AGRICULTURAL MECHANIZATION FINANCING FACILITIES IN MALAYSIA

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Financing for Sustainable Agricultural Mechanization

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Location of Malaysia

Malaysia, located in Southeast Asia

Comprised of two similarly sized land, namely Peninsular Malaysia and East Malaysia
Social and Economy

- Total Population: 32.6 million (2019)
- Rural population: 30%
- Urban population: 70% (Cities & Towns)
- Population involved in agriculture: 16%
- Population involved in industries: 28%
- Main exported goods: electronic equipment, petroleum and liquefied natural gas, wood and wood-based products, palm oil, rubber, textiles and chemicals
- Major agriculture commodities: palm oil, natural rubber, timber and rice
Agriculture In Malaysia

- The economy of Malaysia is the third largest in Southeast Asia, after Indonesia and Thailand, and is the 35th largest economy in the world.

- In Malaysia agriculture sector is taken care by the Ministry of Agriculture and Agro-Based Industry (MOA) with the function of evaluating, establishing, monitoring and implementing policies, strategies and programmes for agricultural development of the country.
Agriculture In Malaysia

- **Malaysian** agriculture crop is generally divided into two **categories**:
  - **Food crop**: Food crops refer to vegetables, fruits, root crops, and grain crops associated with smallholdings managed by the smallholders and the private sector.
  - **Industrial crops**: Oil palm, rubber, cocoa and rice have been and continue to be the major crops grown by the private and public sectors.
Government Machinery Ownership Scheme

Objective

• Allows the agricultural sector to be transformed into a more modern, dynamic and competitive environment.
• Promoting own ownership of small machinery and equipment among farmers and group participants to reduce costs, increase productivity and not rely entirely on ‘service providers’.
• Able to maximize land use and attract farmers/entrepreneurs in the agricultural sector.
• It is the government's efforts and support in increasing agricultural production and making this sector the country's economy and providing a positive trade balance
Scope of Financing

- Includes financing for the acquisition of machinery, equipment and facilities in agricultural production by farmers.
- Financing in the form of machineries and equipment and *not in cash*.
- The various types of machinery and equipment involved include the 4-wheel tractor, 2-wheel tractor, garden tiller, power sprayer, fertilizer/seed spray, water pump and other machinery and equipment suitable for use in crop production projects.
EXAMPLES

4-wheel tractor

2-wheel tractor

Garden tiller

Hand trailer tractor machine

Power sprayer

Fertilizer / seed spray

Water pump
Financial Aids for Agricultural Mechanization

Malaysia government incentives for the farmers in term of acquire agriculture machineries are:

- **The matching-grant scheme:** for selected and suitable farmers according to the specific criteria, i.e., government will provide a subsidy 50% of the machinery and equipment price while other 50% will be borne by farmers.

- **Sales tax exemption:** 100% sales tax exemptions on imported machinery including equipment for agriculture sector.

- **Government grants:** government offer financial grants to farmers organization without interest for them to acquire and own heavy machinery such as tractors and combine harvesters.
Other than government subsidy scheme

- The main providers of agricultural finance are:
  - The Commercial Banks
  - Finance Companies
  - Merchant Banks
  - Sabah Development Bank
  - Malaysia Agro Bank
  - Bank Rakyat

- Different financial company or agency have their own financing facility in term of objective, target group, eligibility, margin or amount of financing, tenure and interest rate.
AGROBANK AGRICULTURAL FINANCING FACILITY

1. What is the product about?
MAEF-i is a product that finances customer’s purchase of agricultural and manufacturing machineries, equipment or utility vehicles that is used directly or indirectly for the production, processing, and marketing of agriculture or agro-based product.

2. What Shariah concept is applicable?
This product is based on the Shariah principle of Bai Bithaman Ajil (BBA) and Murabahah. BBA refers to sale contract based on deferred payment at certain price. While, Murabahah refers to a sale and purchase of an asset where the acquisition cost and the mark-up are disclosed to the purchaser.

