

SOME OBSERVATIONS ON INCENTIVE POLICIES IN MALAYSIAN AGRICULTURE AND IMPLICATIONS ON GROWTH AND EQUITY IN THE SMALLHOLDER SECTOR

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Sinopsis

Dalam usaha untuk mencapai pertumbuhan dan pengagihan semula pendapatan di dalam keseluruhan ekonomi amnya, dan sektor pertanian khususnya, terdapat penyertaan secara langsung yang aktif dari pihak kerajaan dalam pembangunan pertanian, terutamanya bagi sektor pekebun kecil, dan pelaksanaan dasar awam yang menyokong sektor pertanian. Keadaan ini dapat dilihat melalui peruntukan perbelanjaan pembangunan awam yang terbanyak diberikan untuk rancangan-rancangan pembangunan pertanian. Bantuan yang diberi juga merangkumi subsidi, kredit, sokongan harga dan sebagainya. Kesemuanya ini merupakan kemudahan insentif pertanian. Insentif pertanian, khususnya dalam bentuk subsidi ke atas input dan output, kredit, dan kemudahan-kemudahan yang berkaitan, telah dapat menghasilkan pertumbuhan dalam pengeluaran dan daya pengeluaran pekebun-pekebun kecil. Di samping itu terdapat perkembangan modenisasi dan perubahan struktur dalam sektor pekebun kecil melalui rancangan-rancangan perairan, pembukaan dan pembangunan tanah baru, pemuliharaan dan penyatuan tanah, dan perkembangan teknologi baru.

Pertumbuhan pengeluaran dan daya pengeluaran telah mengakibatkan pendapatan yang meningkat di kalangan pekebun kecil, khususnya bagi peneroka-peneroka rancangan pembangunan tanah, pekebun kecil getah dan penanam padi. Beban kemiskinan antara pekebun-pekebun kecil didapati berkurangan walaupun masih tinggi, dan kesan pengagihan adalah tak seimbang. Dispariti antara pekebun-pekebun kecil masih ketara dan keadaan ini bukan sahaja berlaku di antara berbagai pekebun kecil (atau kawasan) tetapi juga di antara pekebun-pekebun kecil tertentu. Pengwujudan ketidakseimbangan dalam pengagihan pendapatan adalah, antara lain, disebabkan oleh peruntukan dan pengagihan insentif pertanian dan sokongan kemudahan pertanian yang berbeza di antara aktiviti pertanian dan kumpulan pekebun kecil. Secara menyeluruh, keadaan ini telah mengakibatkan pemesongan dan ketidakseimbangan dalam pengagihan pendapatan. Di samping itu ia mewujudkan dimensi baru di dalam sektor pertanian dengan membahagikan sektor kecil antara golongan yang miskin dan yang berpendapatan tinggi. Dengan yang demikian terdapat ketidakseimbangan

yang meluas di sektor pekebun kecil di samping dispariti atau kebezaan ekonomi yang sedia wujud di antara sektor estet dan pekebun kecil.

Synopsis

In the efforts to stimulate growth and to enhance distribution of income in the economy and agricultural sector, in particular, there has been growing direct and active participation by the government, viz. public sector, in the development of agriculture, specifically the smallholder sector, and the implementation of public policies in support of agriculture. This can be seen largely through substantial allocation of public development expenditure for development of agricultural programmes and the fiscal as well as other measures. Assistance in the form of agricultural incentives, viz. subsidies, credits, price support, among others, has been a common feature. Agricultural incentives, primarily in the form of subsidies on inputs and outputs, credits and related facilities and services, have facilitated growth in agricultural production and productivity of smallholders. It has also brought about a gradual modernization and structural change in considerable parts of the traditional and smallholder sub-sector through programmes in irrigation, land development, consolidation and rehabilitation of smallholdings, and technological improvements.

Growth in production and productivity has significantly contributed to improvements in incomes of smallholders, particularly of smallholder-settlers in new land development schemes, rubber smallholders and rice farmers. The incidence of poverty has been observed to decline, though still persistently high, and that the distribution of income has been inequitable. Disparity of income exists not only among the various groups of smallholders, but also among the smallholders in the same activity. The considerable variation in income, among others, is due to the differential rate in allocation and distribution of incentive facilities between areas of agricultural activities and groups of beneficiaries. It has created a divergence and inequality in income distribution and, at the same time, brought about a new dimension in the agricultural sector, viz-a-viz dividing the smallholder component between the middle-class and poor farmers. This has resulted in greater inequality within the smallholder sector in addition to the already existing economic disparity between estate and smallholder segments.

