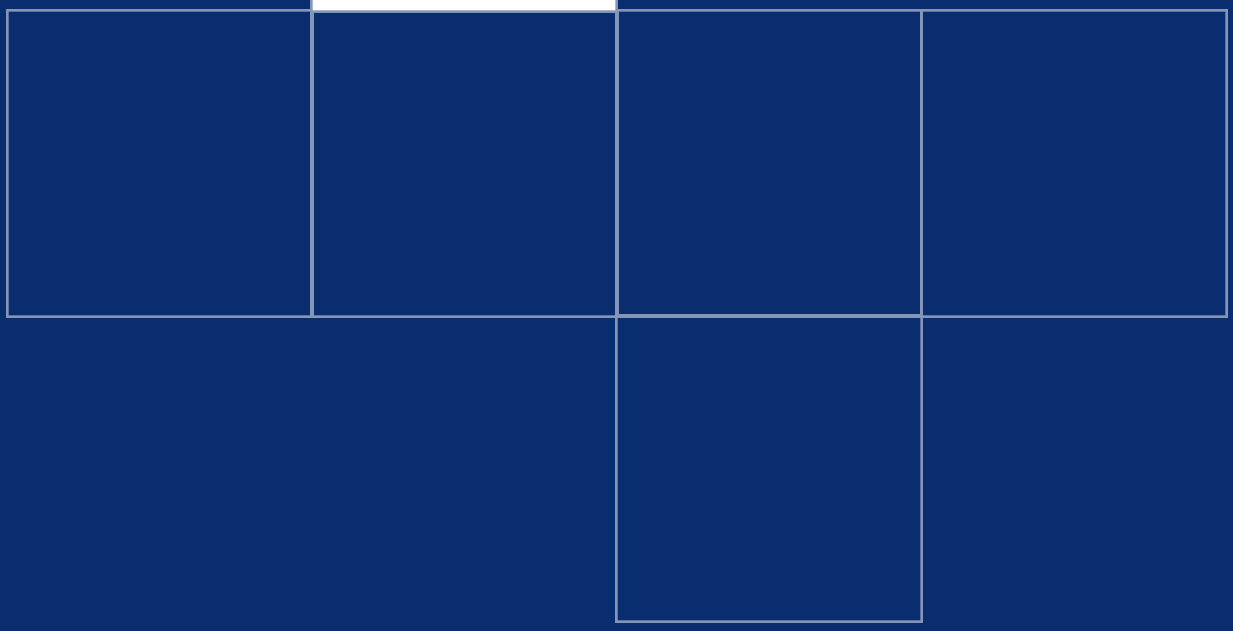
chapter seven

alternative modes of financing



Introduction

Traditional sources of funding through the banking institutions continue to be the main source of financing for economic activities.

As the economy transforms into one in which service and productivity will drive growth, different sources of financing are required whereby risks should be borne by those most able to absorb them.

The financial sector infrastructure will need to change to accommodate the substantial financing requirements of new activities and industries. Going forward, while financial institutions would need to transform to remain innovative and responsive to demands of their customers, efforts need to be directed to facilitate financing by non-banks for high-risk ventures. These include financing for knowledge-intensive and technology-intensive start-up enterprises where only ideas (intangible collateral) are principal assets. As such, these knowledge-intensive and technology-intensive enterprises will need alternative forms of financing to complement traditional financing sources. These alternative modes of financing include among others, venture capital and credit enhancements such as financial guarantee insurance and agriculture insurance.

I. Venture Capital

Malaysia's venture capital (VC) industry is still at an infant stage of development. While progress has been made in developing Malaysia's VC industry since the first VC company began operations in 1984, further development is required if Malaysia is to move into the next stage of development and become more technology and knowledge based. Recognising the importance of VC as an alternative form of financing, the Government has over the years been very supportive of the VC industry. Efforts have been focused on creating a favorable environment for VC activities to thrive. These include among others the Multimedia Super Corridor initiative; the tax incentives for the VC industry; the establishment of special VC funds; the establishment of technology parks; the enactment of the necessary legal framework to protect intellectual property rights; the enhancement of the Kuala Lumpur Stock Exchange (KLSE) and the setting up of the Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ) as viable exit routes for VC companies; the formulation of a National Action Plan for Industrial Technology Development; and the establishment of the Malaysian Technology Development Corporation and the Malaysian Technology Forum (see Box on Measures Taken to Promote the VC Industry).

