia • Exim Bank Malaysia • Bank Pembangunan Malaysia ➢ ITFC will target the 2-step Murabaha Financing for Malaysian Banks ➢ ITFC will closely monitor and implement the MoU signed with EXIM Bank ➢ ITFC will enhance its marketing efforts in Malaysia ➢ ITFC will explore the option of guarantee in the form of land, building or other assets for Malaysia market ➢ ITAP may consider to provide business improvement advisory services ➢ ICIEC to provide capacity building to large corporations like PETCO ➢ ICIEC has signed First DCIP with MAYBANK to boost trade

(iii) Resource Mobilization					
Supporting the Private Sector Development through new resource mobilization techniques: • Malaysian Government to establish the national capital markets as a hub for global Islamic Sukuk • Malaysia boasts a well-established, flexible legal and regulatory regime • Private Sector Cooperation on a peer to peer grouping to accelerate sharing of information and response time to shifts in the market place	➢Sukuk market is still heavily weighted towards a discrete number of national markets; ➢Global economy is extremely volatile for 2012 ➢Largely the preserve of sovereign issuers, government related entities (GREs) and banks and other financial institutions ➢Sukuk market needs more issuance, in varying maturities and currencies	➢To see more conventional investors enter the Sukuk market ➢Exponentially accelerate the growth of EXIM trade between OIC and ROW ➢Increase in tangible foreign direct investment into Malaysia		➢Issuance of a new Malaysian Ringgit Sukuk (or foreign currencies swapped to MYR) to finance local currency projects ➢Participation in Sukuk issued by Malaysian corporate, GLCs and the Malaysian Government in both domestic and global markets. ➢Actively pursue development of Shariah-Compliant hedging products with local financial institutions to provide hedging facility to the IDB and other member countries, which require the IDB financings and hedging facilities ➢Facilitating the member countries initiatives to issue Sukuk in the Malaysian market	➢ Treasury Department will mobilize resources in local currency based on the projects identified under the MCPS

Results Matrix-II for Pillar 2: Reverse Linkages (Sharing the Malaysian expertise with other IDB member countries)					
Development Goals / Targets	**Current Challenges/ Binding Constraints**	**Development Outcomes**	**Expected Intermediate Results / Milestones**	**Proposed Areas of Interventions**	**Expected Output**
		(i)	**Islamic Finance**		
Enhancement and development of Islamic Financial Sector	➢Need to enhance awareness about the commercial values of Islamic finance instruments amongst retail and corporates customers ➢Foster product innovation with distinctive features in order to open up new and enterprising avenues through Islamic finance ➢Need to promote standardisation of documentations globally in supporting the Islamic finance cross-border business from Malaysia ➢On-going need to cater for the talent demand of the industry in particular in enlarging the pool of talent ➢Research on under-explored areas need to be intensified further e.g. Islamic venture capital	➢Promotion of Shariah-complained banking and finance in MCs and non-MCs. ➢Promotion of Malaysia's Bursa Suq Al-Sila ➢Institutionalizing of Waqf Assets and Management ➢Investment in the Takaful sector ➢Cross Border Islamic Exchange Traded funds		➢Building enabling environment for Islamic finance through Technical Assistance and capacity building with Malaysian Institutions such as Bank Negara, IBFIM,ISRA, IIUM, MIFC and IFSB ➢Replicating the successful Hajj financing model (Tabung Haji) in MCs and non MCs ➢Strengthening Islamic Financial Institutions through equity investment ➢Exploring the opportunity of Malaysian Islamic Banks and Financial Institutions to invest in MCs ➢Institutionalization of Zakat and Waqaf concept ➢linkages of Malaysian universities and training institutions for the financial industry to provide short courses, seminars, professional certifications in Islamic finance to institutions in	➢Strengthen cooperation with Malaysian Institutions involved in the Islamic Banking and Finance Industries to export their expertise to other MCs and non- MCs ➢Explore the possibility of providing equity investment into Malaysian Islamic financial institutions and promoting cross border investments into/out of Malaysia ➢Explore the opportunities for co-financing in Awqaf sector with relevant Malaysian authorities through the Awqaf properties Investment Fund (APIF) ➢IDB Group entities. via ICD and IFSD, will work to replicate the successful Hajj financing and management model to other MCs and non-MCs. ➢Extend cooperation and help to Malaysia in organizing seminars, conferences , workshops and forums in the area of Islamic Economics,