Machinery & Equipment Financing-i (MAEF-i)
Purpose of Financing

- Capital expenditures (e.g., purchase of machinery and equipment or renovation cost for owner-occupied business premises);
- Working capital;
- Development of agricultural projects includes:
  - Primary food production, integrated agriculture and processing/distribution of food (end-to-end);
- Domestic oriented (at least half of the total production is sold in domestic market)
Who can apply?

- SMEs that are business enterprises in the primary agriculture sector that fulfil the following criteria:
  - Registered with the Companies Commission of Malaysia (SSM) or authorities/district offices in Sabah and Sarawak;
  - Maximum shareholders' funds not exceeding RM5 million;
  - Malaysians residing in Malaysia hold a minimum of 51% shareholding in the SMEs;
  - Business activities must be within Malaysia

Financing limit: Aggregate financing up to RM5,000,000 per company

Tenure: Up to 8 years

Financing rate: Financing rate up to 4% p.a.
Primary Agriculture Sector

Eligibility:
SMEs in the Primary Agriculture Sector that fulfill the following criteria shall be eligible for financing from the Fund:

i. Registered with the Companies Commission of Malaysia (CCM), authorities/district offices in Sabah and Sarawak;
ii. Maximum shareholders’ funds not exceeding RM5 million;
iii. Malaysian residing in Malaysia hold a minimum of 51% shareholding in the SMEs; and
iv. Business activities must be within Malaysia

Maximum Tenure: Up to 8 years from the date of the first drawdown

Financing Amount:
The maximum aggregate amount of financing under the Fund shall be limited to RM5 million per SME.
Purpose

The Fund aims to improve access to financing for SMEs in the Primary Agriculture Sector by complementing sources of financing from financial institutions.

Financing under Primary Agriculture Sector is available for:

- Capital expenditure (e.g. purchase of machinery and equipment or renovation cost for owner-occupied business premises); and/or
- Working capital; and
- Development of agricultural projects. The land cost may be included in the computation of the total project cost provided that:
  a) The amount does not exceed 30% of the total project cost; and
  b) The land will only be used for primary food production activities.
CONCLUSION

• Malaysian government and other financial agencies have played their role in helping the farmers to acquire a suitable machineries and equipment's for them.

• The Malaysia Ministry of Agriculture and Agro-Based Industry have taken action to encourage farmers, especially farmers organization members to have their own machinery and equipment to reduce costs, increase productivity and production through the use of machines and machinery in the management of their farms more systematically to accelerate the work of the farmers in undertaking an agricultural project which in turn will increase their productivity and increase their income.

• 2020 – RM4.9 billion
• 2019 – RM4.4 billion
Thank you
PRODUCT DISCLOSURE SHEET

Date: ___________________________ (To be filled by branches)

1. What is the product about?

MAEF is a product that finances customer’s purchase of agricultural and manufacturing machinery, equipment or utility vehicles that are used directly or indirectly for the production, processing, and marketing of agriculture or agro-based products.

2. What Shariah concept is applicable?

This product is based on the Shariah principle of Bala Bithaman Ajil (BBA) and Murabahah. BBA refers to sale contract based on deferred payment at certain price. While Murabahah refers to a sale and purchase of an asset where the acquisition cost and the mark-up are disclosed to the purchaser.

3. What is the benefit of this product?

The benefit of this product as per below:

<table>
<thead>
<tr>
<th>Margin of Financing</th>
<th>Types of Machinery/Equipment</th>
<th>Margin of Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>Maximum up to 90% from the cost of machinery/equipment.</td>
<td></td>
</tr>
<tr>
<td>Used</td>
<td>Maximum up to 90% from the cost of machinery/equipment.</td>
<td></td>
</tr>
<tr>
<td>Refers to machinery and equipment registered and to be used for the first time or reconditioned machinery and equipment registered in Malaysia for the first time.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. What are my obligations?

Make payment based on sale price (total amount payable inclusive profit).

5. Do I need to make advance payment?

You are required to pay the difference between Purchase Price and Financing Amount as an advance payment for the purchase of machinery or equipment.

