

APRACA FinServAccess Programme

Value Chain Financing in Agriculture: Practices, Innovations and Experiences in Malaysia



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Value Chain Financing in Agriculture: Practices, Innovations and Experiences in Malaysia

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This report is published during the incumbencies of Mr. Shitangshu Kumar Sur Chowdhury (APRACA Chairman), Mr. Shiba Raj Shrestha (APRACA Vice-Chairman), Mr. Chamnong Siriwongyotha (APRACA Secretary General) and Dr. Marlowe U. Aquino (FinServAccess Project Manager).

Preface

One of the growing aspects in rural finance is on agricultural value chain finance. Majority of financial institutions working with rural people and communities engaged in agriculture including livestock, poultry and fisheries has a portfolio for agriculture. Also, developments have been noticeable from different countries and institutions as farmers and fishers including rural communities improve their conditions through agricultural activities. The experiences of Malaysia particularly the Amanah Ikhtiar Malaysia (AIM), a microcredit provider under the Agrobank or the Bank Pertanian Malaysia (BPM) show a common yet exciting lesson for everyone engaged in rural finance.

Through the International Fund for Agricultural Development (IFAD) supported grant project, FinServAccess Project implemented by the Asia-Pacific Rural and Agricultural Credit Association (APRACA) commissioned several researchers and institution to conduct an analytical documentation study of agricultural value chain finance (AVCF) to support the training modules and as well as training programs of APRACA.

The Malaysian Study is part of the third batch in a series of documentation. Malaysia's Agrobank shares two successful cases and experiences of their clientele who borrowed some amount to enhance their family-owned small businesses until it expanded and sustained over time.

May this be a source of understanding certain aspects of value chain finance in Malaysia as it move forward towards sustainable agricultural development through financial interventions and appropriate services to its local people. Also, may it open opportunities for exchange and discussion of lessons learned as APRACA and its members support its advocacy on knowledge partnership in rural finance, agricultural development and knowledge management.

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This publication is part of a series which we are thankful as the support and commitment of our members, partners and donors have inspired us to work an extra mile in achieving a well-informed and receptive clientele.

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- The International Fund for Agricultural Development (IFAD) through the FinServAccess Project for providing the financial support to the research team;
- The Research Team headed by Dr. Zainal Abidin Mohamed, Professor of the Department of Agribusiness and Information Systems, Faculty of Agriculture, University Putra Malaysia 43,400 UPM Serdang, Selangor DE, Malaysia for conducting and preparing a good study about Malaysia's rural finance and agricultural development;
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- The individuals and institutions interviewed and discussed with by the research team to describe and present the process of their involvement in strengthening the efforts on rural finance and agricultural development in Malaysia; and
- The financial officers, practitioners and future trainees on agricultural value chain finance, may you find this document significant as you all continue to help the advocacy of APRACA in enhance access to finance and development of communities engaged in agriculture.

Finally, we would like to take this opportunity to thank our readers, members and partners in taking some time to review and acquire information from this document which will enhance and strengthen their capabilities in dealing with their respective clientele in support to providing the best financial products and services and its access towards the improvement and development of the agriculture and rural sectors. Our sincere and big thanks to all of you!

Executive Summary

Agriculture is considered one of the most important sectors of Malaysia's economy, contributing 12 percent to the national GDP and providing employment for 16 percent of the population. The contribution of the agricultural sector to the Malaysian economic development cannot be overemphasized. Even though its importance has declined over the last few decades, it still requires continuous attention to ensure an adequate supply of food and rural development. The contribution of the agricultural sector to the national economy shows a declining trend over the years despite various agricultural development programs implemented under the various five years Malaysian Plans and subsequent National Agricultural Policies which ended in 2010 and the current Agro-Food Policy (2011-2020).

Given the increasing country's concern on rural development and the addressing the rural poverty, agriculture is pushed further as major part of social and economic development with other support sectors in development. One of the sectors drumbeating agriculture is on rural finance. Through the strong efforts of the Ministry of Agriculture and Agro-based Industry particularly the Agrobank, the development and commercialization of agricultural commodities are increasing including the establishment of small business of farmers and fishers in rural areas.

Malaysia's experiences in agricultural development including finance is a continuing manifestation of hard work and dedicated intervention towards attaining and achieving the goals of the country.

This document presents and describes the situation and condition of the agriculture sector with emphasis on agricultural value chain finance. The Agrobank, which is the lead financial institution working and dealing with rural people and communities in agriculture is presented as it operate for the improvement of the lives of its clientele. Two AIM successful stories are documented which have influenced interest among individuals are presented as finance plays an important role in making the small businesses stable, secured and sustainable. The processing of agri-product and the fattening of cattle are very exciting simple cases and experiences of AIM client-families which used the loans obtained to expand their business operation.

The document is divided into six parts which gives the readers and practitioners an appreciation of what Malaysia is going through. The identified challenges are very significant which are considered the driving force for individuals and institutions to work further towards sustainable agriculture and rural development.

Acronyms

ADB	Asian Development Bank (Philippines)
AIM	Amanah Ikhtiar Malaysia
ASEAN	Association of Southeast Asian Nations
AFTA	ASEAN Free Trade Area
APRACA	Asia-Pacific Rural and Agricultural Credit Association
APO	Asian Productivity Organization (Japan)
ASMEs	Agriculture, Fisheries, Livestock or Agro-based micro, small and medium enterprises
AVCF	Agricultural Value Chain Finance/Financing
BPM	Bank Pertanian Malaysia
CEPT	Common Effective Preferential Tariff of WTO
DOA	Department of Agriculture
DOF	Department of Fisheries
DVS	Department of Veterinary Services
FAMA	Federal Agriculture Marketing Authority
FAO	Food and Agriculture Organization of the United Nations
FSAP	FinServAccess Project
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFSC	International Forest Stewardship Council
MADA	Muda Agricultural Development Authority
MARDI	Malaysian Agriculture Research and Development Institute
MFI	Minister of Finance Incorporated (Malaysia)
MFI	Microfinance Institution
MOA	Ministry of Agriculture and Agro-based Industry
MYR	Malaysian Ringgit (RM)
NAP3	Third National Agricultural Policy of Malaysia
NBOS	National Blue Ocean Strategies
NGOs	Non-government organizations
TSPI	Tulay Sa Pag-unlad, Inc. in the Philippines
VCF	Value Chain Finance/Financing
WTO	World Trade Organization

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CHAPTER 1

Introduction

1.1 Overview of the Malaysian Agriculture Sector

Agriculture is considered one of the most important sectors of Malaysia's economy, contributing 12 percent to the national GDP and providing employment for 16 percent of the population. As history took place in agricultural development, the British established large-scale plantations and introduced new commercial crops (rubber in 1876, palm oil in 1917, and cocoa in the 1950s). Presently, the three main crops; rubber, palm oil, and cocoa have dominated agricultural exports ever since, although the Malaysian share of the world's production of these crops declined steadily during the last 2 decades. In addition to these products, Malaysian farmers produce a number of fruits and vegetables for the domestic market, including bananas, coconuts, durian, pineapples, rice, rambutan and other important horticultural crops. The Malaysian tropical climate is very favorable for the production of various exotic fruits and vegetables, especially since Peninsular Malaysia seldom experiences hurricanes or droughts.

In 2012, the Malaysian Government takes a serious view on this phenomenon where a total of RM 3.8 billion is allocated for the agriculture sector. Although the services sector is now taking over the manufacturing sector as a contributor to economic growth, agriculture is still important because it can increase the income of farmers, fishermen, agro-based industries and ensure the nation's food supply remain sufficient.

Like any other Southeast Asian country, rice is the staple food in the daily diet of Malaysians. It is also a symbol of traditional Malay culture where people gives importance during festivities and gatherings with a taste of authentic Malaysian cuisine. The production of rice increased in 2009 and 2010 to 2,511 and 2,548 thousand tons respectively compared to 2,353 thousand tons in 2008. This increase helped to improve the self-sufficiency level and meet the country's food security policy. In 2010, production of all ASEAN paddy producing countries have increased compared to 2009 with the exception of Thailand. Malaysian rice production over the years does not satisfy the country's needs and requirements which led the country to import rice from neighboring Thailand and Viet Nam.

