

POLICY BRIEF

Rethinking the Institutional Architecture of Malaysia's Agriculture Sector



Key lessons

Lesson 1 : Institute a continuous vertical and horizontal communication loop among the stakeholders, as well as constant dialogue between them. Public initiatives and financial assistance must be well-targeted to generate innovation and sustain long-term growth through public-public spaces via well-constructed links between key institutions.

Lesson 2 : Establish a one-stop centre to channel locally-produced food to domestic and foreign markets to solve the food distribution conundrum. This centre should also facilitate access of SMEs to different government agencies.

Lesson 3 : Construct a unified online approval system for prompt reporting and coordination of key areas such as infrastructure-related issues like development of roads.

Lesson 4 : Train farmers to produce quality-controlled products, including those ready-to-consume, that meet consumer expectation. This requires introducing modernisation techniques within traditional processes.



Picture : Sarawakian farmer showing agro produce, June 2022. Taken by team at Universiti Malaya

Introduction

Although Malaysia was ranked 39th out of 113 countries in the Global Food Security Index for 2021 by the Economist Intelligence Unit (EIU), about 60% of its food needs are imported. The food imports totalled RM63 billion, up from RM55.5 billion the previous year (*The Edge* 28 November 2022). This was a clear indication of the severity of food security in Malaysia. Indeed, efforts to address food security were stressed in the *12th Malaysia Plan*, aimed to be achieved by empowering the agro-food sector.

Malaysia's focus on agriculture can be traced back to the 1960s when the government began adopting a highly interventionist approach to economic development. This era witnessed increased investments in this sector, implementation of new policies, and institutional reforms, though with a focus on oil palm cultivation. Later, agro-food-based policies were actively promulgated, beginning with the National Agricultural Policy (NAP1) in 1984. This was followed by NAP2 (1992-1997) and NAP3 (1998-2010). These policies covered both commodity and food crops. In 2004, the ministry responsible for food-based agriculture was separated from commodity agriculture, allowing for the formulation of more focused policies. The National AgroFood Policy 2.0, which replaced the Agro Food Policy (2011-2020), focused on food security by enhancing productive capacity in the agro-food sector.

However, problems related to agro-food production linger with Malaysia still struggling with low productivity. The restrictions imposed during the COVID-19 pandemic from 2020 to 2022 exposed the problems in this sector. The movement restrictions imposed during the pandemic disrupted global supply chains, leading to enhanced risk of food shortage and, eventually, food inflation. These global shocks magnify the need for greater government interventions.

Currently, as outlined below, Malaysia has an intricate policy planning and implementation structure, as well as continuous policy focus for the development of agriculture. Why is it, in spite of a well-constructed public institutional infrastructure, with numerous mechanisms to support to the agriculture sector, Malaysia has a serious food security problem? What is hampering implementation of these good policies? Therefore, along with increased government intervention, there is an urgent need to re-evaluate the existing institutional infrastructure to ensure more efficient support of the agro-food sector.

Although Malaysia's public institutional infrastructure is based on decentralization, most of the power to make decisions is concentrated in the hands of the federal

government. Figure 1 portrays the current complex nexus of ministries and departments, headed by the Economic Planning Unit (EPU) under the Prime Minister’s Department (PMD).¹ Through a stage-wise process of policy-making, the government proposes three types of plans: long-term plans, such as the Shared Prosperity Vision (2030); medium-term plans, i.e. the five year plans of Malaysia; and short-term plans which include the annual budget allocations which change according to needs. The allocation of resources and the key sectoral focus are decided using a layered proposal and feedback mechanism. The National Development Planning Committee (NDPC), the highest governing body of government officials, chaired by the Chief Secretary to the Government (KSN), formulates and coordinates policies. As indicated in Figure 1, bottom-level planning includes proposals from NGOs and state governments.

The coordination, monitoring, evaluation, and implementation of national development plans are undertaken by the Implementation and Coordination Unit (ICU) under the PMD. The ICU coordinates with the EPU and National Development Council from the planning stage to ensure that targeted goals are achieved on time and plans are adjusted according to the changing economic climate such as the sudden economic shock faced during the COVID-19 pandemic.

