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**Agricultural Cooperatives in Malaysia:
Innovations and Opportunities in the Process of Transition
towards the 21st Century Model**

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EXECUTIVE SUMMARY

The Farmers Organization Authority (FOA) is the Registrar of the Farmers Organizations and Agricultural Cooperatives in Malaysia. The other major role of the FOA is looking after the socio-economic well-being of its farmer members *vis a vis* in coordinating and mobilizing their activities and functions to match the directives of the Government. In the recently launched 9th Malaysia Plan (2006-2010), the Government has allocated USD 52.6 billion to cater for the development of projects in the next five years. The agric food sub-sector of the agricultural sector was highlighted as the third engine of growth in the economy and, was projected to contribute significantly to the growth of the GDP. This sector would be modernized and transformed into a more dynamic and vibrant sector with special emphasis to the agro-based industries. The country will be focusing on the long term objective of achieving a positive balance of trade (BOT) in the trading of agricultural related food products by the year 2010. In facing challenges and threats of globalization, the Ministry of Agriculture and Agro-based Industry has given specific direction to Farmers Organization Authority (FOA) to focus on the program of transforming and modernizing the members of Farmers Organizations in Malaysia. The FOA has translated this directive into its main thrust of development under the 9th Malaysia Plan and, the FOA through its networking of Farmers Organizations (FOs) is expected to contribute greatly in achieving the long-term objectives of transforming Malaysia into a “developed nation” status by 2020.

1. ROLE OF AGRICULTURAL COOPERATIVES IN THE NATIONAL ECONOMY

1.1. Agricultural Structure and its Development

a. Introduction

Agriculture has played a significant role in the socio-economic development of Malaysia. In the beginning, the planting of food crops such as paddy, vegetables, fruits, fishing and livestock breeding provides sources of food, job opportunities and income to the local people. At the time agriculture was mainly for self consumption and was traditionally bound. A significant milestone, however, was the formation of the Malaysia Rubber Research Institute in 1926 which help to positioned Malaysia as the world's main natural rubber producer and right into the 1980s. Oil palm was then introduced and developed in the early 1960s, followed by cocoa in the 1970s. The creation of other institutions like the Federal Agriculture Marketing Authority (1965), Malaysia Agriculture Bank (1969), Malaysia Agricultural Research and Development Institute(1969), Paddy National Authority (1971), Muda Agriculture Development Authority (1970) and Farmers Organizations Authority (1973) has facilitated the establishment of marketing facilities, research, credit and supporting services to the target group and directly enhanced the agricultural sector.

The focus on agriculture as an engine of growth to the economy however, declined in the mid 1980's, even though Malaysia had improved tremendously with the GDP increasing 8% for nine consecutive years. This was due to the major contribution of the manufacturing and services to the economy while agriculture only registered a slow growth of 2-3% per annum. (Please refer Table 1).

Next, was the structural changes in the Malaysia's economic development (1990 onwards) which brought along new issues and challenges particularly in the agricultural sector. Factors such as the acute labour shortage, limited availability of suitable land and, increasing costs of production arising from inter-sector competition for resources as well as intense competition in the global market resulting from trade liberalization has contributed significantly to these changes. (Please refer Table 2),

b. The 3rd National Agricultural Policy (1998-2010)

Since the implementation of the 1st National Agricultural Policy in 1984 and the 2nd National Agricultural Policy in 1992, the agricultural sector had recorded an average annual growth of 3.2%. The added value to agriculture had increased from USD3.13 billion in 1985 to USD4.26 billion in 1995. Exports had also increased from USD3.66 billion in 1985 to USD9.31 billion in 1995.

To ensure that agricultural products remain competitive in the global market, the Government has formulated the 3rd National Agricultural Policy (NAP 3) which basically guides the national development of agriculture based upon a vision of sustainable development within a dynamic environment. The objective of the plan is to maximize income through the optimal and efficient utilization of existing resources. This new policy provides the thrust, strategy and implementing mechanism that addresses national concerns on agricultural development and the economy as a whole. These concerns relate to food security, productivity, inflation, private sector investment in agriculture, exports, reducing unproductive imports and conservation and, sustainable use of natural resources.

c. The 9th Malaysia Plan and the Agriculture Sector

The recently launched 9th Malaysia plan (9th MP) has an allocation of USD 52.6 billion with USD 3.02 billion being allocated to the agriculture sector and out of which USD 1.83 billion goes to the agro-based food industry. In terms of added value, the agricultural sector is expected to increase to 5% in the 9th MP from 3% in the 8th MP, which is valued at USD 7.24 billion in year 2010 from USD 3.37 billion in year 2005. The increase in production of the agro-based food industry is targeted to be around 6.8% in the 9th MP from 4.9% in 8th MP. (Please refer Table 3).