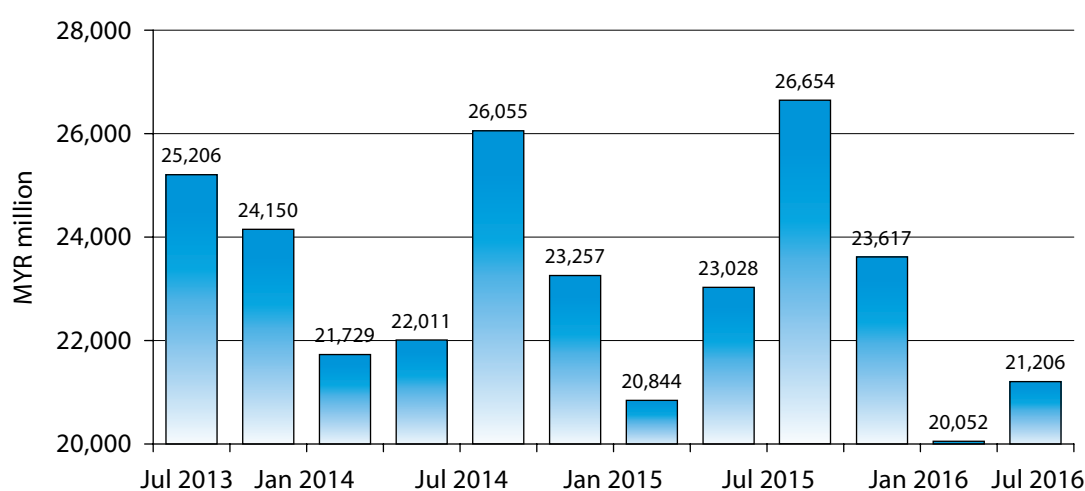
In addition, Malaysia produced an average of 10.55 million metric tons of palm oil, remaining one of the world's largest producers. However, its production decreased to 16.99 and 4.29 million tons in 2010 compared to 17.73 and 4.58 million tons in 2008. Almost 85 percent or 8.8 million metric tons of this was exported to international market. Also, Malaysia is one of the world's leading suppliers of rubber, producing 767,000 metric tons of rubber. Rubber production continued to decline in 2006-2009 of 857 thousand tons in 2009 compared to 1,283.6 thousand tons in 2006. However in 2009, Malaysia's natural rubber production is still third in the world, similar to 2008. In 2010, production increased again to 939.3 thousand tons. Also, Malaysia also is the world's fourth-largest producer of cocoa, producing 84,000 metric tons. These important commodities have been identified with Malaysian agriculture (Department of Statistics Malaysia 2015).

Furthermore, logging in the tropical rainforest is an important export revenue earner in East Malaysia and in the northern states of Peninsular Malaysia. In 2000, Malaysia produced 21.94 million cubic meters of sawed logs, earning RM 1.7 billion (US\$ 450 million) from exports. Malaysia sells more tropical logs and sawed tropical timber abroad than any other country, and is one of the biggest exporters of hardwood. Despite attempts at administrative control and strict requirements regarding reforestation in the early 1990s, logging companies often damage the fragile tropical environment. Sharp criticism from local and international environmentalist groups gradually led to bans on the direct export of timber from almost all states, except Sarawak and Sabah. In December 2000, the government and

representatives of indigenous and environmentalist groups agreed that there is a need to adopt standards set by the International Forest Stewardship Council (IFSC), which certifies that timber comes from well-managed forests and logging companies have to be responsible for reforestation (<http://www.nationsencyclopedia.com/economies/Asia-and-the-Pacific/Malaysia-AGRICULTURE.html>).

The gross domestic product (GDP) from agriculture in Malaysia increased to 21,206 MYR million in the second quarter of 2016 from 20,052 MYR million in the first quarter of 2016. The GDP From Agriculture in Malaysia averaged 22,326 MYR million from 2010 until 2016, reaching an all-time high of 26,654 MYR million in the third quarter of 2015 and a record low of 19,362 MYR million in the first quarter of 2011. The figure below shows the GDP growth of agriculture in the country (Department of Statistics Malaysia, 2016).

Malaysia GDP from Agriculture



The contribution of the agricultural sector to the Malaysian economic development cannot be overemphasized. Even though its importance has declined over the last few decades, it still requires continuous attention to ensure an adequate supply of food and rural development. As can be seen in Table 1, the contribution of the agricultural sector to the national economy shows a declining trend over the years despite various agricultural development programs implemented under the various five years Malaysian Plans and subsequent National Agricultural Policies which ended in 2010 and the current Agro-Food Policy (2011-2020). Nevertheless the GDP value of the agriculture produces is showing an increasing trend, showing some improvement in the agriculture sector. However, the share of agriculture in the GDP (Gross Domestic Product) shows an increasing trend indicating some improvement in the sector. Moreover, the growth rate of the manufacturing and service sector are higher than the agricultural sector which makes it quite difficult for the agricultural sector to surpass these sectors' contribution to the GDP.

Table 1. Gross Domestic Product by Sector 2005-2013 (RM billion)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP at constant 2005 prices (RM billion)	543.6	573.9	610.1	639.6	629.9	676.7	711.8	751.9	787.6
Agriculture*	44.9	47.5	48.2	50.0	50.1	51.3	54.2	55.0	56.1
Mining and quarrying	72.1	71.3	72.8	71.0	66.4	66.2	62.6	63.2	63.7
Manufacturing	149.8	160.9	165.9	167.1	152.2	170.3	178.2	186.7	193.2
Construction	16.1	16.0	17.4	18.2	19.3	21.5	22.5	26.6	29.6
Services including (Government services)	254.3	272.6	299.9	325.7	335.0	359.8	385.5	410.3	434.5

Source: Department of Statistics 2015

Regardless of the decline in agriculture's contribution to the Malaysian GDP, the government has declared that agriculture is the third engine of economic growth for the Malaysian economy (Prime Minister Tun Dato' Sri Haji Abdullah Ahmad Badawi, 2004). The effort of the Malaysian government towards enhancing the agriculture sector can be seen from the share of the budget allocated to the sector. Table 2 shows the budget allocation for Agriculture in 2014 to 2016. Subsequently, the annual budgets of the agricultural sector are always in tandem with the development program. In the 2016 budget, RM 890 million was allocated to the agricultural sector as announced by the Malaysian Prime Minister.

Table 2. Highlighted Budget for Agriculture Activity 2016

Details/Particulars	Amount (RM)
Budget Allocated	RM 5.3 billion
Activities:	Break Down of Budget:
• High impact programs: fruit and vegetable, herbal products and fish cage farming	RM 450
• Upgrading drainage and irrigation infrastructure	RM 180
• Marketing of agriculture products (FAMA)	RM 190
• Young agropreneur development program	RM 90
• Others programs	RM 4 billion

Source: Economic Planning Unit 2016

Table 3 shows the breakdown of the budget allocated for 2016 to the agricultural sector which could serve as incentives for farmers to further increase their production. As can be seen from the table, RM 90 million was allocated for the youth agri-entrepreneur development program and RM190 million for marketing of the agriculture product and the value chain. Along with the youth development the government also allocate RM 450 for high impact agriculture production program. The government now lay emphasis on the involvement of youth in agriculture with different agricultural development schemes from various Ministries and government agencies. In the same token, all these programs also aim at eradication of poverty among the rural people.

Table 3. The Distribution of Rural Population and Percentage of Poverty of Selected Years in Malaysia

States	Rural People Distribution		Poverty Percentage			
	2000	2013	2009		2012	
	Rural People ('000)	Rural People ('000)	Urban Area (%)	Rural Area (%)	Urban Area (%)	Rural Area (%)
Johor	926.9	901.2	0.8	2.6	0.7	1.4
Kedah	962.1	671.0	2.2	7.6	1.1	2.6
Kelantan	856.4	915.5	3.1	5.8	1.8	3.4
Melaka	197.3	85.4	0.3	1.2	0.2	–
N. Sembilan	373.8	324.4	0.7	0.8	0.5	0.3
Pahang	711.9	733.6	0.7	3.5	1.1	1.4
Pulau Pinang	252.0	117.3	1.1	1.7	0.5	1.0
Perak	809.8	664.4	2.1	6.0	1.1	2.2
Perlis	131.3	104.8	4.1	7.3	0.9	2.6
Selangor	473.5	440.1	0.4	3.2	0.2	2.3
Terengganu	445.3	425.2	2.0	6.1	1.5	2.0
Sabah	1,281.3	1,475.6	9.8	32.8	5.3	12.7
Sarawak	1,045.5	1,134.9	2.3	8.4	1.1	4.0
W.P. K. Lumpur	–	–	0.7	–	0.8	–
W.P. Labuan	16.1	14.5	4.4	3.9	0.6	2.7
W.P. Putrajaya	–	–	–	–	–	–

Source: Buletin Perangkaan KKLW 2012 (Statistics Bulletin KKLW 2012)

Based on the condition of the rural situation and agriculture sector of the country, it could be pointed out that Malaysia still has a lot of things to be done. The incidence of rural poverty based on different agricultural activities has contributed to the performance of agricultural development in the country. As agriculture activities, such as cash crop production are located in the rural areas and more often relate to rural poverty; it is notably seen to enhance the development of the rural areas, empowering the rural people through financial access is crucial for poverty eradication and agricultural development. Thus, through value chain management the poverty level can be reduced. Some states like Sabah and Sarawak in East Malaysia and Kelantan in West Malaysia are that have higher rate of poverty and more attention need to be paid to develop the value chain finance. Given the country's concern on rural development and the addressing the rural poverty, agriculture still plays a major part of social and economic development with other support sectors in development prioritizing and contributing on agriculture and rural development vis-à-vis the socio-economic development.