Under the EPU, in the PMD, lies the State Economic Development Corporations (SEDCs), initially established to carry out the New Economic Policy (NEP). The SEDC is chaired by the *Menteri Besar* (Chief Minister) of the state, while the board of directors comprise representatives from EPU and other relevant ministries such as the MOF, Ministry of Entrepreneurship Development and Cooperatives (MEDAC), and MITI. The composition of the SEDCs’ board of directors at the state level is not uniform. For instance, representatives from

Figure 1: Policy-making Institutional Framework



¹ Adapted and redesigned from the EPU website <https://www.epu.gov.my/en/economic-developments/economic-management/development-and-monitoring-planning-process-and-mechanism>

state land and mines authorities sit in Perak SEDCs, while there is no EPU representative in this board.

KEY CHALLENGES

Continuous dialogue smoothens public delivery of policies. However, such plans often encounter disruptions due to poor linkages between federal and state agencies. The state level evidence suggests severe lack of strategic coordination between federal and state agencies. The agencies were reported to be autocratic in nature while implementing policies and frequently worked in silos. The disconnected nature of the operation often left agencies with unclear protocols leading to further disbandment of the supposedly well-coordinated and planned system. Clear and timely communication of information from the authorities to the beneficiaries is also an essential link in ensuring effective policy implementation. For example, in Sarawak, the beneficiary category of stakeholders highlighted lack of proper dissemination of information that contributed to the severity of the poor policy outcomes.

Severe lack of coordination between agencies and federal-state relations leads to improper/incomplete/lack of implementation of policies and communication gap between the stakeholders

Lack of coordination observed not in federal-state linkages but also between ministries-agencies at the federal level across the food supply chain

Apart from the overarching issue in Malaysia's institutional infrastructure – the lack of coordination between the federal and state governments – the system is also challenged by weak coordination between ministries/departments at the federal level. The coordination between ministries and departments in the federal level is crucial considering that at the implementation level, agro-related policies and initiatives span a wide range of ministries, departments, and agencies across the food supply chain. The role of the government stretches from the provision of inputs to agriculture to providing food to consumers. Depending on what role it plays, each ministry/department/agency can be labelled as facilitating or implementing in nature (KRI, 2019). For example, finance, logistics, and labour supply are essential services provided by different ministries to facilitate smooth functioning of the supply chain. Meanwhile, another set of ministries is involved directly in food production, as well as its down-stream and up-stream activities.

Unstable political climate and over interference of bureaucrats hinder proper coordination between agencies willing to work together and communicate with beneficiaries.

Furthermore, federal-state relations are also impacted by differences in the ruling political parties at both levels and the now regular change

of governments which adds another layer of complexity to the coordination issues. In some instances, for example in Kelantan, the agencies reported that coordination between agencies is minimal due to overly bureaucratic intervention. For this reason, the agencies are often unable to interact with the beneficiaries directly.

Radial issues

This mismatch of coordination within these ministries and departments and between state and federal leads to other radial challenges which severely impact agricultural development. Two key issues identified during the fieldwork were that of land and marketing. In a food supply chain, land serves as the key input for production and infrastructure, while marketing is a deciding factor if the product reaches the consumers. An evidence-based discussion of these issues is provided below.

Issue 1: Land

Land is the main factor of production in the agriculture sector. Land use patterns in Malaysia are governed by the National Land Code 1965 for Peninsular Malaysia and Labuan. The Borneo states are governed by the Sabah Land Ordinance and Sarawak Land Code. There are three main matters related to land for the agriculture sector, namely land governance, land rights and ownership, and infrastructure.

Firstly, land is under the control of the state government. While policies are formulated by the federal government which have implementing agencies operating in the states, permission from state governments, in terms of land use, will determine whether initiatives can be effectively carried out. Historically, state-federal conflicts have undermined the ability of federal agencies to implement their development agenda in local communities.