The value of exports was USD 2.1 billion in 2005 and is expected to increase to USD 4.08 billion in 2010. On the other hand, the value of imports of USD 4.06 billion in 2005 is expected to decrease to USD 3.75 billion in 2010. The balance of trade (BOT) in the trading of agric-food related products was negative, recording a value of USD 1.97 billion in 2005 and is expected to register a positive value of USD 0.32 billion in 2010. (Please refer Table 4). The Government of Malaysia has shown its full commitment by allocating USD1.83 billion to the agric-food sector from the total allocation of USD 52.63 billion in the 9th Malaysia plan. (Please refer Table 5).

1.2. History of Agricultural Cooperatives

The British introduced the cooperative movement in Malaysia in 1922 as a means of tackling widespread indebtedness of rural farmers and government servants. Since then, the movement has been regarded as a benevolent institution to alleviate the social and economic status of the less privileged section of the Malaysian society. Initially all cooperatives, regardless of rural, urban, agro or fisheries' based were under the supervision of the Cooperatives Development Department. However, in the 1970's, with the rapid growth of the cooperative movement and its manifestation in the general economic development of the nation, has made it necessary for the Government to introduce measures for the continued health of the movement.

Agricultural-based cooperative organizations in Malaysia are of two categories namely those registered under the Cooperative Act 1993 which replaced the Cooperative Ordinance 1948 and the Farmers Organization Act 1973 / Fishermen's Association Act 1973. The agricultural cooperatives that were registered under the Cooperative Act 1993 consisted of those cooperatives that falls under the jurisdiction of the Farmers' Organization Authority (FOA) and Fisheries Development Authority (FDA). The FOA was set up in 1973 to look after the agro-based cooperatives while the FDA took control of fishermen's cooperatives in 1974. There were other agriculture cooperatives that was under the Cooperative Department and these were in the land schemes managed by the Federal Land Development Authority (FELDA) and the Federal Land Rehabilitation And Reconsolidation Authority (FELCRA).

At present, the FOA has 422 Agriculture Cooperatives under its wing, most of which are multi-purpose cooperatives undertaking thrift and credit, trading, marketing and some are engaged in agriculture production. Also categorized as agriculture cooperatives, are the Farmers' Organizations (FOs) under the jurisdiction of FOA and the Fishermen Associations (FAs) under FDA. The FOs are more actively supported by the Government through FOA in the form of managerial personnel support and development funding for financing agriculture production., marketing, processing and other business activities that benefits its members. The FAs also enjoy similar support from the Government through the FDA.

1.3. Legal framework for agricultural cooperatives

a. Farmers Organization Authority (FOA)

It is a statutory body under the Ministry of Agriculture and Agro-based Industry of Malaysia. It was established on the 14th of February 1973 and registered under the FOA Act 110, to look after the FOs and the Agro-based Cooperatives (ACs), which were merged together in 1973.

The functions of the FOA are to;

- a. To promote, stimulate, facilitate and undertake economic and social development of Farmers Organizations
- b. To register, control and supervise Farmers Organizations and to provide for matters related thereto;
- c. To control and coordinate the performance of the aforesaid activities.

b. Farmers Organizations

The Farmers Organizations or FOs are historically made up of Farmers Associations and Agro-based Cooperatives serving the farmers in the rural areas. At the time, there were many agencies responsible for the economic and social welfare of farmers, but these agencies were governed by different ministries and departments. This had resulted in the overlapping of functions among the farmers' institutions. Thus, Act 109, The Farmers Organization Act 1973 was enacted to specifically reorganize the Farmers Associations and Agro-based Cooperatives.

The Farmers Organization Act 109, 1973 is the summation of Farmers Associations Act, 1967 and the Cooperatives Act, 1945. Under this Act, Farmers Associations were to be dissolve and re-registered as Farmers Organizations while the Agro-based Cooperatives were reorganized to become member units of the Farmers' Organizations. The FOs were established along the principles and aspiration of cooperatives, owned by farmers as members' and managed and governed by a selected board of directors to carry a wide range of economic and social activities.

2. CURRENT SITUATION OF AGRICULTURAL COOPERATIVES

2.1. Institutional Arrangement

Farmer Organizations that are registered under the Farmers Organization Act (Act 109) are corporate bodies with a legal entity and having a board elected amongst their members. Presently, there are 285 Farmers Organizations (FOs) and 422 Agricultural Cooperatives (ACs) under the jurisdiction of FOA. The 285 Farmers Organizations (FOs) consist of a single National Farmers' Organization (NAFAS), 13 State Farmers' Organizations (SFOs) and 271 Area Farmers Organizations (AFOs).

