

# AGROBANK INNOVATES TO STRENGTHEN AGRICULTURE SECTOR

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Financial institution creates sustainable values for agriculture players and communities

AGROBANK which focuses on strengthening the agriculture sector in Malaysia will continue to support small and medium enterprises (SMEs) as well as the unserved and underserved communities – B40 communities, women, the disabled and asnaf (poor and needy) – via its social development programmes and syariah-compliant financing products.

Via a RM350mil micro credit financing fund under the Penjana programme, the leader in agriculture financing and values-based banking has helped entrepreneurs whose businesses have been impacted by Covid-19 pandemic disruptions.

As of July 31 this year, the bank has approved RM200.4mil in financing under its Penjana Agrofood Fund to 16,000 entrepreneurs from the agro-based communities.

According to Agrobank covering CEO/president Khadijah Iskandar, from 2020 till end-August 2021, the bank dispersed over RM900mil to help SMEs sustain their business operations, safeguard jobs and encourage domestic investments through the special relief facility, agrofood facility and SME automation and digitalisation facility.

Under the government's Pemeraksa and Pemulih initiatives, as of end-August 2021, over 46,700 customers have benefitted from about RM3.5bil in loan moratorium and financial assistance packages, she says.

"We support the government's initiatives for economic recovery. We allocate funds for those who want to start small businesses and also those in agricultural sectors.

"For existing customers who have not been able to operate their businesses during the movement restrictions, they can get financing from us to ease their cash flow and liquidity issues. This will give them some breathing space and buys them time to generate new cash flows, and eventually repay their loans.

"As a development financial institution, we are different from commercial banks. We need to understand our customers and how we can come in and help. So the financing terms and conditions will be very accommodating during this period," she says.

Khadijah points out that even before the Covid-19 pandemic, Agrobank had automatic loan moratoriums for customers whose businesses are affected by natural disasters.

"We are in the agriculture industry and naturally, the risk is higher than other industries. The automatic loan moratorium is to allow time for our customers to assess losses and then, talk to us for a permanent solution."

She also notes that about 90% of the bank's customers opted for the first automatic loan moratorium package announced by the government last year.

"However, under the subsequent targeted loan repayment assistance programmes, only around 35% of our customers applied for them. So, customers understand more of the implications of the loan repayment assistance programmes," says Khadijah.

## Syariah-compliant solutions

Established in 1969, Agrobank offers syariah-compliant financing solutions across various segments including corporate, commercial, consumer, trade finance and micro financing.



Agrobank plans to introduce an investment platform for agricultural products, that would connect private investors and entrepreneurs. – Photo by Daniel Fazio on Unsplash



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Agrobank is a full-fledged Islamic bank since July 1, 2015. Besides 1,369 agro agents, the bank has a network of 206 customer touch points – including 138 branches, 19 commercial financing centres and 33 kiosks.

As of 2020, 119 of the touch points are located in rural areas. Meanwhile, RAM Sustainability Sdn Bhd recently assigned the environmental benefit rating to the sustainable sukuk to be issued under Agrobank's RM1bil sukuk wakalah programme.

The rating agency assigned the environmental benefit rating to three green solutions within Agrobank's sustainable sukuk framework – sustainable water and wastewater management; environmentally sustainable management of living natural resources and land use; and, terrestrial and aquatic biodiversity conservation. RAM Sustainability also assigned the social benefit rating to social solutions under the framework.

For the first tranche, Agrobank is looking to issue RM500mil in sukuk wakalah. Proceeds from the sukuk issuance will be utilised for working capital requirements, general investments or to refinance any existing syariah-compliant financing of Agrobank.

"The purpose of the sukuk is to diversify our funding source, because currently the majority of our funding is from deposits. We would also like to take advantage of the low interest rate environment now," says Khadijah.

## Sustainability targets

She says Agrobank's activities are in line with the UN Sustainable Development Goals (SDGs) such as zero hunger; clean water and sanitation; decent work and economic growth; industry, innovation, and infrastructure; and, life on land.

"Our main customer segments are the unserved and underserved. So we aim to help in the eradication of poverty.