There are also competing interests over land use. For instance, in semi-urban areas, like Kota Samarahan in Sabah, the returns from investing in property, such as building a residential area, may be more lucrative compared to developing the agro-food sector. Similarly, for rural areas, it is more lucrative to employ land for commercial crops such as oil palm and rubber. Since a huge segment of agricultural land in Malaysia is deployed for oil palm production, this leaves little room for the expansion of agro-food products. Moreover, since the state

Box 1: Broken roads of the Malaysia's rural system

Tambatuon, a small village in Kota Belud, Sabah, is known for its agro-tourism activities. It is also the first village to organically produce beras wangi keladi (a special type of rice). Currently, the approach road to Tambatuon is through an extremely poorly constructed road. Such routes to Tambatuon have made it difficult for farmers to speedily supply their food products to the market, while tourists encounter great difficulties reaching the village. During the monsoon season, Tambatuon's agro-tourism activities are further deeply undermined.

Similarly, regions in the peninsula, such as Jeli in Kelantan and Paka in Terengganu, are abundant in production of high-demand fruits, such as pineapple and durian, but are limited in growth potential because farmers are unable to reach far-away markets. In the absence of proper roads connecting farmers to the cities and other potential markets, they rely heavily on middlemen to sell their products.

governments oversee land matters, in order for the federal government to develop food-based projects and expand agricultural plantation, a land premium has to be paid to the state government by federal agencies. This matter of land use is even more complicated when state and federal governments are controlled by different political parties.

Another potential hindrance to growth in food production is ownership of the land. Farmers who work on land that is owned on a temporary basis do not focus on increasing production, due to constant fear of losing the land. This fear has also led to a reluctance to invest in modern production technology which has consequently led to static agriculture production.

To develop or improve a supporting infrastructure, one crucial component is well-constructed roads that connect rural areas to the market. This is to ensure prompt transfer of agricultural products to the market. In October 2022, the Ministry of Rural Development announced an allocation of RM1.2 billion under the rural road programme to enhance connectivity between rural and urban areas.

However, road access to villages still requires significant attention. Simultaneous infrastructure development within villages, particularly roads, and from villages to domestic markets, are imperative for the rural economy. The evidently much untapped potential in these rural regions, due to infrastructure issues, hampers implementation of the intricately planned policies by the federal government. The attempts by the federal agencies under the Ministry of Rural Development to repair these roads are met with legal impediments since road repair falls under the jurisdiction of the state, according to the Ninth Schedule of the Federal Constitution. The federal government, therefore, requires the permission of the state government for such repairs. This means that rural infrastructure development, as proposed by the Ministry of Rural Development is largely dependent on well-organized state-federal coordination. Mismatch of state and federal initiatives leads to incomplete agricultural and rural transformation.

Issue 2: Marketing

Apart from the infrastructure and transportation problems due to hurdles in state-federal linkages, the agents delivering food products to local consumers, including wholesalers and retail distributive outlets, play an important role. Domestic food distribution is supported by the Ministry of Domestic Trade and Cost of Living (MDTCL) which also oversees distributive trade and price controls. Meanwhile, the Federal Agriculture Marketing Authority (FAMA), under the jurisdiction of the Ministry of Agriculture & Food Security (MAFI), is the main body responsible for ensuring effective

and efficient marketing of food and agriculture products. FAMA offers three main services to SMEs in the agricultural sector, namely marketing, human resources, and product development. There are, however, other public institutions, beyond the ambit of the MDTCL and MAFI, that play a key role in nurturing domestic enterprises, including agro-food industries, such as the Ministry of Rural Development.

In spite of the apparently well-established roles of these institutions, the system faces issues with respect to profit margins realized by the farmers. After production, the multiple layers of marketing channels lead to lower margins for market players, especially producers, making the agro-food industry less attractive. Issues such as the volatility of fuel prices and currency market further lead to an increase in the price of staple foods. Price hikes in farm inputs and decreased subsidies have caused low production quality due to the use of low-quality seeds and fertilizers. Such issues in farm input prices cause varying supply and quality of products, which then undermines the development of the industry. Such issues, when coupled with high input prices, make this sector almost non-lucrative due to low commercial viability.