Out of the total 271 AFOs, 27 of them are under the administrative jurisdiction of the Muda Agriculture Development Authority (MADA), 13 under the Kemubu Agriculture Development Authority (KADA) and 28 under the State of Sarawak. The Farmers Organization Authority(FOA) do not implement programs or projects involving FOs under the authority of the abovementioned administrations.

a. Membership

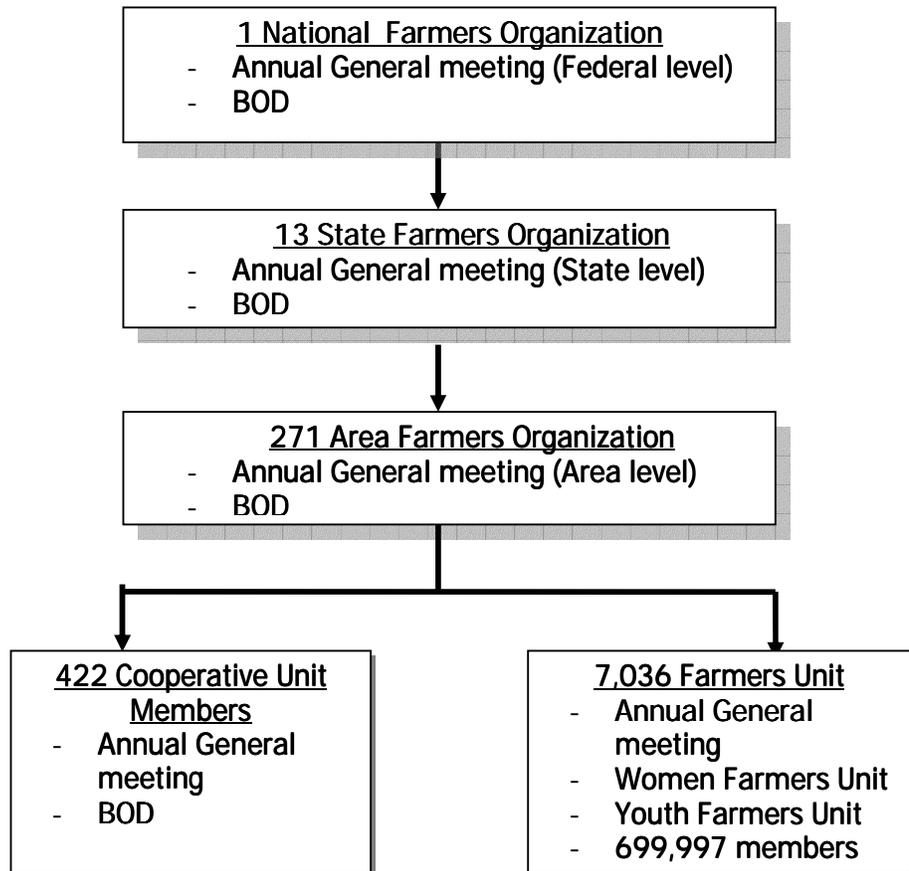
Currently there are approximately about 699,500 registered farmers as members of Area Farmers Organizations (AFOs) with share capital amounting to USD 20.41 million. (Please refer Table 6). All AFOs are members of State Farmers Organizations (SFOs) and all SFOs are members of the National Farmers Association (NAFAS). Individual farmers of at least 30 people could establish a group at the village level and this group is known as the **Farmers' Unit** to the Farmers Organizations. A registered agric-based cooperatives becomes a member of an Area Farmers Organizations (AFOs) and is known as a **Members Unit**.

b. Organizational Structure: Vertical and Horizontal Per Sector

Farmers Organizations (FOs) are organized at three levels described as a three-tiered structure: namely at the district, state and the national levels (**Diagram 1**).

The state levels FOs are secondary level FOs while the national FO is a tertiary level FO. These FOs are normally managed by professional staff headed by a General Manager with five assistant managers to operate 5 sections of accounts, development, saving and credit, agribusiness and management. A Board of Directors, consisting of 11 members elected by members' representatives in an annual general meeting oversees the operations of the FOs and decides on policy matters. The SFO has 13 Board of Directors whilst NAFAS has 15 Board of Directors.

Diagram 1: The Movement Structure of Farmers Organizations



2.2. Business Scope and Performances

a. Business activities and scopes of agricultural cooperatives

The main objectives of Area Farmers Organizations (AFOs) is for the promotion of the economic and social interests or well being of its members and member units through their direct participation in the activities of the AFOs. The Area Farmers Organizations (AFO's) are encouraged to carry out activities that are needed for the achievement of their objectives. Similarly, the secondary level FOs and NAFAS involve in activities that support or benefit the lower level organizations.