"For example, when financing poultry farmers, we make sure they comply with regulatory requirements regarding non-pollution of water.

"We also provide financing to SMEs and encourage the adoption of technology in agriculture," she says.

Based on Agrobank's 2020 financial reports, about 5% of its finance portfolio is in sustainable activities – for example, oil palm plantations as well as independent and organised smallholdings under the Malaysian Sustainable Palm Oil (MSPO) certification scheme.

"So, 5% is a good start. Some banks are targeting 5% but we are already there," she says.

She shares that Agrobank works closely with the Agriculture and Food Industries Ministry to support the country's food security programmes and entrepreneur development.

"Among our mandates is to make our customers 'bankable'. If you are a start-up, come to Agrobank



With RM100,000 in donations, Agrobank purchased foodstuff from partnering SMEs which was given out to 1,600 recipients throughout the country under the bank's food aid initiative in August 2021.

and we will guide you. Small businesses which are not bankable in the eyes of the commercial banks, we want to nurture them to the stage where they are bankable," says Khadijah.

Agrobank has plans to provide an investment platform for agricultural products, that would connect private investors and entrepreneurs.

"There are many investment opportunities in agriculture and we want to provide a space for more private equity to go in. More people will be able to participate in elevating this industry.

"Our exposure to fisheries is RM651mil compared with the banking industry's RM325mil. For crops, our exposure is RM3bil compared with the banking industry's RM2bil. For livestock, ours is RM1bil compared to the banking industry's RM3bil," she says.

## Aid for the poor

In August, the bank organised a programme called Agrobank & Komuniti in co-operation with several SMEs. With donations amounting to RM100,000, under the initiative food aid was given to 1,600 recipients throughout the country.

The food aid package included rice, sugar, and flour purchased by Agrobank's district branches from the partnering SMEs.

Khadijah says the initiative was to help communities affected by the Covid-19 pandemic, and which need basic living necessities and food aid.

"We will have more Agrobank & Komuniti disaster relief programmes and also to help communities in need.

"Recently, the Kuala Kedah fishing community was affected by flash floods. For the flood season, we plan to provide assistance such as food, and, mattresses and pillows," she says.

## Biz/financial training

As for initiatives and programmes by Centre of Excellence Agrobank (ACE) to help businesses and promote financial inclusion, Khadijah says they include training to guide people on financial management and starting businesses.

"During the pandemic, we do more online classes. We bring in some of our customers, who share their business experiences with the training programme participants. The participants learn about online trading or marketing. Many of

them have achieved encouraging business results," she says.

Citing a pizza seller whose business folded due to pandemic movement restrictions, Khadijah says: "We provided financing and training, and she re-started the business from home. She appointed other housewives as her agents. Later, she had to expand her operations by renting another premises, so that she can serve more customers.

"So, there are always opportunities in a crisis, and we advise our customers to not give up, and we keep on engaging them."

Agrobank collaborates with the Agriculture and Food Industries Ministry on the My Future Agro programme for unemployed graduates.

"We share with them opportunities in agriculture. After the programme, over 20% of participants started agriculture-related businesses. Another 42% were absorbed by businesses. So this is one of our ways of contributing to human capital development for the industry," says Khadijah.

Agrobank's financing portfolio includes over RM300mil microfinance where average exposure is not more RM150,000.

"We also provide financing for communities in rural areas such as affordable housing programmes, and for small-scale padi farmers and rubber smallholders. We developed products for the Agriculture Mechanism and Automation Scheme, to support more injection of technology into the sector," she says.

Khadijah cited the bank's initiative at a fishing village in Pahang where 40 housewives who took part in a training programme on small businesses were able to each generate about RM1,000 monthly from their start-ups.

"These are the things we do to empower women and the community," she says.

As an equal opportunity bank, Agrobank provided its Agro Bakti financing programme for disabled entrepreneurs.

Khadijah says the bank also fills in gaps in financing such as for fishing boats "because nobody wants to touch this."

"We are working with the Agriculture and Food Industries Ministry whereby we have a financing programme for fishermen to help them buy fishing vessels which will enable them to go further out to sea. This will also help to conserve fish reserves that are closer to shore," she says.