Farmers often have to make distress sales due to their need to sell their produce immediately after harvest, therefore putting them in a

Box 2: A possible solution to the food distribution conundrum

A potential strategy to channel locally-produced food to the market is the establishment of one-stop centres. The establishment of such centres for small and mid-sized producers would expand their outreach and open opportunities for higher demand of their products. Instead of having a pool of scattered small-holding farmers with little knowledge of marketing processes, one-stop centres can function as a more organized association where data is collected, informed decisions are made, and an effective information channel is created between producers and consumers. These centres can also deal with the procurement of raw materials such as seeds, fertilizers, and machinery, a means to lower the cost of production. SME-based farmers cannot afford to acquire machinery and construct plants to produce value-added products. These centres can protect farmers from seasonal production risks such as price fluctuation and post-harvest over-supply. An infrastructure of storage facilities can ensure the products can be sold at suitable times, protecting farmers from price fluctuations.

These centres serve to create greater ties between consumers and producers since all the related processes are conducted under one roof. Such centres already exist in countries like India (see JoharAgri Mart). In Malaysia, some initiatives, such as Agro Surge Sdn Bhd, cater to a part of the one-stop concept by looking into input supplies and increasing productivity. The success of such end-to-end supply chain one-stop centres depend on conditions of entry, especially among the small rural farmers. The centres could also train farmers and promote good agriculture practices such as the regulations of FAMA, i.e. GPL (Grading, Packaging, and Labelling of Agriculture Products) and myGAP (Malaysian Good Agricultural Practice). The establishment of such centres would also promote needs-based research and development activities as it will be aware of changing market conditions and consumer needs. However, the creation of a one-stop centre needs to be regulated as it may increase the risk of market manipulation, corruption, and resource misallocation. While government intervention in the food supply chain is crucial, excessive intervention may lead to price hikes to protect domestic industries.

weak bargaining position. Sometimes they have to sell at unfavourable prices and terms. During the post-harvest season, when the price is depressed, farmers face adverse terms of trade due to price fluctuations. They are also exposed to exploitation by middlemen who take a huge cut of the final price, causing the farmers to stay in the low-income bracket. Since farmers are usually not acquainted with marketing processes, they depend on those who have such knowledge and can provide credit and ensure prompt transport of food products to the market. Moreover, farmers do not have access to latest market information, making it difficult for them to make informed decisions to achieve a fair price for their products. Transportation and storage are expensive and difficult processes for SME farmers, which lead to price escalation and inefficient marketing.

The institutional architecture to ensure smooth functioning of food-to-fork chains relies on the need to take note of strict modern market requirements such as accreditation, packaging, and proper labelling. These issues are tedious for small agro-industry owners who also have little knowledge how to fulfil these requirements. Without proper intervention at the ministry level for training and guidance for SME owners, such food supply chain processes can further undermine this already dwindling sector. Proper packaging and training of farmers to produce quality-controlled products will lead to less wastage of ready-to-consume products as they would then meet consumer expectation. The establishment of one-stop centres is a possible solution, a demand made by farmers in the states under review (see Box 2).

An aspect of the institutional architecture, where government-SME linkages are a constituent component, is vendor supply ties, created by public agencies, between domestic small firms and large enterprises, including multinational hypermarkets. The government's longstanding Global Supplier Programme (GSP) has strived to link SMEs, particularly those producing food products in rural areas, to urban-based hypermarkets. Institutions such as SME Corporation, Matrade, and the Halal Development Corporation (HDC) have cooperated in programmes to expand local supplier sales, including into the export market through the global networks of multinational hypermarkets such as Tesco. The need to reinforce such SME-big business linkages is urgent in order to allow rural SMEs to secure access to major retail hypermarkets, a means also for them to generate revenue that can be channelled to R&D to improve production capacity.

KEY RECOMMENDATIONS

The key and radial challenges highlighted above call for a major redesign in policy delivery processes. The emphasis is on coordination among the agencies, involving public-public coordination and public-private compacts.

Public-public coordination

The organizational changes required are in three domains, namely within federal institutions; within state institutions; and between federal and state institutions. These federal and state agencies should work as inseparable and mutually inter-dependent sub-systems of a single public delivery system.

On land-based issues, enhanced federal-state relations is required to ensure policy implementation in a holistic and well-targeted manner, specifically that of land use. At the implementation level, too many agencies have been established. This creates a 'fat' infrastructure with overlapping functions and calls for a need to clearly define and refine the scope and functions of the agencies. The mechanisms for policy-making and policy-planning are already well established. Among the agencies, there is an Inter-Agency Planning Group to act as the coordinator at the planning level. At the implementation level, the current infrastructure suggests that the State Economic Planning Unit should play the coordinating role in the implementation of state economic development programmes. However, the scope of coordination remains unclear and inconsistent between the states and EPU. Any establishment of inter-agencies coordinating body should clearly specify role, function, and scope. Attention should also be given to the size of the inter-agency coordinating body to ensure effective decision making.