Most of the SFOs concentrate on land development, trading in farm inputs, secondary level marketing and general business. At the national level, NAFAS involves in the business of supplying farm inputs to the lower level FOs. NAFAS has been appointed as a main supplier for the fertilizer under the government subsidy program. Apart from that NAFAS is also fulfilling government contracts for supplying processed chicken meat, land development, supplying agriculture machinery, export and import business that are agriculture related.

The AFOs have been supplying fertilizers under a subsidy scheme for paddy farmers since 1979. In the paddy areas, distributing fertilizers is a major activity that the FOs carried out for the government.

The main activities undertaken by FOs to provide services to members include:

- i. Providing extension services and training facilities to equip farmers with the technology for the advancement of agriculture, horticulture, animal husbandry, home-economics, agri-business and other commercial enterprises.
- ii. Expanding agricultural production amongst farmers and small holders so as to promote greater diversification and commercialization of agriculture and to promote agribusiness.
- iii. Providing farm supplies, farm mechanization services, credit facilities and promotion of greater investment in agricultural and economic pursuits, facilities for rural savings, marketing storage warehousing and drying services, transportation facilities, and processing facilities for agricultural products.
- iv. Facilitate capital formation and promote investment among farmers through equity participation in commercial and agri-business ventures.

- v. Assists members in acquiring land to undertake land development projects.

- vi. To promote and stimulate group action through community projects and facilitates leadership development;

- vii. To provide social services, educational and recreation facilities to enhance social development and well being of farm families.

b. FOs business performances

The overall status of the business financial performance of the FOs in the last 5 years is given in Table 7. The total agribusiness volume of the FOs in 2004 (Audited) was USD 391 million which was a slight decrease of 2 % over the 2003 figure. However, the total assets and total net profit have shown increasing trends over the last five years amounted to USD347.1 million and USD 15 million respectively. The main agro-business activities were agriculture inputs, marketing of agricultural produce, agricultural processing, and farm mechanization services. (Please refer Table 8)

2.3. FOs role in food production and commercial agriculture

The development programs and projects under the 9th Malaysia Plan can be grouped under the following four broad areas consistent with the vision of sustainable development, its mission and objectives.

a. Implementation of market driven food production

In line with NAP3, projects that enhance the production of food commodities are given priority. The expansion in the commercial production of food commodities is essential for implementing import substitution, meeting export requirements and catering for the raw material requirements of the industry. Efforts are also being concentrated in areas where FOs have demonstrated a competitive edge as follows:

- i. Organizing the participation of farmers in agricultural production activities and in motivating commercial and market –oriented production. This approach will facilitate FO efforts in providing credit services, supplying agricultural inputs and mechanization and marketing services.
- ii. Implementing agriculture projects as corporate and investment portfolios of FO businesses. These projects are managed professionally and organized as integrated farms in crop zones, estates and mini-estates or through the development of unutilized land.

- iii. Organizing farm production on land leased out by farmers to FOs with central management
- iv. Group farming with farmers continuing on their own land but the management of activities being undertaken by FOs.

b. Changing environment in the agricultural sector

Presently, there are four models used in the implementation and management of projects undertaken by FOs and they are:

- i. Corporate farms: This is practiced when the FOs have to lease land from farmers who are no longer interested in farming or when State Governments provide land to the FOs. When leased from landowners, individual lots are cultivated as one contiguous unit with FOs taking the full management responsibility for all the farm operations and decision making. Profit from the project will go to the FOs. The landlords will receive their rental payment.
- ii. Management Agency: The FOs undertake the management of individual farm lots by organizing them into a commercial farming unit on behalf of the landlord. All farm operations are undertaken by FOs. Profits to be distributed later will be based on land size of each

landowner and a management fee is charged for the services rendered.

- iii. Group farming: The FOs help in organizing the farmers to cultivate their land along cooperative lines. Major activities such as ploughing, harvesting and marketing are being arranged by the FOs to follow a definite schedule. The farmers will still manage their own farms but through following the advice of their organizations on the day-to-day operations. The farmers are fully responsible for the success or failure of their projects.
- iv. Entrepreneur Farmer: In line with the Government's policy of creating more entrepreneurs, FOA has initiated a scheme whereby enterprising farmers are being selected to venture into commercial farming enterprises. The selected farmers receive financial assistance in the form of soft loans.

c. Propagation of small and medium sized industries

The agriculture sector needs to be modernized and its value added increased through the processing of agricultural produce. This includes paddy, oil palm, cocoa, vegetables, fruit, fruit juices and meat as well as fisheries products. The strategies identified are as follows:

- i. Encouraging FOs to participate in agro-based industries and its downstream activities. Emphasis will be given to agro-processing as well as agro-based manufacturing.
- ii. Promoting the participation of individual entrepreneurs and private sector together with FOs in setting up small scale industries.

d. Competitive Marketing System

FOs are to be an important and effective marketing organization for fresh agriculture produce and agricultural food products by taking advantage of existing marketing channels while SFOs and NAFAS are to undertake the roles of wholesalers, manufacturers and exporters. The main strategies are to strengthen the linkages among FOs as well as between both FOs and the individual entrepreneurs/farmers or jointly with the private sector. The FOs will need to recognize that marketing of food crops and food products requires a long term coordinated consumer-based and quality assurance approach.

There is also a need to develop a brand or a number of brands for the different products that is to be marketed by the FOs. Greater incentives and support services have been provided to FOs members so that farmers can continue farming on a

commercial basis and ultimately become a major source of the country's food supply.

2.4. Business coverage of agricultural cooperatives per sector

Table 9 indicates an increase in the business coverage per sector of the ACs and FOs for the entire food sector increasing in amount in 2005 compared to the last five years. Crop production, paddy production, livestock and aquaculture are the main business transacted.

2.5. Governance System and Management Performances

a. Financing

The financing of FOs' projects are through grants allocated by the government or through loans borrowed from Malaysia Agricultural Bank (BPM). In addition, joint ventures have also been promoted with the private sector and entrepreneurs who have the technology, marketing outlets and capital resources to increase food production. FOs may need a longer time frame to make use of modern technology in food production. They need the support of the government in getting loans to cover development and operating costs as well as to enable them to channel funds to the farmers for rehabilitating their farms. Special attention is being given to paddy, fruit and vegetable production. The state governments also expected to allocate land to FOs for food production. FOs may also have to strengthen their activities such as savings facilities and short term production loans to their members by setting up a scheme

to ensure better mobilization and management of members' resources.

b. Decision Making: Voting System

At the FOs level, decision making is approved by the Annual General Meeting on matters such as the FO's business plan and annual budget. The FO's elected Board of Directors will also discuss on operational issues at the FOs' monthly meeting. A member is eligible to participate in the voting system on the basis of one member one vote.

At the primary level (AFOs), 2 members will be elected to represent the first 50 members while an addition of 2 representatives may be elected to represent the next 50 members at the very same primary level.

Consequently, at the secondary level (State FOs), 5 representatives are elected to represent the first 500 members, while an addition of 2 representatives may be elected for the next 500 members.

Finally, at the National level (NAFAS), 5 representatives are elected to represent every 5000 members while an addition of 2 representatives may again be elected to represent the next 5000 members. All these representatives are elected during the annual general meetings at their respective levels.

c. Taxation and Government Supporting System

All cooperatives residing in Malaysia are required to declare on income accrued in or derived from Malaysia or received from outside Malaysia for the year of assessment. FOs are, however, exempted from taxable income for 5 years from the date of their registration. After that period ends, the FO will also be exempted from tax on condition that its member's fund is less than USD 197,368 million. This exemption is given to all FOs and Agricultural Cooperatives by the Government.

In addition to the above, FOs are also given special deduction in arriving at the chargeable income in the year an assessment that:-

- i. such sum do not exceed one-fourth of the audited net profits for that basis period that has been transferred or paid to a statutory reserve fund or to any educational institution or cooperative organization established for the furtherance of cooperative principles in Malaysia: and
- ii. an amount equal to 8% of the member's funds as at the first day of the basis period for the year of assessment.

3. RECENT DEVELOPMENTS: INNOVATIONS AND OPPORTUNITIES AND THEIR EFFECTS

3.1. Organizational Structure

To facilitate the creation of a conducive environment and transform the agricultural sector into a highly competitive industry, the role of farmers organizations (FOs) and agricultural cooperatives (ACs) will be augmented through active participation of these organizations as business entities within the agricultural sector. An institutional framework will be established so that it will encourage greater linkages between FOs and ACs and other investors including private corporations which may lead to more joint ventures.

The Government's role in the production of seeds, seedlings, fish fry and trading will be reviewed based on the feasibility of this role being undertaken by FOs/ACs and the private sector. This is given due recognition in the FOA's Corporate Plan 2006-2010 which has been drawn up with the following general goals:

- a. To establish the FO's as a viable institution for giving agricultural supporting services through a strong financial position as a farmer's business body, increase the development of the FOs' in strategic activities of planting materials, agro based development and export markets and strong strategic supporting services in the activities of farm mechanization and basic infrastructure.