1.2 The Rural Finance Situation of Malaysia

The nature of agricultural production imposes significant discontinuities between the time resources are committed (immobilized) in production at planting and the generation of revenues after the harvest. Farmers who do not have sufficient resources to invest in such immobilization for the required part of the year, including both for purchased inputs and for living expenditures in the waiting period, depend more than the people in other sectors on the availability of credit. Facilitation of access to credit for the rural poor has therefore a role in the panoply of policy instruments for alleviating rural poverty.

The environment for rural financial intermediation has changed significantly in recent years. The concept of privatization has been embraced by an ever increasing number of countries, and the role of markets in the determination of prices for traded agricultural products has been enhanced. Food and agricultural input subsidies, including those for agricultural credit, have been reduced or eliminated. A larger share of rural credit comes from private sources, and a declining share from the state. As subsidies on credit are reduced the cost of credit increases, and as subsidies on other inputs are reduced the credit requirements rise (http://www.fao.org/rural_finance).

In Malaysia, its agriculture sector is also driven by the financial support it receives from national and international donors and organizations to propel development. Malaysia's Vision 2020 is to be a developed nation by the year 2020. Manufacturing and the service sectors will be the driving force of the economy but the agriculture sector will still remain an important contributor, especially in the food production. Although the percentage contribution of agriculture to gross domestic product (GDP) is declining, in term of absolute value, the amount is increasing. The agriculture sector has contributed significantly to the growth of the Malaysian economy and for it to continue significantly contribute to the national economy, it has to be globally competitive. The Third National Agricultural Policy (NAP3), which covers the period 1998 to 2010, provides the policy framework for the future growth of the agricultural sector in the next decade.

The future of the rural and agricultural finance institutions in Malaysia including Bank Pertanian Malaysia (BPM), a development financial institution entrusted to play an important role in the development of agricultural sector, rest on the ability of these institutions in meeting the challenges to remain sustainable and competitive. With the liberalization of the world trade including the financial sector through the WTO, the Common Effective Preferential Tariff (CEPT) of the ASEAN Free Trade Area (AFTA) agreements, the trade competition will be stiff amongst existing players and new competitors from within and outside the nation. BPM must find ways to strengthen its existence by having enough capital, improving its operation, expanding its scope of business and operating as a total bank.

1.3 The Agrobank

The Agrobank, originally known Bank Pertanian Malaysia (BPM) was created under the Act of the Parliament of Malaysia No. 9/69 on 1 September 1969 as “A development finance institution directly involved in financing the agriculture sector.” At that time, it was in line with the government move to carry out irrigation projects to accommodate double cropping for paddy planting in the states of Kedah and Perlis; known as the Muda Agricultural Development Authority (MADA) area. It is a Government-owned Bank under the Minister of Finance Incorporated (MFI) focusing on agriculture. Agrobank is driven by a policy set forth by the Ministry of Agriculture and Agro-based Industry (MOA).

With the establishment of BPM to provide credit assistance to farmers, two branches were opened; the first in Alor Setar, Kedah in April 1970; and followed by Kota Bharu in Kelantan. By 1980, BPM emerged as the largest credit services provider to the rural agriculture sector.

On 12 December 2007, Dewan Rakyat (the Lower House of the Parliament) has approved the proposed Bank Pertanian Malaysia 2007 Bill to incorporate Bank Pertanian with a paid-up capital of RM 1 billion to enable it to be competitive with other financial institutions and empower it to help develop agriculture as the third engine of growth under the Ninth Malaysia Plan which was later on approved also by the Dewan Negara (the Upper House) on 19 December 2007.

As a development financial institution, it has continuously develop and modernise the agricultural sector through easy access of agricultural credit. This is in line with the government’s aspiration and policies to provide better quality of life for all Malaysians such as the National Agricultural Policy, National Development Policy and the Second Industrial Master plan.

The livelihood of rural population comprising of farmers, fishermen and livestock producers need to be improved and modernised. At the early stage, Agrobank credit activities only encompass the special credit scheme to farmers engaged in planting paddy in the double cropping areas. Agrobank’s financing were then expanded and various schemes implemented to include the other sub-sectors of agriculture such as for other crops, fisheries and livestock. The scope of activities eligible for Agrobank’s financing covers all upstream and downstream agriculture and agriculture related activities.

Through the years, the Agrobank adopts and practices two-prong approaches in extending its loan and credit facilities to its customers. One is to assist smallholders, farmers, fishermen and livestock producers by financing their projects through special government interest schemes with favorable terms and conditions such as with low concessionary interest rate. The other is to provide loans to agriculture entrepreneurs and the private sector who are keen and interested to invest in agriculture projects at competitive commercial interest rates.

The special government interest schemes are usually realized, implemented and financed through funds allocated by the government to Agrobank to carry out certain specific development tasks. While financing of the commercially viable agriculture projects at the competitive commercial interest rates are funded by the deposits mobilized by Agrobank itself.

The government’s development plan, NAP3 launched in 1999 provides the policy framework for the growth of the agricultural sector up to the year 2010 which grew yearly towards attaining Malaysia Vision 2020. Agrobank has been directed to enhance its operation and play a more effective role in providing credit to the agriculture sector.

As the government efforts to revitalize the agriculture sector as the third engine of growth has been increasing with a starting USD 0.39 billion allocation in 2005 to the Ministry of Agriculture and Agro-based Industry. The allocated amount aimed at transforming and modernising the agriculture sector. As one of the agencies under the Ministry, Agrobank is viewed to play an active role in financing projects implemented with holistic and integrated approaches, current government policy focusing not only be in the primary production, but would be greater in the downstream activities.

To date, Agrobank provides financing solutions for agriculture; including upstream activities such as the supply of agricultural production inputs to downstream activities such as processing and selling of agricultural products to consumers and operating for 46 years (as of 2016) and operates 190 branches across Malaysia and employs over 3,400 employees focusing on agricultural development.

The future of Agrobank now is the development player of agriculture financing to progress and remain sustainable with changing environments. Faced with the global liberalization, Agrobank has to broaden its operation, but above all, changing its entity is entirely depends to its owner, the government including its broadening lending activities, expand its scope of business not only focusing on agriculture but extended to other related banking activities.

Agrobank Contribution in Agriculture (Source: Agrobank Annual Report 2014)

Agrobank's primary agriculture financing grew by a sound 10.9 percent in 2014 (2013: 6.3 percent) due to greater efforts to extend financing facilities to agropreneurs in micro, small and medium scale enterprises as well as smallholders in the commodities segment. Both the agrofood and commodity segments recorded healthy growth of 9.6 percent (2013: 8.2 percent) and 13.5 percent in 2014 (2013: 2.9 percent), respectively.

In the agrofood segment, the banking system reported financing of RM 8.0 billion in 2014, up by RM 27.2 million from a year ago, while Agrobank's balance was at RM 2.6 billion in 2014, gaining RM 228.4 million from 2013. Notably, Agrobank's financing for the agrofood segment grew 9.6 percent in 2014, outpacing the banking system's flat growth.

Financing for the commodities segment in the banking system amounted to RM 23.5 billion in 2014, down by RM 174.2 million from 2013 while Agrobank's commodity financing was at RM 1.4 billion in 2014, up by RM 166.2 million from a year ago. Commodities in the banking system reported a negative growth (-0.7 percent) in 2014 while Agrobank's commodities segment grew by 13.5 percent.