6. What are the fees and charges that I have to pay?

<table>
<thead>
<tr>
<th>Type of Fees &amp; Charges</th>
<th>Details of Fees &amp; Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPJ Registration Charges</td>
<td>As per JPJ charges</td>
</tr>
<tr>
<td>Stamping Fees</td>
<td>As per the Stamp Duty Act 1949 (Revised 1989).</td>
</tr>
<tr>
<td>Legal &amp; Disbursement Fees</td>
<td>Include solicitor’s fees for financing documentation, registration of charge, land search and bankruptcy search and other related charges. (Applicable).</td>
</tr>
<tr>
<td>Takaful Contribution</td>
<td>Based on sum assured and entitlement of Non-Claim Discount (NCD).</td>
</tr>
</tbody>
</table>

Note:

The bank will notify you at least 21 days’ notice before any changes made to the fees and charges.

7. What happens if I fail to fulfill the obligations as required?

i. Before maturity date, Tawadul shall be imposed on the overdue amount at the rate of one per centum (1%) per annum to be calculated on a daily basis.

ii. Upon maturity date, Tawadul shall be imposed at the prevailing Islamic Interbank Money Market (DIMM) rate on the principal balance as fixed by the bank from time to time based on the guidelines issued by Bank Negara Malaysia referring to the resolution of Shari’ah Advisory Council of Bank Negara Malaysia.

iii. Legal action will be taken if you fail to respond to reminder notices and your machinery or equipment may be repossessed. You will have to bear all the costs incurred. You are also responsible to settle any shortfall after the machinery or equipment is auctioned off.

8. What if I fully settle the financing before its maturity?

Rebate (25%) shall be granted to you based on the formula set out below, in the event of any of the following scenarios (but not limited to):

i. Early settlement or early redemption or prepayment;

ii. Settlement of the financing due to restructuring exercises;

iii. Settlement by the Customer in the case of default whereby even though the Customer is in default, the Customer makes full settlement of the indebtedness under the financing before maturity date;

iv. Settlement by the Customer in the event of termination or cancellation of financing before maturity date.
5. Do I need any Takaful coverage?
   Yes:
   a) All Risk Takaful for machinery or equipment in the event of accident or theft; and
   b) Customer is encouraged to take sick Takaful Kredit to secure the indebtedness amount under the financing. However, customers are allowed to choose non-panel Takaful provider. The protective plan is necessary to cover your outstanding financing and/or term of coverage in the event of any unfortunate circumstances.

10. What are the major risks?
    If customer fails to settle the outstanding amount, Bank has the right to take the ownership of the machinery, equipment or project site (land) which have been charged together with any additional collateral (land) and/or to auction the ownership of the machinery, equipment or to take legal action against the customer and/or guarantor if the customer fails to settle the outstanding amount of financing.

11. Do I need a guarantor or collateral?
    Yes, a guarantor or collateral that is acceptable by the Bank is required subject to Bank’s current policy.

12. What should I do if there are changes to my contact details?
    It is important that you inform us of any changes in your contact details to ensure that all correspondences reach you in a timely manner. To update your contact details, please contact:
    • Tel: 1-300-88-2476 • Fax: 603-2691 7790 • Email: customer@agrobank.com.my

13. Where can I get assistance and redress?
    • If you have difficulties in making payments, you should contact us earliest possible to discuss payment alternatives. You may contact us at:
      • Tel: 1-300-88-2476 • Fax: 603-2691 7790 • Email: customer@agrobank.com.my
    • Alternatively, you may seek the services of Ageni Keusahatan dan Pengurusan Kredit (AKPK), an agency established by Bank Negara Malaysia to provide free services on money management, credit counseling and debt restructuring for individuals. You can contact AKPK at:
      Tingkat 1, Malyan Junction Mall, 1001, Jalan Sultan Ismail, 50250 Kuala Lumpur.
      • Tel: 1-300-22-2578 • Email: enquiry@akpk.gov.my
    • If you have any complaint on the products or services provided by us, you may contact us at:
      • Tel: 1-300-88-2476 • Fax: 603-2691 7790 • Email: customer@agrobank.com.my
    • If your query or complaint is not satisfactorily resolved by us, you may contact Bank Negara Malaysia at:
      Block D, Bank Negara Malaysia, Jalan Duta, 50400 Kuala Lumpur.
      • Tel: 1-300-88-5460 • Fax: 603-2174 1515 • Email: bnmteleslink@bnm.gov.my