- b. The creation of viable commercial farmers who will contribute to the agricultural sector. This will be achieved through the development and involvement of FO members in production, marketing and processing of agricultural products, the management and development of human capital in FOA and FOs as well as mobilizing 10,000 entrepreneur farmers as a catalyst to the modernization program and the agricultural sector transformation

- c. To develop and the enhance of FOs' networking activities through the enhancement of the networking activities of FOs' via integrated supplies, production, processing and marketing activities and the use of information technology to increase the efficiency and effectiveness of FOA's and FOs' delivery system.

3.2 Business Scope and Performances

a. Major Areas

The major areas by which the businesses of the FOs could be group are as follows:

- i. Commercial and technology transfer program such as the flagship projects, nucleus estates, incubator projects and land lord in trust schemes.

- ii. Institutional support services such as for mechanization, information communication technology, product distribution centre and training.
- iii. Transformation of technology program which includes communication, media and TOT campaigns.
- iv. Human resource development such as providing courses/ training, visits/TOT, seminars and convention and human building or motivation.
- v. Supporting services and delivery system - marketing, processing/SME, post harvest, transportation and mechanization & automation.
- vi. Farmers development program - Commodity based human development and Farmers Unit development

b. Performance in Creating a Business Network

In the last FOA Corporate Plan (2000-2005), the FOs have already achieved their roles in creating a business network. A case in point is the achievement of the Johor State Farmers Organization (JSFO) which has created a marketing network for fresh oil palm, marketing and the oil palm processing factory to cater to the needs of its member AFOs in the state of Johor.

JSFO is also playing the role of an integrator for the poultry industry by having centers for the breeding of poultry, the development system for poultry owners and a poultry processing factory.

Another example of a good network between FOs is the Bukit Awang AFO in the state of Kelantan which addresses the needs of its red chilly production carried out by its members by having a contract farming arrangement with Nestle, a reputable multinational company having established global presence.

3.2. Human Resource Development Incentives from the Government

The Malaysian Government will continue to provide incentives to FOs and ACs through Human Resource Development and the commercialization of R&D outputs. These are done by upgrading of managerial positions at the FOA and FO levels and focusing on the organization's personnel and their needs. All are achieved through personnel training activities, farmers training activities and upgrading of farmers training institutions.

4. IMPLICATIONS AND EMERGING NEEDS

4.1. Issues that relates to FOA within the 9th MP includes:

- a.** The objective to mobilize 200,000 members to become modern and progressive farmers.
- b.** The creation of 10,000 commercial farmers

4.2. Issues and challenges

The world's economic uncertainty has made agriculture an important sector to stabilize the economic conditions of Malaysia. In view of this, the government has launched a campaign to transform the agriculture sector in Malaysia with the FOs as a catalyst in the transformation process. This would make agriculture projects more commercial oriented, using modern technologies and to be internationally competitive. However, structural changes in the economy have brought new issues and challenges in the agricultural sector as follows:

a. Slow transformation process from small scale planting to the modern agriculture sector.

There are two categories of farmers in Malaysia namely; the subsistence and the commercial farmers, where a majority of the subsistence farmers are older and very traditional in their work approach. On the other hand, the commercial farmers have a more modern and profit-oriented outlook. The small holder sector continues to experience problems of low productivity and uneconomic size of holdings while labour shortages and low commodity prices has further led to substantial idle agricultural land and abandoned holdings.

b. Lack of market competitiveness and private sectors involvement

A number of FOs and ACs in Malaysia lack competitiveness in the market due to economies of scale. As a result, the sector is currently plagued by inefficiency, uneconomical scale of operation, low technology and inefficient marketing systems.

The collection of fruits from scattered farms, for example, has resulted in higher transportation costs and a high degree of post harvest losses. Institutional support is generally ineffective due to the multitude of fruit crops and the scattered nature of the farms.

c. Better occupational prospects in the manufacturing sector

Youths with better academic credentials, will search for better prospects in the manufacturing sector. The migration of youths from the rural areas to the cities is another problem, as it has considerably reduced the number of farm workers and increased the acreage of unutilized land.

c. Incomplete agricultural infrastructure

Some areas need better infrastructure in relation to inland transportation and irrigation facilities.

d. Decrease in value chain

There should be a fair distribution of value in the value chain process for those products produced at the farm level.

e. Low penetration of information and communication technology to increase productivity.

The Government is making many attempts to encourage the use of information technology at the FOs level.