YAB Prime Minister Dato' Sri Mohd Najib Tun Abdul Razak has continuously reiterated that agriculture should not be viewed simply as a means to earn a living; rather, it represents an important industry worth billions of ringgit. The government established several projects, such as those under the Agriculture NKEA under the Economic Transformation Programme, to drive the nation through achieving economies of scale. To support this national aspiration, Agrobank actively seeks to expand its roles, and strives particularly to make these relevant in addressing the challenges of international trade. The Bank's Trade Finance Department was rolled out in 2013, and since then has been making its mark. To complement the range of products offered, the Shipping Guarantee-i (SG-i) was further introduced in February 2014.

In ensuring the Bank's competitiveness and its capability in providing total banking solutions to its mandated sector, various Islamic products and programmes were developed over the year. Several new products were successfully brought to the public:

- MAEF-i (Machinery and Equipment Financing) was launched in August 2014 to provide Shariah-compliant financing option for farmers and operators to purchase machinery and equipment for their agriculture activities.
- Trade Finance was launched in September 2014, a Shariah-based facility that provides Small and Medium Enterprise (SME), commercial and corporate customers with short term working capital financing to facilitate their business activities, covering both local and foreign trade transactions.
- AGROAgent is a new banking service launched in December 2014 that provides basic banking facilities in the rural area through appointed banking agents.

- AgroCash Line-I was launched in May 2014, offering Islamic overdraft facilities to support Customers' cash flow needs, and bringing the Bank at par with Commercial Banks in terms of product offerings.
- Strategic Alliance Financing-i (SAIF-i) was launched in July 2014, specifically to support the government's projects for the poor.
- Other products launched within the same year were savings product *groperdana-i Wadiah Yad Dhamanah*, term Financing Special Advance for Investment Asset (SAFIA-i) and Services Shipping guarantee-i.

The Bank also launched various programmes during the year, such as programme Agropreneur Muda (pAM), program pembiayaan Dana teRAS, programme Mekanisma Mengawal Selia Harga ladang Melalui penetapan Diskaun – lembaga getah Malaysia (IgM) and group Financing programme (gFp), in support of the initiative launched by government agencies under the MOA and other Ministries. The programmes, implemented with our strategic partners including teRAJu and lembaga getah Malaysia, are aimed at assisting agropreneurs under the palm oil, rubber, paddy, and other agricultural sub-sectors. Programmes such as pAM were specifically developed to assist young agropreneurs, whilst the pembiayaan Dana teRAS programme with teRAJu assists SMEs. In addition, the gFp is targeted at pembiayaan Berkelompok under Bernas group for the paddy sector. The viability and success of these programmes look set to continue due to wider cooperation with agencies under the MOA, and the Bank anticipates that its collaboration with other Ministries and government agencies will expand in the coming year.

In efforts to enhance deposit products, the Bank introduced several campaigns to not only increase its deposit base, but also to encourage savings among the agricultural community. One of the most successful is "Deposit untuk Semua", a package consisting of the Bank's Investment and Savings product which offers an attractive combination of profit rates.

CHAPTER 2

The Value Chain Finance Practices

2.1 Malaysian Value Chain Finance

Malaysia being a developing country has a lot of challenges in coping with the country development. As a country begins to shift from developing to a developed country by 2020, the economic scenarios also change accordingly. In Malaysia, the Service sector has now overtaken the manufacturing and the agricultural sector as the highest contributor to the country's GDP. Nevertheless, this does not imply that no attention has been given to the agricultural sector for its development.

The creation of the Agrobank under the Act of the Parliament of Malaysia on 1 September 1969 was with the objective of enhancing the agricultural sector by ensuring the availability of loan for various agricultural activities such as crop, livestock and fisheries based on their contribution to agriculture. The Agrobank is under the auspices of Ministry of Agriculture and Agro-based Industry (MOA), thus, the coordination and collaboration among the 13 agencies and departments within MOA can be easily managed. Hence, the value chain finance and financial access along the supply chain can be coordinated more efficiently.

One of the main agencies coordinated by the Agrobank is AIM (Amanah Ikhtiar Malaysia). AIM is a microcredit finance institution established under the Trustee Act 1952 (Act 258) in 1987. The main objective is to help the poor people in the rural areas and at the same time to eradicate the poverty among them. The microcredit is for any activities that can enhance the income of the borrowers.

Although, the AIM is viewed as an entity focused on microcredit, its operation does not limit is microfinancing alone but also works on value chain finance especially in the different farmer/fishers activities in production and processing. This has expanded through time and Agrobank continued to provide better opportunities to all especially with the growing demands of the agricultural sector including livestock/poultry and fisheries.

2.2 Review of Value Chain Finance Experiences from Institutions

The different experiences of institutions across the globe has contributed dramatically on the work of Malaysian financial sector. These aspects have shaped where Agrobank and the Ministry of Agriculture direction on agriculture and rural development. Not to mention, rural finance including agriculture value chain finance and microfinance helped the conditions of growing farming and fishing operations.

Agricultural value chain development contributes to improving growth and reducing poverty by creating economic opportunities that can enhance the options available to the poor and empowering them to be able to seize the opportunities along the value chain (ADB, 2013). The value chain in agribusiness covered all actors in the supply chain of agricultural product from the producers to the final consumers. Gebremedhin (2009) indicated that agricultural value chain is usually defined by a particular finished product or closely related products and includes all firms and their activities such as input supply, production, transportation, processing and marketing (or distribution of the product or products). Also, as stated by Webber and Labaste (2010), the value chain perspective provides an important means for understanding the business-to-business relationship that connects the chain, a mechanism for increasing efficiency, and ways to enable the business increase productivity and value added.

One of the most important input in creating value in the chains is finance. Important barriers to developing the country's producers in this respect are the lack of an enabling environment offering institutional and infrastructural support, availability of resources and efficient and effective coordination in the value chains (Trienekens, 2011). The Royal Tropical Institute of Thailand (2010) described value chain as an access to adequate and timely financial services for all actors in the chain. Adequate and efficient financial services have proven to be a key element for success along the value chain. This applies not only to large producer and traders but small producers who also need access to appropriate financial service in order to make optimal use of value addition and income generation. Value chain finance is defined as the flows of funds to and among the various links within a value chain which is a comprehensive approach that looks not only at the direct borrower but rather analyzes the value chain and those within it, and their linkages in order to best structure the financial needs (FAO, 2015).

There are financial service providers such as banks, microfinance organization and other institution offering loans to the participants in the value chain. A critical role of the government in improving the integration of smallholders into value chains is to ensure that policy eases the costs and obstacles of doing business with small farmers. The role of small firms however in rural development and job creation is often not given due credit and recognition (Kelly, 2012). There is an unmet demand for credit in the agriculture sector which is needed to address the growing demand for agricultural commodities and shifting preferences towards higher value food sources (IFC, 2012).

In 2007, an international conference on Southeast Asian Regional Agricultural Value Chain Financing was held in Malaysia (APO, 2007). A number of lessons were learned and strategies in value chain financing particularly those that involve small-scale enterprise linkages can be gleaned from the 17 cases highlighted in the papers presented. Lessons Learned from the case studies on Value Chain Financing include;

1. Work with lead firms where impact on poverty alleviation is significant,
2. Focus on sustainability, primarily the commercial markets,
3. For poverty reduction, support markets or value chains,
4. Use technical assistance to address market requirements and improve repayment rate,
5. Reduce transaction costs and improve efficiency of chain through the use of information and communication technology,
6. Identify market opportunities where small-scale producers have competitive edge,
7. Differentiate products to establish niche in the markets,
8. Develop small-scale groups to improve access to credit, and
9. Effective chain-wide coordination requires a well-defined direction and functions.

Value chain financing is still less developed in some Southeast Asia countries. It has been observed in Myanmar for instance that value chain financing is mainly provided by the government financial institutions. In Nepal, value chain financing is a relatively new concept. Policies, institutions, and services need to be in place to promote value chain development. Best practice cases on value chain financing in Southeast Asia should be documented and lessons learned should be used to develop actionable research programs that will eventually develop replicable models.

On the other hand, microfinance in Asia and Latin America has been developed under very different ideological, political and economic conditions. In Bangladesh, the program started in 1976 when its founder, Professor Dr. Muhammad Yunus, Head of the Rural Economics Program at the University of Chittagong, launched an action research project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor. Since Grameen Bank started operations in 1974, around 55 percent of its borrowers and their families in Bangladesh have worked their way out of poverty (ThinkQuest, 2006). Microfinance in Bolivia developed under quite different conditions. Banco

Solidario (BancoSol) was founded by ACCION in 1992, pioneering microfinance institutions in the region. It was developed to address the problem of urban unemployment and to provide credit to the cash-strapped informal sector. The notion of commercial profitability was embraced relatively early in this approach.