In line with the rapid growth in the technology sector in the region, Malaysia needs to undertake further measures to create a more conducive environment for the development of the Malaysian VC industry. At the end of 1999, 30 VC companies (VCCs) have been established, with a total fund size of RM1.8 billion. As such, the VC industry currently represents 0.15% of the total assets of the domestic financial system. Similarly, VC financing, as a percentage of Gross Domestic Product (GDP), remains low at only 0.05%.

Going forward, in order to be able to meet the new financing needs of the economy effectively and efficiently, the Malaysian VC industry needs to be further developed. Specifically:

- The skills and expertise levels of local venture capitalists to evaluate start-up ventures, particularly technology-intensive ventures need to be strengthened;
- Local venture capitalists need to increase their risk appetite towards new technology start-up ventures in order to reap the opportunities of investing in companies with high potential;
- The local VCCs should build their global networks to acquire the extensive global contacts that can provide Malaysian start-up ventures with the necessary export market opportunities and partnership prospects;

Measures Taken to Develop the VC Industry

The Government has introduced several measures to promote the development of VC industry in Malaysia. These measures include:

Special Funds for VC Industry

- A fund of RM200 million was launched to finance high-tech projects. Bank Industri Malaysia Berhad was restructured to become Bank Industri dan Teknologi Malaysia Berhad and is managing the fund.
- Two VC funds for high-tech projects of RM150 million were launched. BNM channeled RM100 million each to Mayban Ventures Capital Company Sdn Bhd and Commerce Technology Ventures Sdn Bhd. These two companies contributed another RM50 million each. Total funds available for start-up companies amounted to RM300 million.
- A RM120 million fund, MSC Venture One, was launched by the Malaysian Development Corporation Sdn Bhd (MDC) to provide VC financing to information technology and multimedia companies.

Tax Incentives

VCCs are given full income tax exemption for a period of 10 years or the lifespan of the fund, whichever is shorter, provided that 70% of the funds invested in venture companies are at start-up, seed capital and early stage financing.

The Government also recognised that a holistic solution is needed to promote a well-developed venture capital industry in Malaysia. In this regard, the Government has put in place many of the crucial ingredients to catalyse the development of a venture capital community. These building blocks include:

- the Multimedia Super Corridor initiative, including Cyberjaya and smart schools;
- the setting up of Technology Park Malaysia and incubation centres;
- the acceleration of the university building programme, including technology universities such as the Multimedia University;
- the establishment of research institutes such as MIMOS Berhad and SIRIM Berhad;
- an effective legal framework to protect intellectual property rights, including the implementation of Cyberlaws;
- the establishment of the Malaysian Technology Development Corporation;
- the establishment of MESDAQ to provide a viable exit mechanism;
- the establishment of the Human Resource Development Fund; and
- the development of the knowledge-based economy Master Plan.

Apart from these efforts, the private sector has also taken initiatives in the development of the VC industry:

- the establishment of the Malaysian Venture Capital Association;
- the first business plan competition, Venture 2001, was launched on 3 November 2000, with the objective of converting potential ideas into actual business, attracting venture capital companies and fostering an entrepreneurial environment in Malaysia.

- Foreign VCCs should be attracted to operate in Malaysia to enable the technology transfer that will help build a core pool of highly skilled and experienced Malaysian venture capitalists;
- Efforts should be directed at improving the effectiveness of the exit mechanism for VCCs; and
- Greater attention and priority needs to be given among the relevant Government agencies to ensure better coordination of future developmental efforts.

Vision and Objectives

The overall objective is for the VC industry to play an effective role in supporting the economic transformation towards becoming a knowledge-based economy, where growth is driven more from high value-added services and technology driven activities. This will be achieved by building a vibrant venture community through the provision of adequate financing for VC and other technology driven value-added services. The VC industry will be capable of filling the financing gap left by traditional financial intermediaries such as the banking institutions. It is envisaged that the VC industry would play a more significant role in financing new activities and industries, both in terms of total financing as well as share of GDP. The VC industry should also be able to provide adequate funding for all stages of financing, from the early stage to the pre-IPO stage. Similarly, the VC industry should be capable of financing all economic sectors, particularly the high-growth activities identified in the *List of Promoted Activities and Products for High Technology Companies* under the *Promotion of Investments Act, 1986* and the *MESDAQ Priority Technology Areas*.