However, FOs do not have enough resources to be involved in this sector to enable them to improve their efficiency and effectiveness in agribusiness activities.

f. Inefficiency in the delivery system

Agricultural projects are very prone to failures and as such, they do not provide predictable returns. This in turn has made FOs' members hesitate to invest large sum of capital in the sector. As a result, they have limited sources of funds to run their farms and hire competent management personnel.

g. Weaknesses in the marketing system and R&D

The lacks of funds and marketing outlets have restricted FOs in marketing their products to the consumer. Most FOs depend on wholesale markets as outlets for their products which normally do not favour a good price for their product.

4.3. Strategies

In light of the above mentioned issues and challenges, FOA has formulated the following strategies:

a. Creating Farmers Entrepreneurs

Entrepreneurs amongst the members of FOs will play a bigger role in food production. They are encouraged to use technologies and apply good management practices on their farms to produce high quality and high value products.

Area FOs will not be directly involve in food production but will modify their role of giving support services required by the entrepreneurs. FOs will identify and develop new entrepreneurs and monitor the progress of entrepreneurs by giving them assistance and training.

b. Expanding Marketing Activities

Marketing of agriculture products is another important activity that FOs have to give priority NAFAS will form a joint venture (JV) with the Federal Agricultural Marketing Authority (FAMA) to plan the marketing activities for export and domestic markets. FOs need also to diversify into downstream activities.

c. Provision of Required Services to Members

The FOs have to enhance and improve the services needed by the members. Since members' requirements are varied in nature, the FOs have to identify clearly what the majority of their members wants. The emphasis will be given on credit and marketing services.

d. Increase Coordination Ministry of Agriculture and Agro-based Industry Incorporated (MoA Inc.)

FOs will collaborate with technical departments and agencies under the Ministry of Agriculture and Agro-based Industry Malaysia through coordinated effort or what we call as **MoA Inc.**

This coordination will be in the form of technology transfer, farm management practice, accreditation program and marketing support.

e. Improving The Quality of Farm Product

The government will develop a counter measure against the food price instability and its focus will be on improving the quality of locally produced goods, which will in turn help to decrease the local consumption of imported food. A farm accreditation scheme will be introduced to help in maintaining the quality of farm products by issuing quality seals to the deserving farms.

5. CONCLUSIONS

The main challenge for the agricultural sector is to be more competitive in the global marketplace in line with the country's commitment towards free trade under the AFTA and WTO.

Farmers Organizations are therefore, expected to reinforce their roles in transforming their members to become modern farmers with the help of new technologies to prepare themselves for the ever changing global scenario in food production and agriculture.

APPENDIX

TABLE 1: Agricultural Sector: Contribution to Malaysia's GDP in percentage

| YEAR | PLANTATION SECTOR | FOOD SECTOR |
|------|-------------------|-------------|
| 1995 | 9.6% | 3.6% |
| 2003 | 5.4% | 3.3% |
| 2004 | 5.3% | 3.2% |

Source: Ministry of Agriculture and Agro-based Industry

TABLE 2 : Employment In Agricultural Sector (1998-2004)

| INDUSTRY | 1998 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-----------------------|------------------|------------------|------------------|----------------|----------------|------------------|
| Paddy Planters | 302,852 | 314,158 | 320,587 | 297,227 | 268,542 | 320,022 |
| Farmers | 311,979 | 301,035 | 284,637 | 239,517 | 245,976 | 248,260 |
| Livestock | 43,222 | 41,263 | 36,790 | 35,870 | 34,005 | 79,665 |
| Fishermen | 115,901 | 125,353 | 136,610 | 104,309 | 102,933 | 132,712 |
| Aquaculture | 8,966 | 9,134 | 8,528 | 3,346 | 4,067 | 9,694 |
| Small holders farmers | 387,982 | 353,828 | 290,146 | 304,990 | 337,792 | 442,486 |
| TOTAL | 1,170,902 | 1,144,771 | 1,077,298 | 985,259 | 993,315 | 1,232,839 |

Source: Ministry of Agriculture and Agro-based Industry

TABLE 3: Value added of Agriculture Sector in 9th. Malaysia Plan

| GDP 2006-2010 | 6.5 % PER YEAR | |
|------------------|----------------|-------|
| MALAYSIA PLAN | 9 MP | 8 MP |
| Agriculture | 5% | 3% |
| Paddy | 7.8% | 1.1% |
| Livestock | 3.5% | 6.6% |
| Aquaculture | 10.2% | -0.9% |
| Other crops | 7.8% | 1.1% |
| Food Commodities | 7.6% | 1.7% |