The microfinance industry in these two regions is different from each other because of a very different condition under which the first microfinance institutions were founded. As a comparison with Grameen Bank in Bangladesh, BancoSol intervention is typically urban rather than rural and less concerned with poverty and more focused on micro-enterprise. It targeted the 'economically active poor', that is, people with established businesses that needed capital to grow (Montgomery and Weiss, 2001).

In both regions, there are similar trends towards the provision of a wider range of financial services, a move away from traditional group lending to individual loans, and, in summary, a greater shift towards commercialization of the sector, with Latin America being more advanced in this process. The majority of the players in the microfinance sector are non-governmental organizations (NGOs), both local and international, particularly in the start-up or early stage of the microfinance sectors. In both regions, NGOs remain the important providers, and in Asia, they are still the dominant mode of delivery.

Tulay Sa Pag-unlad, Inc. (TSPI) in the Philippines and Zambuko Trust in Zimbabwe are another two examples of NGOs involved in microfinance program. TSPI was established in 1981 and it is one of the oldest microfinance programs in the Philippines. TSPI has adopted the group-lending model of the Grameen Bank and provides individual lending to small entrepreneurs. TSPI also provides loans, savings, microinsurance and non-financial services such as leadership, and skills training to low-income families. It carries 18 percent flat interest rates for six months (TSPI, 2006).

On the other hand, Zambuko Trust was set up in 1992 as the first urban-based microfinance program in Zimbabwe. Zambuko Trust offers loans to individuals who are not employed full-time elsewhere, and who operate a financially viable micro enterprise of at least six months old. Services offered by the trust are loans and compulsory savings. It also offers business training to its clients due to the rising number of Zimbabwean who are involved in micro enterprise activities. It charges a nominal annual interest rate of 32 percent on its entire loan (MIX Market, 2005).

In another scenario in Central America, agricultural value chain financing (AVCF) is an emerging phenomenon in the region but it is not well studied. Historically, small- and medium-sized farmers experience problems accessing formal finance. Participation in a well-structured and dynamic supply chain seems to improve the chances of obtaining financing, either directly from larger more liquid agents in the same chain or indirectly from external formal lenders based on the type of relationships and degrees of connectedness in the chain (advance sale contracts, technical assistance agreements, length of transaction history, etc.).

Four value chains were studied in Nicaragua (diary and plantains) and Honduras (plantains and horticulture, sweet peppers and tomatoes specifically) to discover how and under what terms and conditions financing was being provided and to understand the challenges in expanding the use of this type of financing. The main findings are (i) VCF is operating in Nicaragua and Honduras, but it is mostly indirect; (ii) the specific instruments used to support VCF are simple—lead firm vouching for and even providing guarantees for smaller actors, relying on donor-financed guarantee funds, and buyer/exporter finance; (iii) creditor rights are weak in both countries; (iv) financial institutions that are participating in VCF are not lowering interest rates despite fewer risks faced; (v) the legacy of inappropriate government interventions, namely debt forgiveness programs, and generally weak support services for producers dampens the enthusiasm of formal financial intermediaries to expand agricultural lending; and (vi) high quality technical assistance is serving as an accelerant and facilitating VCF, but it is donor-financed and it is important to find ways to sustain this intervention over time.

The above discussion is just the tip of the icebergs. There are many and in fact most countries in the world has its own microfinance institutions with their own specific objectives to be achieved. Both value chain finance and microfinance support the agriculture and rural development. These in a way also helped Malaysian agriculture to growth with the strong support of government and non-government entities.

2.3 The Value Chain among the Government Agencies in Empowering the Microcredit Recipients

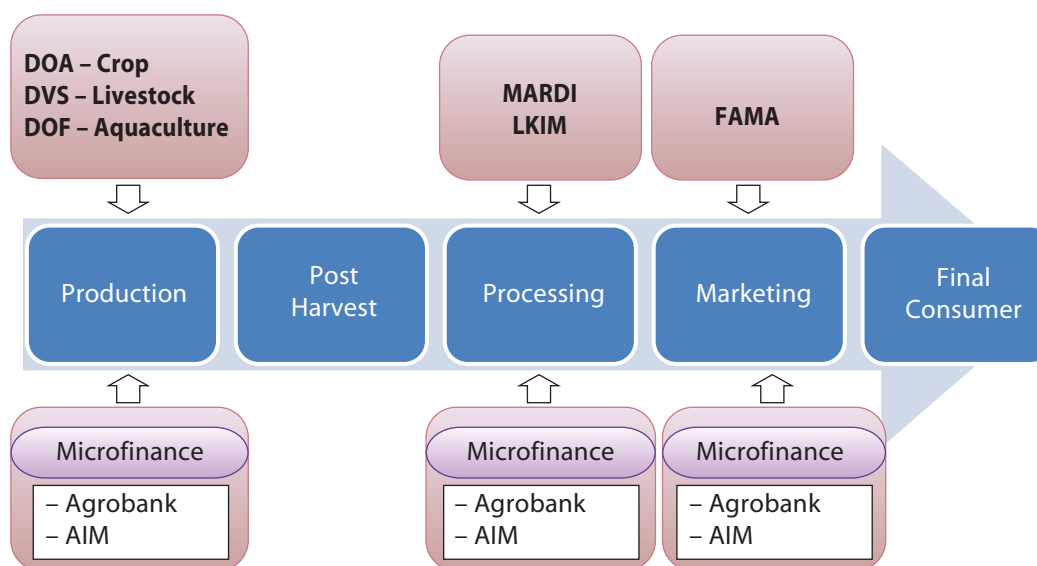
As Malaysia continuous to become economically secured taking into account agriculture and rural development as one of the contributing sectors, several government organizations are working together in assisting local people and communities particularly those engaged in agriculture and agri-related activities.

One of the identified approaches to development is the program on Strengthening Food Supply Chain, apart from assisting the farmers, breeders and fishermen to increase their income. The present Malaysian government allocates RM 6 billion to the Ministry of Agriculture and Agro-based Industry (MOA) to implement and accelerate the agro-based industry from production to marketing of the produce either in agriculture, fisheries, livestock or agro-based micro, small and medium enterprises (ASMEs). The different agencies under the Ministry of Agriculture and agro-based industries include the Department of Agriculture (DOA), Department of Fisheries (DOF), Department of Veterinary Services (DVS), Federal Agriculture Marketing Authority (FAMA), Malaysian Agriculture Research and Development Institute (MARDI), Agro-Bank Malaysia (AgroBank), Amanah Ikhtiar Malaysia (AIM) and related agencies. These agencies are working together using the concept of National Blue Ocean Strategies (NBOS) wherein different agencies within one ministry or across ministries are collaborating with each other to enhance and empower the development of agro-entrepreneur to be part of the economic development of the country and contributing to Gross Domestic Product (GDP). So far, this development approach has been working well and programs are benefitting the local people to be aggressive in working for the agriculture and rural development of the country especially in the rural areas.

Hence, the development and strengthen value chain or food chain is very important not only to increase income of the farmers, fishermen, livestock producers and MSMEs but also to address the food security issue of the country.

As can be seen in Figure 1, the AIM, microcredit institution particularly with Agrobank plays a vital role in the whole supply and value chain of a product. AIM not only finance the production process but also the people involved in processing (micro-small and medium enterprises) and marketing activities including their products until these reach the final consumers. Along the way, the government agencies for respective production activities, processing and marketing provide technical assistance to the respective Sahabat (AIM recipients) through trainings, seminars and demonstrations of particular areas of interest. Thus, all these collaboration among AIM and government agencies enhance and empower the microcredit recipient's to sustain their activities and able to generate better income for their family. In the same token to repay back the loan they borrowed from AIM or banks.

It is undeniable that value chain finance including microfinance contributed much of the local people small businesses and enterprises. Majority of the stable and self-sustaining businesses started with the support of technical and financial institutions. Proven technologies has evolved which supported the agriculture sector to develop new and competitive products in the market. At the same time, research and development institutions continued to search for better technologies as are shared with other government and private sectors will to tie-up for collaborative and complementary activities. All of which have made the value chain organized and systematic.

