

AGRICULTURAL MECHANIZATION FINANCING FACILITIES IN MALAYSIA



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*7th Regional Forum on Sustainable Agricultural Mechanization in Asia and the Pacific
Financing for Sustainable Agricultural Mechanization*

27-29 November 2019, Jeonju, Republic of Korea



CSAM



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*)

AGROBANK



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Financial Primary Agriculture

- **Purpose of Financing**

- Capital expenditures (eg; **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.

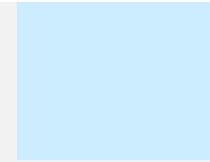


■ Purpose

- 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**
- } **Ministry of Agriculture and Agro-Based Industry**



PRODUCT DISCLOSURE SHEET

Date : _____ (To be filled by Branches)

[Please read and understand this Product Disclosure Sheet together with the terms and conditions before you decide to apply or to accept the offer of Machinery and Equipment Financing-i (MAEF-i).]

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.

3. What is the benefit of this product?

The benefit of this product as per below:

Margin of Financing	Margin of Financing	
	Types of Machinery/ Equipment	
	¹ New	Maximum up to 90% from the cost of machinery/equipment.
	² Used	Maximum up to 80% from the cost of machinery/equipment.
Notes:		
¹ 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.		
² Refers to machinery or equipment that was previously registered and used in Malaysia. Maximum age of machinery or equipment is five (5) years.		
Financing Tenure	Maximum nine (9) years where age of machinery and equipment and financing period must not exceed nine (9) years.	
Rate 1. Subject to current changes 2. Profit rate is per annum and on monthly rest basis	Margin of Financing ≤ 50%	Margin of Financing > 50%
	New : BFR+1.0% up to BFR+ 2.5 % Used : BFR+2.0% up to BFR+3.5%	New : BFR+1.5% up to BFR+3.0 % Used : BFR+2.5% up to BFR+4.0 %
Ceiling Profit Rate (CPR) BFR+4% p.a. or 10% p.a., whichever is higher for selling price calculation.		
Effective Profit Rate (EPR) At current rate and not exceeding the charged ceiling profit rate and calculated at monthly rest.		

Note: Current Base Financing Rate (BFR) is 7.00% and will be determined by Agrobank from time to time.

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 differences between Purchase Price and Financing Amount as an advance payment for the purchasing of machinery or equipment.

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

Type of Fees & Charges	Details of Fees & Charges
JPJ Registration Charges (if applicable)	As per JPJ charges
Stamping Fees	As per the Stamp Duty Act 1949 (Revised 1989).
Legal & Disbursement Fees	Include solicitor's fees for financing documentation, registration of charge, land search and bankruptcy search and others related charges. (if applicable)
Takaful Contribution	Based on sum covered and entitlement of Non Claim Discount (NCD).

Note :

- The Bank will notify at least 21 days' notice before any changes made to the fees and charges.

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

- The Bank shall have the right to impose and claim for *Ta'widh* from the Customer on the Bank's loss due to the Customer's default/failure in the instalment payment, balance of the Sale price or any other payment payable by the Customer to the Bank is calculated from the date the payment becomes due until settlement based on the following guidelines issued by Bank Negara Malaysia referring to the resolution of Shariah Advisory Council of Bank Negara Malaysia as follows:
 - Before maturity date, *Ta'widh* shall be imposed on the overdue amount at the rate of one per centum (1%) per annum to be calculated on a daily basis.
 - Upon maturity date, *Ta'widh* shall be imposed at the prevailing Islamic Interbank Money Market (IIMM) 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 Shariah Advisory Council of Bank Negara Malaysia .
- 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 (*Zbra*) 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):-

- Early settlement or early redemption or prepayments;
- Settlement of the financing due to restructuring exercise;
- 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;
- Settlement by the Customer in the event of termination or cancellation of financing before maturity date.



Rebate (Ibra') will be calculated based on the following formula:

$$Ibra' \text{ at Early Settlement} = \text{Deferred Profit} - \text{Early Settlement Charges}$$

$$\text{Settlement Amount} = \text{Outstanding Selling Price} + \text{Instalments Due} + \text{Late Payment Charges (if any)} - Ibra'$$

9. 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 encourage to take skim Takaful Kredit to secure the indebtedness amount under the financing. However, customers are allowed to choose non-panel takaful provider. The takaful protection 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 change 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 • E-mail: 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:
Agrobank, Bangunan Agrobank, Leboh Pasar Besar, Peti Surat 10815, 50726 Kuala Lumpur.
• Tel: 1-300-88-2476 • Fax: 603-2691 7790 • E-mail: customer@agrobank.com.my
- Alternatively, you may seek the services of Agensi Kaunseling dan Pengurusan Kredit (AKPK), an agency established by Bank Negara Malaysia to provide free services on money management, credit counselling and debt restructuring for individuals. You can contact AKPK at:
Tingkat 8, Maju Junction Mall, 1001, Jalan Sultan Ismail, 50250 Kuala Lumpur.
• Tel: 1-800-22-2575 • E-mail: enquiry@akpk.org.my
- If you have any complaint on the products or services provided by us, you may contact us at:
Agrobank, Client Relationship Management, Bangunan Agrobank, Leboh Pasar Besar, Peti Surat 10815, 50726 Kuala Lumpur.
• Tel: 1-300-88-2476 • Fax: 603-2691 7790 • E-mail: customer@agrobank.com.my
- If your query or complaint is not satisfactorily resolved by us, you may contact Bank Negara Malaysia LINK or TELELINK at:
Block D, Bank Negara Malaysia, Jalan Dato' Onn, 50480 Kuala Lumpur.
• Tel: 1-300-88-5465 • Fax: 603-2174 1515 • E-mail: bnmtelelink@bnm.gov.my



14. Where can I get further information?

For further information or any enquiries, please visit any nearby Agrobank branches or kindly contact us at:
Bangunan Agrobank, Leboh Pasar Besar, Peti Surat 10815, 50726 Kuala Lumpur.
• Tel: 1-300-88-2476 • Fax: 603-2691 7790 • E-mail: customer@agrobank.com.my

15. If customers are interested with this product, what other product/program that may be preferred / relevant to the customers?

Nil.

OTHER INFORMATION

- The information provided in this Product Disclosure Sheet is valid as at date hereof.
- Customer is advised to carefully consider all risk factors before deciding to apply for the financing.

IMPORTANT NOTE:

LEGAL ACTION MAY BE TAKEN AGAINST YOU AND THE BANK MAY TAKE POSSESSION OF YOUR MACHINERY OR EQUIPMENT IF YOU FAIL TO SERVICE YOUR MAEF-i FINANCING PAYMENT AS PER AGREEMENT.

Disclaimer:

The terms and conditions indicated in this Product Disclosure Sheet are tentative / indicative only and not binding on the Bank. The final Terms and conditions are as stipulated in the Letter of Offer and Facility Agreement after credit assessment and financing approval.

The Personal Data Protection Act 2010 came into effect on 15 November 2013. Please visit our nearest branch or website www.agrobank.com.my if you have any enquiries.

I / We hereby accept and understand the contents of the above Product Disclosure Sheet as explanation given to me / us.

Signature	:	
Name	:	
NRIC	:	
Date	:	