Source: Ministry of Agriculture and Agro-based Industry

TABLE 4 : Balance of Trade in Food Consumption 2000-2005 (USD Billion)

| YEAR | EXPORT | IMPORT | BALANCE OF TRADE |
|------|--------|--------|------------------|
| 2000 | 1.68 | 3 | - 1.32 |
| 2001 | 1.71 | 3.2 | - 1.49 |
| 2002 | 1.95 | 3.26 | - 1.31 |
| 2003 | 2.18 | 3.34 | - 1.16 |
| 2004 | 2.61 | 4.37 | - 1.76 |
| 2005 | 2.1 | 4.06 | - 1.96 |

Source: Ministry of Agriculture and Agro-based Industry

TABLE 5: Allocation For FOA in the 9th Malaysia Plan.

| No. | Program | Approved Amount (USD million) |
|-----|---|-------------------------------|
| 1 | Production Of Basic Food Materials | 7.90 |
| 2 | Farmers Development | 3.97 |
| 3 | Human Resource Development | 5.28 |
| 4 | Sabah's Farmers Organization Development | 7.90 |
| 5 | Farmers Organization Marketing Facilities | 2.39 |
| 6 | Institutional Infrastructure | 3.96 |
| 7 | Development of Paddy Project of 10 Metric Ton | 2.65 |
| 8 | Farm Integration | 1.34 |
| 9 | Farm Rehabilitation | 3.96 |
| 10 | Small and Medium Scale Industries | 3.95 |
| 11 | Entrepreneur Farmers Development | 4.76 |
| 12 | Farm Mechanization Facilities | 2.64 |
| 13 | Farmers Transformation and Modernization | 0.79 |
| 14 | Area Agriculture Development | 1.32 |

Source: Ministry of Agriculture and Agro-based Industry

TABLE 6: Membership of AFOs and Share Capital in million (USD)

| YEAR | No. Of Members | Share Capital (USD Millions) |
|------|----------------|------------------------------|
| 2000 | 673,274 | 15.72 |
| 2001 | 681,010 | 16.88 |
| 2002 | 682,994 | 18.37 |
| 2003 | 693,170 | 19.13 |
| 2004 | 699,997 | 20.41 |

Source: Farmers Organization Authority

TABLE 7: Business Performance of Farmers Organizations in USD Million (Audited 2001-2004)

| YEAR | 2001 | 2002 | 2003 | 2004 |
|-------------------|--------|--------|--------|--------|
| Total Assets | 256.58 | 299.21 | 330.19 | 346.68 |
| Total Liabilities | 127.10 | 150.79 | 161.40 | 176.27 |
| Total Turnover | 282.10 | 342.10 | 398.48 | 391.84 |
| Total Net Profit | 8.79 | 9.63 | 11.56 | 15.03 |

Source: Farmers Organization Authority

TABLE 8 : Total Volume of FOs Business activities in 2004 (in USD Million)

| Business Activities | Total Turnover 2004 (USD Million) |
|---------------------------------|-----------------------------------|
| Inputs and supplies | 106.11 |
| Marketing | 94.30 |
| Processing | 22.57 |
| Farm Mechanization and services | 18.94 |
| Crops Production | 13.28 |
| Livestock and Aquaculture | 4.39 |
| Non- Agriculture Business | 68.05 |
| Others | 70.77 |

Source: Farmers Organization Authority (Registrar's Office)

Table 9: Production of Food Sub-Sector in Million mt (2000-2005)

| YEAR | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Paddy | 2.141 | 2.095 | 2.197 | 2.259 | 2.183 | 2.213 |
| Other Crops | 1.872 | 2.215 | 2.697 | 2.793 | 3.381 | 3.442 |
| Livestock | 1.357 | 1.414 | 1.489 | 1.532 | 1.603 | 1.711 |
| Aquaculture | 1.454 | 1.464 | 1.464 | 1.502 | 1.508 | 1.574 |
| TOTAL | 6.824 | 7.188 | 7.847 | 8.086 | 8.675 | 8.941 |

Source: Ministry of Agriculture and Agro-based Industry

TABLE 10: Self-Sufficiency Levels of Food Commodities in Percentage (%)

| COMMODITY | 1995T | 2000 | 2005 |
|-------------------|-------|-------|-------|
| Rice | 76.3 | 71.0 | 72.0 |
| Fruits | 88.9 | 91.3 | 98.6 |
| Vegetables | 71.6 | 88.5 | 95.6 |
| Fisheries Produce | 92.0 | 89.0 | 90.0 |
| Beef | 19.2 | 22.7 | 23.2 |
| Mutton | 6.0 | 6.4 | 7.1 |
| Pork | 104.0 | 80.0 | 76.1 |
| Poultry | 110.7 | 127.8 | 143.2 |
| Eggs | 110.3 | 138.8 | 152.5 |
| Milk | 3.5 | 4.0 | 4.5 |

Source: Ministry of Agriculture and Agro-based Industry