Figure 1. The collaboration among government agencies in empowering the rural people and youth in enhancing agri-based food production

Source: Developed conceptual framework (Zainal Abidin Mohamed, August 2016)

2.4 Value Chain Finance Innovation

The growing concern to improve the agriculture sector globally has been seen as an important concern also of the ASEAN countries including Malaysia which draws its economic stability and development on agriculture. Given the strong technical cooperation and partnerships of different actors in the sector, Malaysia is slowly working for a more dynamic and stable society dependent of the efforts and gains in agricultural productivity, productivity, stability and sustainability.

Basing on the strengths of one of its established institutions, the Agrobank has responded and evolved to address the present challenges in the agricultural sector as well as taking a strong contribution in the ASEAN Economic Community integration. Through its strong institutional capacity, the Amanah Ikhtiar Malaysia (AIM) continues to support all the work for its rural people especially the farmers and fishers alongside with national research organizations and other private companies in making the Malaysian agriculture sector at par with its neighboring countries.

2.5 Amanah Ikhtiar Malaysia (AIM) – A Microcredit Provider

As mentioned earlier, in the case of Malaysia, one of the notable microfinance institutions is the Amanah Ikhtiar Malaysia (AIM) which was established in 1987 under the Trustee Incorporation Act 258. AIM provides microcredit services throughout Malaysia with the purpose of eradicating poverty among the poor household. Following the footsteps of Grameen Bank of Bangladesh, AIM has successfully carried out programs and projects in the last 7 decades and still remain relevant to today. AIM now has 23 territories with 139 branches centers all over Malaysia giving out loans to the poor to start or expand their business. Some of the recipients of AIM have graduated and are able to stand on their own and some still remain as borrowers. This repeated borrower characteristics could be due to the risky nature of business coupled with the country economic situation and Government policy. While some are able to maintain their needs to make ends meet.

Thus, AIM was set up not only to reduce the poverty of the poor and hardcore poor households but also to indirectly move the country's economy to a greater height. AIM has spelled out 3 main objectives. Firstly, to reduce the poverty rate among the poor and hardcore poor by providing them with

microcredit to finance their income generating activities; Secondly, to provide microcredit services continuously to the needy; and thirdly, is to provide training and advisory services to microcredit recipients. Unlike others microfinance institution in Malaysia, AIM provides training and guidance in how to use the credit the way it should be.

As of 2016, AIM has more than 382 thousand members with 23 territory and 139 branches centers all over the country. AIM has successfully disbursed approximately about RM 12.2 billion to it members with a repayment rate of 99.49 percent since its inception in 1987. Following the footstep of Grameen Bank of Bangladesh, AIM has a well-established procedure (SOP – standard operating procedure) for loan disbursement and collection. Today, AIM has created different services under the microcredit financing scheme for the poor to cater for their needs. These microfinancing scheme services are for different purposes and the amount can be at a maximum of RM 50,000 with 25 to 250 weeks of repayment periods and the repayment has to be made weekly. Table 5 shows the requirement and eligibility of individual to borrow microcredit from AIM. Those individual who are eligible only will be given a microcredit.

As indicated earlier, AIM has different services for it microcredit financing catering for different needs of the poor and hardcore poor and those members intending to further expand their business activities. Below is a brief description of each service available from AIM microcredit financing program:

1. Ikhtiar Rezeki
2. Ikhtiar Penyayang
3. Ikhtiar Bestari
4. Ikhtiar Sejahtera

Table 4. The rules and requirements for individual to take microcredits from AIM

Requirements	Location
Eligibility: 1) Citizenship Status Malaysian citizen who has identity card (Mykad) aged 18 years and above. 2) Income Eligibility Limits Household income eligibility limit for joining AIM is RM 3,050 and RM 610 per capita stands. 3) Limit value asset ownership The valuation of asset ownership must not exceed the following values: I. Alienated land in the name of KIR not more than three years. II. Own home with the estimated present value not more than RM 200,000. III. Owner of vehicles with the estimated present value of a vehicles cannot exceed RM 50,000. Terms and conditions: 1) Without collateral or guarantors. 2) Establish a group with 5 members reliable and undergo basic training financing for 5 days. 3) Establish a center 4) Attend meeting center links every week. 5) Contribute 1% from the support to the financing fund welfare and SAHABAT* welfare. 6) Saving in the group fund links every week. 7) Refunded the support weekly 8) Contribute to donation fund debt 9) Financing charges 10% year or 5% for the 6 months.	– Kedah/Perlis – Perak/Pulau Pinang – Selangor/Kuala Lumpur – Pahang – North Kelantan – South Kelantan – Terengganu – Negeri Sembilan and Melaka – Johor – North Sarawak – South Sarawak – Middle Sarawak – West Sabah – North Sabah – South Sabah

* SAHABAT is another name for AIM microcredit borrower or recipient

Source: Amanah Ikhtiar Malaysia: Guideline 2015

The Ikhtiar Rezeki is divided into 4 basic scheme. These are:

- i. Ikhtiar Mesra
- ii. Ikhtiar Srikandi
- iii. Ikhtiar Wibawa
- iv. Ikhtiar Wawasan

The Ikhtiar Mesra is a basic microcredit financial scheme established for the poor household to enable them to engage in business activities. The loan can be from RM 1,000-2,000 and the weekly repayment is for a maximum of 50 weeks. The loan can rise to RM 10,000 depending on the nature of the business activity the individual is engaged.

The Ikhtiar Srikandi is the extension of Ikhtiar Mesra. It is for those AIM members who have shown great potential to expand their business and have viable business activities. The purpose of this scheme is to help the AIM members operate without credit from the commercial bank which attracts high-interest rate. Maximum credit can be up to RM 20,000 with maximum repayment periods of 150 weeks.

Another Ikhtiar Mesra scheme is the Ikhtiar Wibawa. This scheme is for those AIM members who want to increase their capital for seasonal business activities or any business opportunities available for them to grab. For example during Ramadan (Muslim Calendar Fasting Month) where there is an opportunity to open a stall for selling different cakes and goodies to break the fast. The maximum amount is RM 5,000 with a repayment period of 6 months.

Last but not the least under the microcredit finance Ikhtiar Rezeki is the Ikhtiar Wawasan. This scheme is for those AIM members who want to venture into Small and Medium Enterprises (SMEs). The microcredit financing starts from RM 20,000-50,000 with 250 weeks of repayment periods.

The second microcredit financing from AIM is the Ikhtiar Penyayang. Ikhtiar Penyayang is created for those AIM members who have failed in their business due to natural disasters or calamities such as flood, drought and landslide couple with the country's economic situation. This scheme is a special scheme whereby the borrower does not have to pay the previous credit but can delay it to a certain time frame when the business is good. The maximum loan given is RM 5,000 with 25 to 150 weeks of repayment periods.

The third microcredit financing scheme is the Ikhtiar Bestari. This scheme has nothing to do with creating business or expansion of the business. It is a special microcredit financing scheme for AIM member's education and skill based training needs. The amount of loan is up to RM 5,000. Thus, AIM members who want to further their study through pursuing tertiary education can do so at Diploma or Bachelor degree level. The microcredit is also for AIM member to enhance their skill on certain aspects of business such as skill in accounting, bakery, rearing of livestock to mention a few.

The fourth microcredit financing scheme is the Ikhtiar Srjehtera. This scheme is not concerned with developing a business or starting a business, it based primarily on the socio-economics enhancement. The microcredit scheme is aimed at catering to other needs such as buying or repairing the house, going for pilgrimage in Mekkah [for Muslim], furthering education etc. The minimum loan is RM 2,000 and the maximum is RM 10,000. Table 6 summarize the financing schemes offer by AIM to its clients. Depending on the situation and the type of business and status of business of the clients they can choose which financing scheme suited to their requirement and enable them to pursue their businesses. Table 6 shows the different financial schemes offer by AIM to its clients.

In summary, AIM is a successful microcredit financial institution in Malaysia which enhances the economic growth of the poor people. As indicated earlier AIM, now has about 382,178 members as of June 2016 and disbursed about RM 12.2 billion since its inception. The activities carried out include Training programs: basic skills, business enhancement skills, basic of entrepreneurship, development of entrepreneurial character, Business development, and Transformation programs, and Human Capital Development: Motivational Programs, Leadership Skills, and Social Skills (Amanah Ikhtiar Malaysia 2016).

CHAPTER 3

Cases Studies and Experiences

Two selected case studies were reviewed and presented in support to the agriculture sector particularly financing in Malaysia. These are direct AIM recipients who have benefited from the support of agriculture technologies and financial support over the years; namely: the production of a pre-mix powder product and cattle fattening of local people.