It is envisioned that in the future, there will be a critical mass of private VCCs (both domestic and foreign) with the necessary expertise and experience to evaluate new ventures. These private VCCs will also possess extensive global networks to assist new ventures to expand operations. In addition, VC activities will not be highly regulated although there will be adequate supervision to ensure adequate management of risks, especially by the less sophisticated investors. The VC activities will remain driven by the private sector and market forces. The Government will only play a facilitating role to ensure a competitive environment for VC to thrive.

In order for a vibrant VC industry to be created, other related elements are also needed to ensure success. These elements include among others:

- An extensive network or community of entrepreneurs with a risk-taking culture;
- A high number of knowledge workers;
- A credit culture that tolerates failures;
- Strong linkages between business and academia;
- High investments in education, research and development to generate new ideas; and
- A strong network of business angels to complement VC financing.

These other factors should be developed gradually in tandem with the development of the VC industry.

Recommendations

A holistic approach should be taken in developing a vibrant VC industry. Success in developing the VC industry requires that measures are taken to develop other related areas mentioned above (e.g. community of risk taking entrepreneurs, knowledge workers, credit culture, business angels, etc). These other elements must be developed in tandem with the VC industry. The recommendations for this holistic approach to the development of a vibrant VC industry have been proposed by BNM to the Government earlier. These recommendations include the establishment of a one-stop centre for VC, the establishment of a VC Fund, tax incentives for the VC industry and the liberalisation of the MESDAQ listing rules. Some of these recommendations have subsequently been announced in the Government 2001 Budget and are now in various stages of implementation. The recommendations also include those developed following discussions with other Government agencies, including The Office of the Science Advisor, Prime Minister's Department (recommendations 7.6 - 7.12 are drawn from the Report on Strategies for Strengthening the Venture Capital Industry in Malaysia to Support National Technology-Based Business Agenda and Report on Strategies for Promoting Business Angel Financing in Malaysia).

Recommendation 7.1:

Establish a 'one-stop'centre for VC

Recognising the need to ensure that there is accountability in promoting the VC industry and to ensure that the development of the VC industry is given priority and coordinated, the establishment of a 'one-stop' VC centre is necessary. This has now been announced in the 2001 Budget. The 'one-stop' VC centre will chart the strategic direction for the Malaysian VC industry and act as a single reference point for all Government initiatives and incentives.

In addition, the 'one-stop' centre will coordinate and ensure that other elements are developed in tandem with the VC industry in order to ensure that a holistic approach is taken to develop the VC industry.

Recommendation 7.2:

Establish a RM500 million VC Fund

A RM500 million VC Fund is being set up to increase the availability of VC financing in the economy and in the process, stimulate more new ventures, particularly the information communication technology industry. To ensure that the VC Fund is effectively utilised, the option for the management of the Fund to be outsourced to private sector corporations/individuals who possess the necessary expertise is being considered.

Recommendation 7.3:

Introduce further tax incentives for the VC industry

Tax incentives to further promote the growth of the VCCs, has been announced in the 2001 Budget. These tax incentives are in the form of tax deductions

equivalent to the amount of investments made in approved venture companies at start-up, seed capital and early stage financing.

In addition, tax deduction for expenses incurred on staff training, and VC fund management fees and performance bonus received would serve as an incentive to encourage the VCCs and Venture Capital Fund Management Companies (VCFMCs) to invest in training VC professionals to assess high technology ventures, attract foreign VCFMCs and stimulate the growth of VCFMCs in Malaysia.

Recommendation 7.4:

Liberalise the MESDAQ listing requirements

Recognising the importance of facilitating the exit of VCCs from their investments, the Government announced in the 2001 Budget, that the more restrictive MESDAQ listing requirements (e.g. the ruling that 70% of MESDAQ IPO proceeds must be utilised in Malaysia) would be liberalised. The liberalisation of such restrictive listing requirements will encourage more companies to list on MESDAQ and build interest and market liquidity. This will make the exit mechanism for VCCs more attractive, which would encourage increased VC investments.