				various IDB member countries	Finance and Banking ➢Expand to utilize the Malaysian expertise in transfer of knowledge to other member and non-member countries, while already using experts from Malaysia in its training programs in CIS countries ➢Explore Reverse Linkages with universities and training institutes to conduct training programs
(ii) Science Technology and Innovation					
Promoting Science, Technology and Innovation	➢Lack of clear and effective structure/framework to implement the initiative ➢Bridging of expectations between the Malaysian service providers and the counterparts from the beneficiary member country ➢Lack of framework to promote coordinated support among the stakeholders ➢Intellectual Property and localised sovereignty issues ➢Bureaucracy of respective institutions of higher learning and related organisations ➢Lack of funding opportunities ➢Unclear technology commercialization roadmap and market access ➢Lukewarm industry participation due to cost and lack of clarity on outcome for	➢Promote Technology Commercialization through the development of a proper framework of implementation ➢Promote development and adoption of standards and certification ➢Increase Technology Acquisition Fund ➢Expand seed capital/commercialization funds ➢Enable development of innovation database of member countries ➢Strengthen innovation eco-system in member countries	➢Relevant activities to assess and identify potential areas of expertise available for Reverse Linkages collaboration and identify the most suitable stakeholders to be the focal points ➢Technical Assistance for the Reverse Linkage collaboration	➢Malaysia has indicated its willingness to assist member countries in the following areas with the respective Departments; • Fisheries- Department of Fisheries • Agriculture- Malaysian Agriculture Research and Development Institute. • Cyber Security- Cyber Security Malaysia • Innovation- International Science and Technology and Innovation Centre for South-South Cooperation (ISTIC). ➢Collaboration with the Federal Land and Development Authority (FELDA), having interest in sharing knowledge and	➢IDB STC will work with relevant Malaysian Institutions to explore the mechanism for the transfer of expertise to other member countries ➢STC with relevant Government Authorities may explore the options to reach out to Far East Countries ➢Provide market access to Malaysian GLCs and private sector entities in beneficiary member countries ➢Assist in developing the Malaysia global brand among the IDB member countries ➢STC will utilize the existing Technical Cooperation Program (TCP) modes of financing (i.e. training and recruitment of expertise) to develop the capacity of the critical stakeholders

	investments in R&D and Technology Commercialization			expertise with a strategy of expanding its operations (through joint ventures with member country GLCs and private entities) internationally. ➢Malaysia to act as a doorway/conduit to harness potential collaboration and resources from East Asian countries Regional Organizations in the area of Science, Technology and Innovation (STI) and Technical Cooperation for the benefit of other member countries	
(iii) SMEs Development					
Internationally competitive SMEs Development of the Member countries	➢Not ready to compete at regional or international level ➢Insufficient availability of skilled workforce ➢Insufficient access to funding sources (trade finance and venture capital) familiar with their industries ➢Fierce competition and protectionism policies of international markets	➢Establishment of an efficient and effective and open platform for Malaysian and OIC SME's to pursue entrepreneurial activities ➢Establishment of Malaysia as the ideal regional base for business expansion for OIC and ROW business in the SME segment ➢Malaysia's value focused principally on: • Legal protection and jurisdiction • Financial system and processes • Quality and accreditation		➢SMEs financing through domestic and international financial institutions ➢Malaysia can assist other MCs through: • National SME Development Council • SME Strategic Reform Imitative under " New Economic Model" • Development of programmes by SME Corporation • Developing R&D Innovation Hub for OIC countries • Establishing SME Fund	➢ICD will explore cooperation with relevant Government Authorities on the SMEs Development of the Member Countries. ➢ICIEC plans to target export-oriented SMEs

		• Proximity to markets • Logistics support		in partnership with SME Bank	
(iv) Halal Industries					
Promoting Halal Industries • Promoting Halal as a Brand reflecting quality and safety standard	➢Lack of awareness about Halal Industries ➢Lack of Standardization of Halal Industries ➢Lack of State of the art Halal Industry hard ware ➢Lack of vocational training and specialization related to Halal Industry ➢Lack of acknowledgement of Halal as a whole Industry including food, cosmetics, pharmaceuticals	➢Promotion of Halal Industries in MCs and non-MCs ➢Address the need of growing Muslim population across the globe ➢Concept of Halal goes beyond the food ➢Halal Food market to represent a significant potential for international market	➢TA by IDB for the Development of Halal Industries Standard ➢IDB will be signing an MoU for future cooperation in the development of Halal industries with Halal Industry Cooperation (HDC)	➢Malaysia can help expand this industry through: • Development and promotion of a common Halal Quality Standard for both IDB MCs and non-MCs (i.e. creating a Halal ecosystem) • Coordinating and utilizing expertise from both IDB MCs and non-MCs for the promotion of Halal Industry • Offering specialized training programs (i.e. international accreditation) for Halal sector related SMEs and government institutions in member countries; • Establishing one-stop center for the Halal sector	➢HDC will work on a comprehensive plan in collaboration with relevant agencies within Malaysian (e.g. JAKIM, Standards Malaysia) for the promotion of Halal Industries in MCs. ➢IDB will be a platform to link the Malaysian expertise with other MCs and Non-MCs

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