3.1 Processing Agri-based Product

One of the strong support activities of Malaysian government is the provision of technical and development support services to interested local people. These support services enable people to improve their living conditions and start a livelihood in order to make them productive and profitable. Through the Ministry of Agriculture and Agro-based Industry (MOA) and the Malaysian Agriculture Research and Development Institute (MARDI), several initiated technology driven and livelihood development activities were conducted to rural people.

The selected case on the processing of agri-based product was based on the contribution of the MARDI and AIM over a span of 10 years and 3 years, respectively. Both institutions extended their support to a budding and now established local agri-entrepreneur.

She started her pre-mixed barley instant powder and ginger-honey pre-mixed instant powder business 9 years ago. In the beginning, she registered in one of the technological-based activities of the Malaysian Agriculture Research and Development Institute (MARDI). Her involvement with MARDI started as an apprentice which led her to be trained in food processing, packaging and marketing. Her dedication, commitment and interest to learn and skillful work led her to think for herself and her family in a stable economic venture. Slowly, she learned and equipped herself to have a livelihood and completed all the training courses. Upon graduation, she was given a grinding machine by MARDI as a catalyst and RM 1,000 alms as capital from Selangor Alms Authority.



Ms. Faridah Kahar (above), 48 is a single mother with 6 children. She is originally from the state of Melaka but has settled in Selangor state for almost 10 years.

As she polished and immensely engaged herself in the livelihood, she also learned some small business skills which led her to be a strong agri-entrepreneur. She started the small business then as a single mother producing pre-mixed barley instant powder and a pre-mixed ginger-honey instant powder. As her small business is expanded, she needed additional financial support. It is at this time that she opted to look for a capital to finance her growing business.

The financial support by AIM came in 3 years ago. Due to high demand for her products, she expanded her business by taking AIM microcredit scheme of *Mesera* and *Sejehtera* worth RM 4,000 (USD 900). Besides, she also took another microcredit under the *Hijrah* scheme which is about RM 3,000 (USD 700). The microcredits enabled her to buy a packaging machine and expand her business. The expanding business resulted to other areas of endeavor.

Today, Ms. Faridah is earning RM 4,000 per month and repaying her 3 AIM microcredit schemes at RM 322 per month. She conducts her own marketing with her son as the sole agent of the product. Currently, the market is only in the state of Selangor and Johor. Though her profit margin is small, she plans to expand her business in the future and the volume will determine her net income.



Some of the processing materials in producing the pre-mix products of Ms. Faridah at her house which were supported by the loans she made including the gains of her small businesses.



Some of the products produced by Ms. Faridah ready for market

3.2 Feedlot Beef Cattle

The growing demand of livestock particularly beef in Malaysia is a growing concern by the government as well as the local people. Over the years, this has been considered a good area to engage in as a business venture. One of the local people who thought of this is Ms. Jurina Sadri and worked her way in beef fattening as a small business and expanding family livelihood. Ms. Sadri is one of the successful cattle raisers supported by Agrobank. She and her family established this as a major source of income considering that they have seen its potential for a stable enterprise a decade ago. Since then, this small business is one of the so-called “successful stories” through financial support by the Agrobank.



Ms. Jurina Sadri (left photo) during the interview and with her family (left photo). She is dubbed as the “cowgirl” by the local in her community within one of the AIM districts served.

Cattle fattening was never easy to Ms. Sadri who started 10 years ago with a few heads. Now, 40 years old, she is considered as a model cattle farmer including her family which has engaged themselves to be one of the innovative agri-entrepreneurs in one of the AIM served districts. In 2006, thinking of just

merely a housewife, she and her husband decided to take the risk of venturing into cattle feedlot. They pulled all their savings and used their initial capital of RM 10,000 (USD 2,300) to start the small business running. Initially, she use the money to purchase 10 heads. With strong and innovative production management strategies, her business started to flourish.

Together with her husband, they learned the technical merits of the business with proper management including veterinary care, small business and operation. With constant linkage with government and other support institutions like the Department of Veterinary Services and Department of Agriculture, the family enterprise slowly growing at a stable and secured venture. As they progressed and expanded their operation, Ms. Sadri availed RM 50,000 loan from Agrobank. The loan was used to purchase additional heads and improve their operation.

Furthermore, she bought a chopping machine to chop oil palms as feed for the animals. The fund to purchase the machine came from AIM under the *Rezeki* scheme of *Sejahtera* portfolio in the amount of RM 10,000. Moreover, as work has been increasingly demanding, she now employs 5 laborers and built 2 cattle barns to manage her livestock production.



The cattle production of the Sadri family as supported by MOA and Agrobank (2016)

Presently, the fattened cattle are sold at the night market and farmers market. Also, they maintained one stall at the wet market to sell fresh beef which is done by her husband. Aside from these business operations, she also sells live animals during festive seasons like the “Hari Raya kroban” where the beef cattles are in demand. All of these activities have contributed to the expanding activities of the enterprise from a small family operated to a booming stable livestock business venture.

Influencing Factors in the Small Businesses

The small businesses of Ms. Faridah and Ms. Sadri resulted from an interest to a booming family enterprise. Through their respective journeys, the following were identified as influencing factors where it is now.

1. Technical support through the provision of technologies by a strong institution with very good capacity building activities; in this case the MARDI helped boost engagement of its apprentice and trainees including other institutions that provided technical assistance.
2. Strong interest and commitment of the trainees and families as well as clientele to learn and develop the skills to start a business.
3. Prevalence of a financial institution to provide start-up capital/additional capital plus the necessary resources to growing small businesses and small enterprises.
4. Other support services from government institutions in making the dreams and goals of local people achieved.

CHAPTER 4

Challenges and Directions

Agriculture and rural development concerns in Malaysia and other countries seems to be increasing because of climate change, globalization and competitive development. Based on these, even the financial sector needs to adjust its support to agriculture, manufacturing, industries and other related fields to respond in addressing the challenges in improving operation especially those directed towards the rural areas. Like any development work, Malaysia is confronted with challenges in agriculture and finance management. These have affected most of the work making rural finance a continuing process of change.

Challenges to Agricultural Development

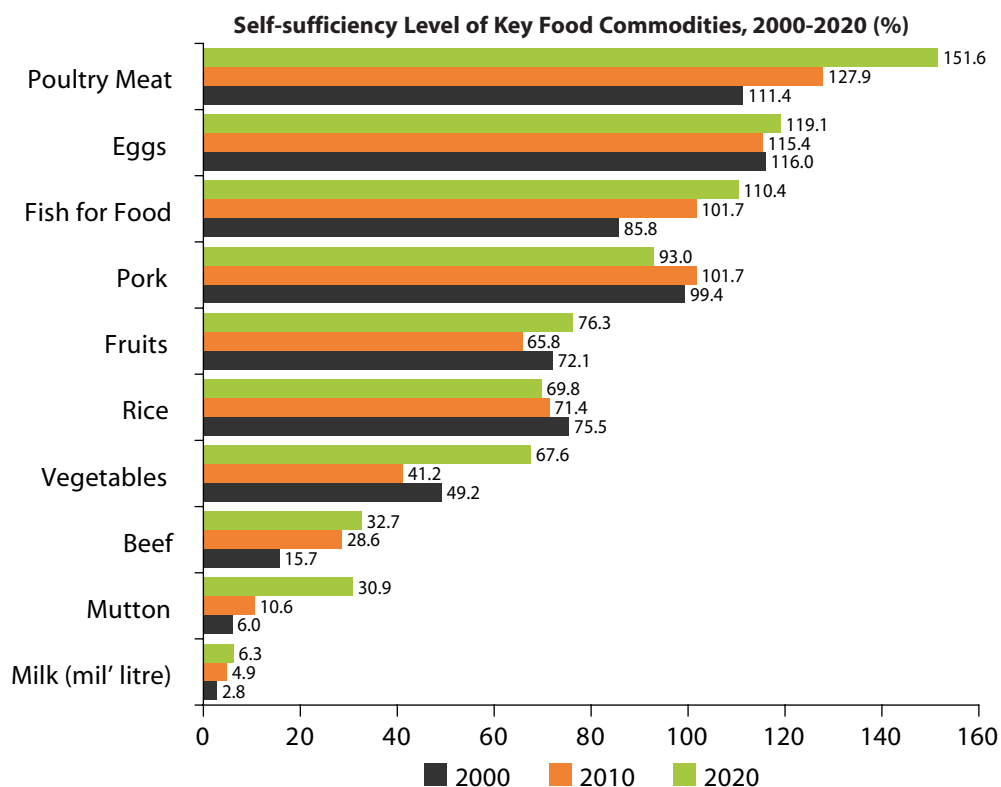
The following are the identified challenges in relation to value chain finance, microfinance and rural development.