Recommendation 7.5:

Establish Islamic VC funds

Malaysian VCCs should form smart partnerships with VCCs in Organisation of Islamic Countries to establish Islamic VC funds. This would enhance the pool of available VC funds in Malaysia.

Recommendation 7.6:

Increase the sources of financing to the VC industry

To increase the sources of financing to the VC industry to finance the high technology sector, the local VC industry should extend its sources of financing to include funds from high net-worth individuals, foreign funds and corporations. The local venture capital industry needs to bring in investors into the country and meet with the relevant parties in the industry.

Recommendation 7.7:

Enhance the promotion of VC investment opportunities in Malaysia

To provide more comprehensive information on the VC investment opportunities in Malaysia, promotional efforts on the VC investment opportunities in Malaysia need to be enhanced to attract VC funds to invest in Malaysia. These promotional activities include:

- Publicising up-to-date detailed information of venture capital investment opportunities available in Malaysia on a regular basis. The publication will serve as a marketing and promotional tool to attract VC fund managers, especially foreign VC fund managers to invest in Malaysia. The 'one-stop' VC centre could assume the role to coordinate this initiative; and
- Organising venture capital fairs, conferences and forums.

Recommendation 7.8:

Provide training to VC professionals

To upgrade the expertise of local VC professionals to conduct due diligence, technology assessments and business appraisals, training needs to be provided. Suitable organisations should be identified and then accredited to provide training to VC professionals. Institutions of higher learning should also take the initiative to develop such training programmes.

Recommendation 7.9:

Increase the awareness of Malaysians regarding the roles and significance of business angels

Efforts should be initiated to inform Malaysians of the role and significance of business angels and to convey to Malaysians as to who is eligible as a business angel and how they can provide business financing, in particular at the seed and start-up stage of a business venture. A concerted effort should be put in place, whereby selected media can be used to regularly promote business activities. This is to encourage high net worth individuals to invest their investible funds in venture companies e.g. technology based businesses. The 'one-stop' VC centre could assume the role to coordinate this initiative.

Recommendation 7.10:

Establish more business angel clubs and networks

More angel clubs and networks should be established in Malaysia to facilitate communications between, and meeting with angels and entrepreneurs. These clubs will provide discussion avenues for angels seeking investments and entrepreneurs looking for funds.

Recommendation 7.11:

Establish more matching services

Matching services are organisations that help to match entrepreneurs looking for investors with VCCs/business angels. In particular, matching services should be established in strategic areas where high technology businesses are located such as in the Multimedia Super Corridor and Kulim High Tech Park.

Recommendation 7.12:

Establish technology appraisal centres in promoted high technology sectors

Technology appraisal centres that focus on the promoted high technology sectors should be established to enhance the capability and competency to assess technology-based business proposals. These centres will also help VCCs/business angels to assess technology-based business proposals.

II. Establishment of a Financial Guarantee Insurer

The development of the private debt securities (PDS) market has become even more urgent with the increased diversification of the Malaysian economy. A well functioning domestic bond market would not only provide borrowers with an alternative source of funding, but would also spread some of the credit risks associated with debt financing from the banking sector to the investing public. As the economy expands in depth and breadth, the financing for economic growth should emanate from a variety of sources. While bank borrowings should remain a significant source, the equity and bond market would be an important complement to bank borrowings. The measures initiated by BNM to promote the development of the ringgit bond market can be found in the box on Major Measures

Taken to Promote the Development of the Ringgit Bond Market. As of 1 July 2000, the Securities Commission became the single regulator for the bond market. To further support the development of the bond market, BNM has proposed the setting up of a financial guarantee insurer (FGI).

A FGI provides an unconditional and irrevocable guarantee of an insured obligation's principal and interest payments when due. The financial guarantee insurance policy provides for regularly scheduled payments of principal and interest on defaulted bonds – as opposed to prepayment of all outstanding principal and interest. The insurance (evidence of the insurer's favourable opinion on a bond, supported by the guarantee) enhances the credit quality of an issue, with the FGI essentially 'renting out' its claims-paying ability rating to the issuers of PDS. The primary economic value of the insurance to the debt issuer is the interest cost savings resulting from the difference between the market yields on an insured bond and on a similar bond without the enhancement.