Other public-public coordination issues that require attention are the following:

- Introduce an active intervention mechanism to re-deploy idle land. This complex matter requires continuous policy discourse between government agencies to deal with different land titles, customs, and religion.
- Provide holistic support to agro-food producers through well-constructed links between key institutions, specifically statutory bodies and DFIs (development financial institutions, e.g. SME Bank and AgroBank).
- Create industrial-financial linkages between SMEs and DFIs to aid technology use to enhance production.
- Focus on links between statutory bodies and GLCs to support agro industries. GLCs are not to focus on revenue generation and should not compete with rural firms.

Private-public compact

There is much need to improve how the government functions in steering resources to SMEs and farmers to attain its food security goal. To ensure equitable outcomes, the government must move to conceive far more effective public-private compacts, involving ties between government agencies and SMEs as well as farmers. Compacts of this sort provide for much-needed efficiency in policy planning and implementation and serve specifically to remove middlemen who still feature prominently in the rural economies.

With rural SMEs encumbered with dealing with the implications of poor infrastructure, the severe disruption of market activities in the post-pandemic period and the decoupling of supply chain, with domestic and international trade deeply undermined, the onus is primarily on the government to intervene in the economy effectively to address the serious problems in these areas. For policy interventions to be effective, what is imperative is the need to pay special attention to sequencing, with clear targets, with adequate time-bound budgets. Where public-private compacts can be fostered, it should be. This includes the financing of firms through well-targeted subsidies that can generate innovation in industries that sustain long-term growth.

Other private-public compact issues that require attention are the following:

- Institutionalise communication channels between ministries/agencies and farmers/SMEs through a one-stop centre to better steer resources to them.
- Introduce a well-structured production-centric model centred on linking mass production, tech innovation, and business organisation. This is to ensure that enterprise development and sectoral growth/oversight are bound together.
- Identify ways in which marketing institutions and relevant infrastructures are strategically unified to ensure rapid delivery of products to domestic and foreign markets.
- Help SMEs gain entry into domestic and global supply chains. Review and enhance vendor supply programmes between farmers/SMEs and large enterprises.

CONCLUSION

The initiatives relevant to agriculture sector development fall under the jurisdiction of many different federal and state institutions. The implementation of agriculture policies formulated at the federal level requires public-public coordination, between federal-based institutions and between federal and state-based agencies, failing which it creates serious bottlenecks.

The fundamental issue hindering productivity within the agriculture sector is governance of land which falls under the purview of the state governments. Land issues can be easily politicized and federal-state conflicts over land use often lead to failure to effectively implement policies and programmes.

Market penetration beyond the domestic economy requires certification which is a huge cost burden for small farmers. Most public initiatives are production-centric, with inadequate support for marketing of products, including by helping SMEs enter domestic and global supply chains. Agro-based SMEs have huge potential for growth due to their access to business loans by public institutions which eases financial constraints and their ability to enhance production and the quality of their products. However, many of these finance-based initiatives focus on the initiation stage, with lack of incentives for SMEs to move-up the ladder through employment of technology-based methods.

There should be a continuous vertical and horizontal communication loop among the stakeholders. The basis on which the government can respond effectively to problems in the food production and supply sector, involving an appropriate (re-)formulation and mode of implementation can only be achieved through continuous dialogue with the stakeholders. Although an appropriate (re-)formulation and mode of implementation can only be achieved through continuous dialogue and efficient coordination with the stakeholders, in some instances, direct intervention by the government can create tensions between the stakeholder groups. More specifically, the establishment of GLCs by state and federal statutory bodies and agencies have created unnecessary competition between the GLCs and the beneficiaries that they supposed to help. Food security or agriculture production is not an explicit focus area of these agencies, especially those related to rural development. The agencies are only focusing on their areas of concern, thus create siloes among them in terms of policy alignment and implementation



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