1. Eradication of rural poverty. This has been considered a growing concern of the Ministry of Agriculture and its affiliate institutions and partners are constantly working on this aspect by providing improved technologies and alternative livelihoods to people engaged in agriculture including livestock/poultry and fisheries.
2. Erratic conditions affecting agricultural operation due to climatic change. Like any country, Malaysia is also faced with problems and effects of climate change. This is the very reason why several institutions jointly collaborated to address the impacts of climate change towards sustainable mitigation and adaptation means.
3. Increasing food requirement and food wastage. As population increases, food requirement and supply also increase. Malaysia is also facing the demands of quality and safe food at the same time the wastage of the food. Research institutions and several organizations are working together to address this by providing equal opportunity to all with balance and nutritional food for all.
4. Decreasing interest of the youth engaged in farming/fishing activities. Like its neighboring countries especially in Southeast Asian sub-region, Malaysia is also confronted with fewer individuals and groups wanting to work in agriculture. The government is now taking all necessary efforts and working with other organizations to encourage the youth to go back to agriculture and related field to help boost its agriculture sector. Continuous capacity building activities are implemented to support this concern.
5. In relation to climate change, the challenges associated with especially in agricultural production management and operation must be dealt with immediately. The risks affecting the farmers and fishers require the government support. Through the efforts and programs of Agrobank, it has formulated and implemented policies related to risk management which enabled them to provide more flexible financial support to all stakeholders with workable strategies like agricultural insurance in times of disasters and natural calamities brought about by climate change.

Notably important, the challenges are increasing with an end goal to address the identified concerns by the Malaysian government. It is undeniable that efforts with considerable big amount of funds are poured into the agriculture. With increasing financial support, more work is done as agriculture is one of the priority efforts in this present time.

In addition, the development of the agriculture sector is a continuing process to contribute to Malaysia's economy. However, given the new issues and challenges, resulted from changes in global economy and trade liberalization, the agricultural sector requires new strategies that address issues and challenges in order to achieve the objective of producing sufficient food for local consumption and high-value products for export markets. It is also a way to develop further the sector which has resulted in the increase of agriculture productions. The efforts of the government including the MOA and the Agrobank contributed to this improvement. The production of many agro-food commodities has increased tremendously and as a result; Malaysia reduced its importation of several agriculture produce (Figure 2). The production of agro-food products will definitely improve the balance of trade in which Malaysia is always on deficit situation.

Figure 2. Malaysia's self-sufficient levels of food commodities (2000-2010) as expressed in percentage (MOA 2015)



CHAPTER 5

Summary and Conclusion

The role of rural finance including agricultural value chain finance and microfinance is very important in empowering the poor to have the opportunity to increase their income especially among the micro-small and medium enterprises. Malaysian agriculture has shown a strong influence in its development especially the support exhibited by its services. It is undeniable that agriculture is well handled by the Ministry of Agriculture and Agro-industry through the AIM as the main provider of microcredit in Malaysia has thus far able to attract more than 300 thousand recipients with more than RM 12 billion disbursement over the years until 2015.

With more than 99 percent rate of repayment indicating that the systems and the income generated by Sahabat (farmer/fisher borrowers) is sufficient enough to repay back the loan. The collaborative effort among the government agencies in ensuring the success of micro-small and medium enterprises either from production, processing and marketing activities further enhance the development of Sahabat.

The cases presented on two important AIM supported farmers are just a few of the millions of farmers and fishers benefitting the support services the institutions. These are simple cases yet have created a magnitude of improvement as several strategies were derived and lessons learned where documented to improve service delivery. The provision of financial support to small farmers created a strong relationship of the farmer and the ministry especially on the technologies leading to the increase of production and gradual increase in profit. Such cases and lessons learned have continuously help Malaysian economy grow stronger placing agriculture still as one of the priority sectors for development. It is far from over the initiatives done by government and its partners but it is still a growing aspect to consider as social and economic development take the place of improving lives of people, communities and production of products including the value-added ones that boost Malaysia to be competitive and secured in this times of economic community integration in Southeast Asia sub-region.

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Annex

Annex 1. The different AIM branches distributed throughout the country by zon, territory and branches)

Zon	Territory	Branches
North	Kedah (north)	<ol style="list-style-type: none"> 1. Padang terap 2. Padang pokok sena 3. Kubang pasu 4. Langkawi 5. Pendang 6. Perlis 7. Kota setar 8. PKMB Alor Setar 9. PKMB kangar
	Kedah (south)	<ol style="list-style-type: none"> 1. Baling 2. Kuala Muda/Yang 3. Sik 4. Kulim 5. Sg. Petani 6. Bukit Mertajam 7. Georgetown 8. Butterworth
	Perak (north)	<ol style="list-style-type: none"> 1. Kerian 2. Gerik 3. Kuala Kangsar 4. Taiping 5. Selama 6. Lenggong
	Perak (south)	<ol style="list-style-type: none"> 1. Teluk Intan 2. Manjung 3. Tapah 4. Kinta 5. Tanjung Malim 6. Ipoh
Central Zone	Selangor/KL (north)	<ol style="list-style-type: none"> 1. Barat laut Selangor 2. Kuala Selangor 3. Hulu Selangor 4. Gombak 5. Selayang 6. Kepong
	Selangor/KL (south)	<ol style="list-style-type: none"> 1. Shah alam 2. Puchong 3. Ampang 4. Cheras 5. Sepanmg 6. Hulu Langat 7. Kuala langat
	Pahang (west)	<ol style="list-style-type: none"> 1. Temerloh 2. Lipis 3. Raub 4. Jerantut 5. Bera 6. Bentong

Zon	Territory	Branches
East	Pahang (east)	<ol style="list-style-type: none"> 1. Rompin 2. Kuantan 3. Pekan 4. Muadzam 5. Indera mahkota 6. Maran
	Kelantan (north)	<ol style="list-style-type: none"> 1. Kubang kerian 2. Ketereh 3. Bachok 4. Tumpat 5. Pasir mas 6. Pasir pekan 7. Kota bharu
	Kelantan (south)	<ol style="list-style-type: none"> 1. Kok lanas 2. Pasir puteh 3. Machang 4. Kula krai 5. Gua musang 6. Dabong 7. Jeli 8. Tanah merah
	Terengganu (north)	<ol style="list-style-type: none"> 1. Besut 2. Setiu 3. Kuala Terengganu 4. Kuala nerus 5. Shahbandar
	Terengganu (south)	<ol style="list-style-type: none"> 1. Hulu Terengganu 2. Marang 3. Dungun 4. Kemaman
South	N. Sembilan and Melaka	<ol style="list-style-type: none"> 1. Kuala pilah 2. Seremban 3. Senawang 4. Rembau 5. Alor gajah 6. Melaka 7. Jasin
	Johor (north)	<ol style="list-style-type: none"> 1. Muar 2. Batu pahat 3. Segamat 4. Kluang
	Johor (south)	<ol style="list-style-type: none"> 1. Johor bharu 2. Kota tinggi 3. Pontian 4. Kulaijaya
Sarawak	North	<ol style="list-style-type: none"> 1. Niah 2. Bintulu 3. Miri 4. Lambing 5. Lawas
	Central	<ol style="list-style-type: none"> 1. Sibul 2. Daro 3. Sarikei 4. Mukoh 5. Saratok 6. Betong

Zon	Territory	Branches
	South	<ol style="list-style-type: none"> 1. Kuching 2. Kuching 2 3. Kota samarahan 4. Bandar bau 5. Seri aman 6. Serian
The west coast of Sabah	North	<ol style="list-style-type: none"> 1. Kudat 2. Matunggang 3. Kota marudu 4. Pitas 5. Kota belud
	Central	<ol style="list-style-type: none"> 1. Beaufort 2. Sipitang 3. Keningau 4. Tambunan 5. Tenom 6. Nabawan
	West	<ol style="list-style-type: none"> 1. Panampang 2. Kuala penyu 3. Papar 4. Tuaran 5. Ranau 6. Kundasang
The east cost of Sabah	East	<ol style="list-style-type: none"> 1. Sandakan 2. Libaran 3. Tongod 4. Beluran 5. Kinabatangan
	South	<ol style="list-style-type: none"> 1. Lahad datu 2. Tunku 3. Semporna 4. Tawau 1 5. Tawau 2 6. Kunak

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