The setting up of a FGI in Malaysia is envisaged to contribute to the development of the bond market through the following:

- **Diverting systemic risks from the banking sector**
  Following the privatisation of non-financial public enterprises since the mid-1980s, much of the credit to finance growth, shifted from the public sector to the banking system, particularly in the late 1980s and early 1990s. This development arose partly due to a less developed capital market. The establishment of the FGI will help to spread out the risks in the financial system and add to the financial guarantee capacity of the financial system.

- **Mobilisation of domestic savings to fund long-term infrastructure projects**
  Financial guarantee insurance would provide the mechanism for infrastructure projects to have greater access to fixed rate funding of longer maturities. This will minimise financing costs, maturity mismatching and therefore, reduce project risks associated with funding. As the long-term bond market develops, investors will have more quality bonds for investment and it will enhance liquidity in the bond market.

- **Better opportunity for credit enhancement**
  Compared with the current situation of relying only on banking institutions for guarantees, bond issuers will have better opportunities of getting the credit rating of their bonds enhanced and at relatively cheaper cost through financial guarantee insurance.

- **Ensure payment obligations**
  In the case of bank guaranteed bonds, any default would trigger repayment of the entire guaranteed amount, whereas financial guarantee insurance will allow payment of interest and capital obligations based on scheduled payment commitments. This would provide issuers with breathing space to restore their financial position. It would also enhance the asset liability management of the bond subscribers.

III. Financing the Agriculture Sector

The latter half of the 1980s witnessed a rapid expansion in the manufacturing sector as the domestic economy made a structural shift from being a primary commodity-based economy to one in which the manufacturing sector assumed a greater role. At the same time, the agriculture sector faced

Major Measures Taken to Promote the Development of the Ringgit Bond Market

The bond market in Malaysia has developed significantly in terms of market size, the wider range of instruments and products and a higher level of market efficiency. The progress made has enhanced the role of the bond market in supporting economic growth and transformation. Major positive developments to date include:

Infrastructure and Institutional Building

Dec 1986	The national mortgage corporation, Cagamas Berhad was established.
Jan 1989	A Principal Dealer (PD) System was introduced to promote a market-making scheme in government and selected securities in the fixed income market. The role of PD is to secure maximum participation in the auction of the papers and to provide liquidity through their continuous market-making activities.
Jan 1990	A 'scripless' book-entry securities trading and funds transfer system, known as SPEEDS was launched. SPEEDS allows for the confirmation, transfer, recording and settlement for trades in securities electronically.
Nov 1990	Rating Agency of Malaysia Berhad (RAM), the first credit rating agency in Malaysia, was incorporated.
May 1992	All applications to issue private debt securities (PDS) were required to obtain a minimum rating of BBB for long-term papers and P3 for short-term papers from a recognised rating agency.
Mar 1994	Cagamas Berhad issued the first mortgage bond based on Islamic principles known as Cagamas Mudharabah bond.
Oct 1995	A second rating agency, the Malaysian Rating Corporation Berhad (MARC) was established.
Jan 1996	SPEEDS was enhanced to act as the central depository/paying agent for unlisted PDS.
Jun 1996	Incorporation of the Institut Peniaga Bon Malaysia (Malaysian Institute of Bond Dealers) to represent the interest of participants in the bond market.
Aug 1996	A committee comprising SC, Registrar of Companies, BNM and rating agencies was formed with the purpose of promoting inter-agency cooperation among the various authorities in the bond market as well as to eliminate gaps in regulations and minimise duplications.
Aug 1996	Amendment to the Companies Act 1965 to widen the investor's base and to simplify the requirements on the submission of prospectus.
Sep 1996	Introduction of the Fully Automated System for Tendering (FAST) to improve the overall efficiency of the tendering procedures for government securities and Cagamas securities.
Jul 1997	FAST was upgraded to include tendering of corporate commercial papers and medium-term notes.
Sep 1997	Inaugural issuance of RM1 billion Khazanah Benchmark Bond with the aim to create a benchmark yield curve for the Ringgit bond market.
Oct 1997	Setting-up of the Bond Information and Dissemination System (BIDS) to provide the market with centralised and comprehensive real-time data and to promote bond market awareness.
Jul 1999	The deferred net settlement protocol (SPEEDS) was replaced with a real-time gross settlement system (RENTAS) to enhance liquidity and reduce settlement risks.

