Identifying Risks of Financing for Agro Projects in Islamic Banks



Dr Muhammad Ridhwan Ab. Aziz,
Senior Lecturer,
Universiti Sains Islam Malaysia
xyz@usim.edu.my



Muhammad Mohd Yusoff,
Research Asisstant
Universiti Sains Islam Malaysia,
abc@gmail.com



Abstract

Risk and uncertainty are inherent in agro projects and commodity supply chains. Given the pervasiveness of risks, farmers, agro-entrepreneurs, international agencies, and banking institutions are increasingly seeking effective and sustainable strategies and approaches to mitigate, transfer, or cope with these inherent risks.

Research Question

What are the risks associated with agro projects for financing in Islamic Banks?

Objective

To examine the type of risks and uncertainty associated with agro projects for financing in Islamic Banks.

Most agro-entrepreneurs are willing to precede their agro projects regardless of any risks they need to go through because of the following reasons:

- Their agro projects are main source of daily income.
- They want to reserve the land which was inherited from their ancestors for future generations.
- High market demand of agricultural products.

Methods

QUESTIONNAIRES:
- 27 Close-ended questions

Palm Oil | Paddy | Banana | Rubber | Others



100 Muslim Agro-Entrepreneurs

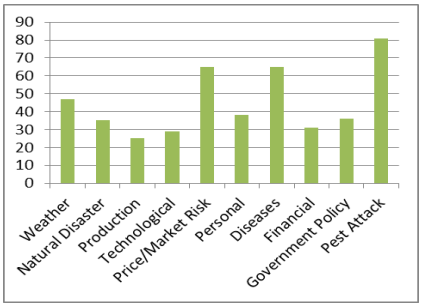
Sg. Sumun, Perak & Sg. Besar, Selangor

Table 1:
Reliability Tests of Questionnaires

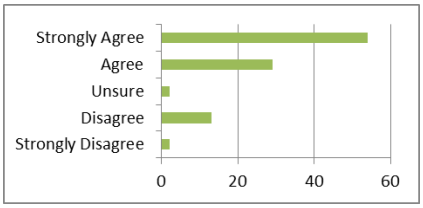
No	Item	σ
Cronbach Alpha = 0.764		
8	Aforementioned risks had threatened my agro projects	1.110
9	I will continue my agro project even though I had to encounter with the aforementioned risks	1.017
10	I will find solutions to encounter the aforementioned risks	1.045

Findings

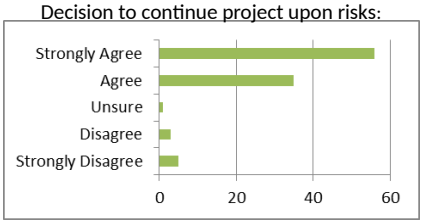
Risks Involved by Agro-Entrepreneurs:



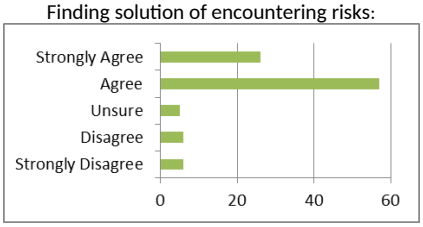
Risk threats concern:



Decision to continue project upon risks:



Finding solution of encountering risks:



Conclusion

- There are several risks which have been encountered by agro-entrepreneurs in agriculture projects and require them to finance their projects using Shariah-compliant financing and banking products.
- Majority of respondents are willing to continue their agro projects even though they encounter various risks, and had some knowledge or experience about the advantage and disadvantages of those risks.
- Local Islamic banking institutions should take these risks into consideration in providing monetary funds to the agro-entrepreneurs

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