Oct 1999	Ringgit Bond Market Internet Homepage was launched.
Mar 2000	An auction calendar for Malaysian Government Securities was announced to develop a benchmark yield curve, enabling investors to structure the maturity of their portfolios.

Regulatory Framework

Jan 1989	The Guidelines for the Issuance of Private Debt Securities was introduced by BNM.
Jan 1990	Code of Conduct and Market Practices for Scripless Trading in the Malaysian Securities Market were introduced.
Mar 1993	The setting up of Securities Commission (SC).
Jun 1999	The National Bond Market Committee (NBMC) was established to provide overall policy direction and to rationalise the regulatory framework for the orderly development of the corporate bond market.
Jul 1999	The Code of Conduct and Market Practices for Malaysian Scripless Market Under the Real Time Electronic Transfer of Funds and Securities (RENTAS) System were introduced to facilitate the conversion from the SPEEDS system to the RENTAS system.
Oct 1999	The Capital Market Master Plan was initiated.
Apr 2000	General permission was granted by the Controller of Foreign Exchange for the issuance of private debt securities so long as the proceeds from the bond issues were not used to finance investments abroad or refinancing off-shore borrowings.
Jul 2000	SC was made the single regulator for all matters pertaining to the issuance of private bonds by the private sector. New guidelines and regulations were introduced to the market to facilitate an efficient issuance process, widening the issuer and investor base. Amendments to the Banking and Financial Institutions Act 1989 (BAFIA) to allow more players to undertake repurchase agreement (repo) with the licensed financial institutions.

Fiscal and Financial Incentives

Jan 1989	Waiver from stamp duty for all instruments relating to the issue and transfer of company bonds, which issue had been sanctioned by BNM.
Jan 1992	Tax exemption on interest earned by individuals investing in bonds (other than convertible loan stock) issued by public companies listed on the Kuala Lumpur Stock Exchange.
Jan 1993	Tax exemption on interest earned by individuals investing in bonds (other than convertible loan stock) issued by a company rated by RAM or MARC.
Oct 1994	Withholding tax for foreign investors on interest earned was reduced from 20% to 15%.
Oct 1995	Tax exemption on interest income received by unit trusts and listed closed-end funds from corporate bonds (other than convertible loan stock).
Jan 2000	Waiver from stamp duty for all instruments relating to the issue and transfer of private debt securities, which issue has been approved by BNM and SC (on instruments executed on or after 30 October 1999 but not later than 31 December 2000 for the purpose of securitisation).

declining prices of rubber and cocoa which affected hectarage of the crops and made the development of agricultural food crops less attractive. A combination of these factors caused the contribution of the agriculture sector to GDP to decline from 20.8% in 1985 to 16.3% in 1990 and to stablise at 9.2% - 9.8% since 1997.

In order to restore balanced growth in the economy, the Government has taken steps to revitalise the agriculture sector. The Third National Agricultural Policy (NAP3), which was launched in 1999, provides the policy framework for the growth of the agriculture sector up to the year 2010. The focus of NAP3 is two-fold. The first is to develop linkages in the use of resource-based products to increase value added in manufacturing activities. Secondly, food crop production will be increased by transforming the sector into large-scale and commercialised farming.

During the NAP3 period, the agriculture sector is targeted to achieve a growth rate of 2.1% per annum. The NAP3 targets will require significantly greater private sector participation. The growth target requires a total investment of RM32 billion over the next ten years in the agriculture sector with estimated contributions from the private sector of RM21 billion (RM11 billion from the public sector).

The financing of the agriculture sector has essentially been from three major sources, namely, the banking system, development agencies (FELDA and Sabah Development Bank) and rural credit institutions (Bank Pertanian Malaysia (BPM), Bank Kerjasama Rakyat Malaysia Bhd and farmers' organisations and co-operatives). As at end-1999, financing from the banking system accounted for the largest share (65.8%) of the total loans to the agriculture sector. However, loans extended to the agriculture sector was only 2.4% of total loans extended by the banking system as at end-November 2000. This essentially reflected a combination of factors including, low demand for new investment in agriculture, the lack of skills among bankers to evaluate agricultural projects and on the part of borrowers, the lack of skills in loan application procedures.

BNM has been working with the Ministry of Agriculture and the banking institutions to address the issue of availability of credit to finance activities in the agriculture sector. In order to meet the financing requirement under NAP3, several options have been considered. At the same time, efforts are being directed to enhance the operations and efficiency of BPM to enable the bank to play a more effective role in providing credit to the agriculture sector.

In supporting the NAP3's objectives, BNM is also working with the insurance industry to identify and ensure the availability of insurance coverage and services required under the NAP3. In this connection, a task force on agriculture insurance has been set up consisting representatives from BNM, the Ministry of Agriculture, BPM and insurers, to develop the appropriate insurance protection and services for the agriculture sector to complement the other efforts on enhancement of credit sources for financing of agriculture activities.

Recommendations

Recommendation 7.13:

Establish a one-stop agriculture research and development centre as well as a comprehensive and integrated information database

To facilitate banking institutions in their assessment of the specialised risks involved in agriculture financing, a one-stop agriculture research and development centre and a comprehensive information database should be established. It is to provide players in the agriculture sector as well as banking institutions and insurers access to the one-stop centre in an efficient, structured and cost-efficient manner. The database should be integrated and contain the most current and pertinent information pertaining to the agriculture sector. Access to this one-stop centre will help to enhance the knowledge, skills, expertise and experience of bankers and insurers as well as other interested parties regarding the key information on the agriculture sector. To expedite loan processing, the one-stop centre could also provide endorsements as to the viability of a specific agriculture project prior to borrowers submitting their loan applications to the banking institutions.

Recommendation 7.14:

Develop structured and systematic training programme for borrowers

All successful borrowers, in particular, the small-scale farmers, be required to undergo a specified, structured training programme in a systematic manner so as to ensure an orderly development of the players in the agriculture sector.

Recommendation 7.15:

Establish a risk-distribution mechanism that will reduce the risks to the financial institutions and at the same time, reduce borrowing costs through a guarantee and insurance protection scheme

Recommendation 7.15.1:

Establish an agency to provide guarantees

For the purpose of the guarantee scheme, the role of BPM should be expanded to provide guarantees on agriculture-related loans in view of its existing infrastructure in terms of expertise, experience and its extensive branch network. The shareholding structure of BPM should be restructured and diversified to include financial institutions, similar to the shareholder structure of the Credit Guarantee Corporation Berhad. Apart from providing guarantees, BPM should also provide various other ancillary advisory services such as marketing, distribution and the identification of new markets in agricultural activities.

Recommendation 7.15.2:

Diversify insurance protection schemes

The range of insurance products should be diversified to cater for the unique features of the various subsectors within the agriculture sector. To facilitate the formulation of premium and design of different products, it is imperative that certain parameters such as the total planted hectarage, production cost and expected losses to be identified at the outset. In addition, the services of consultants would also be required in view of the lack of experience, expertise and knowledge in underwriting agriculture risks and pricing of insurance cover.

Insurance coverage should be made compulsory and available, especially, for the smaller players in the industry, given their vulnerability. In particular, small players should also be required to obtain protection on a collective basis to achieve economies of scale.

Recommendation 7.16:

Provide subsidies to the agriculture industry

As in many countries with a successful and developed agriculture sector, direct financial assistance should be provided in the form of subsidies, especially the small scale farmers. The subsidy would act as a means to help reduce the insurance costs which is expected to be high, given the risks involved. The subsidies can be funded through annual budgetary allocations by the Government.

Recommendation 7.17:

Grant tax exemptions

Apart from subsidies, financial assistance can also be in the form of tax exemptions. Incentives in the form of exclusion of the amount set aside in general and specific provisions as well as interest-in-suspense on loans channeled to the agriculture sector from the assessment of taxable income can be considered.

In addition, where there are insurance pools, contingency subsidies should also be extended in the event of adverse natural disasters and catastrophes, as experienced during the recent Nipah virus outbreak. This is an important consideration in order to ensure the pool has sufficient financial resources for its continued existence.