Introduction

Interests on the question of and the relationship between growth, distribution and inequality in agriculture and general economic development are not new. There is considerable evidence in the economics literature drawn from extensive empirical research over the past few decades that points to adverse effects of economic growth on the distribution of incomes (Kuznets, 1955; Kravis, 1960; Oshima, 1962; Adelman and Morris, 1973; Paukert, 1973; Chenery, et al.,

1974; Fields, 1980). While, in most cases, the findings suggested that the distribution of income worsens with development, at least in the early stages, with a reversal of this tendency in later stages some of them had reservations, among others, about whether the increase in inequality with economic growth was inevitable. Other findings of such studies include the correlation of certain factors with income inequality in the process of development which could plausibly be interpreted as causal.

Experiences in many developing countries, particularly in Asia and Southeast Asia, during the past decade, however, have indicated that growth, in the agricultural sector in particular, has been quite satisfactory, but the pattern of growth did not favour the small farmers and landless labourers. The process of polarization could not be stopped, and the lowest of rural households could not participate in the process of agricultural growth or share its benefits to any remarkable extent (Vyas, 1982).

It has been recognised that many factors were responsible for this polarization of rural income, hence inequality. Among others, the introduction of the 'green revolution' technology, the extent of direct government economic activity and the extent of political participation, viz-a-viz public policies, much bear much of the blame.

In Malaysia, agricultural and general economic development, over the past few decades, have indicated similar trends. Agricultural development has, in part, been characterised by dualism, the existence of growth and inequality and persistent poverty. During 1960 and 1980 periods, agriculture has maintained a reasonably respectable growth with average annual rates of growth in output at 4.8% and 6.0% respectively (Malaya, 1961; Malaysia, 1981). However, the agricultural growth has been accompanied by a persistently high incidence of poverty (Malaysia, 1981) and some extent of uneven distribution of agricultural and rural incomes (Ishak Shari and Jomo K.S., 1980).

In the efforts to stimulate growth and, at the same time, to enhance distribution or redistribution of incomes, there has been growing government intervention via active and direct public sector participation in the development of agriculture, specifically smallholder sector, and the implementation of public policies in support of agriculture. The government's endeavour to support smallholder agriculture has been seen largely through substantial allocations of public development expenditure for development of agricultural programmes and the fiscal as well as other measures. Assistance in

the form of agricultural incentives, viz. subsidies, price support and credits, among others, has been a common feature.

Bearing in mind the above, this paper examines the nature and implications of agricultural incentive policies in the smallholder sector in the context of, viz-a-viz reviewing, the impact of, and the relationship between, growth and distribution as a result of agricultural incentives and the facilities in the development of smallholder agriculture. It is hoped that this paper will deepen the interest in the dimensions of agriculture and public policy in the process of agricultural development, particularly for the smallholders and peasantry.

Agriculture and Public Policy

Before proceeding to discuss the impact and implications of incentive policies in agriculture on growth and distribution in the smallholder agricultural sector, it is of implicit relevance to examine the status of the agricultural sector and public policy, viz-a-viz public sector involvement, in the development of agriculture. This will provide the background to the objectives and intentions of government policies and programmes necessitating the provision of agricultural incentives as instruments of public policy in stimulating growth and enhancing distribution in the agricultural sector.

Malaysian agriculture is basically dualistic comprising of the commercial, large-scale and relatively capital intensive estate sub-sector, and traditional small-scale sub-sector. Within the former, there is a further division between the government-organised smallholders, such as those in land development schemes, and the estates.

Estate-type agriculture accounts for about 30% of the total cultivated area in Malaysia and concentrates primarily on a few commercial crops like rubber, oil palm, and on a smaller scale, coconut, cocoa, tea and pineapple. The smallholdings, operated by approximately 670,000 small farmers and accounting for about two-thirds of the agricultural land, also produce estate-type crops, in addition to padi as a major activity. Land development schemes, concentrating mainly in the production of rubber, oil palm, and recently, cocoa, constitute about 10% of the agricultural acreage, largely in Peninsular Malaysia.

Rubber, oil palm, rice and coconuts are the principal crops of Malaysia, together covering more than 90% of the cultivated area. Although there has been emphasis on diversification, for example, to cocoa, coffee and tobacco, the four principal crops is still predominant, and this will persist for some time. However, the relative

importance of each of the four crops has shifted considerably through the years. The share of the area planted with rubber has steadily declined, though it still remains by far the most widespread crop,¹ as compared to that of oil palm which has significantly increased.² Similarly, coconut and other miscellaneous crops declined or showed small changes only, whilst the cultivated acreage in rice has increased with the expansion of double-cropping. Cocoa, although emerged fairly recently, has since become an increasingly important export crop.³

Growth in output has been significant to the development in agriculture. The total rubber and palm oil production had increased from 825,000 and 144,000 tonnes respectively in 1965 to 1,528,000 and 2,033,000 tonnes respectively in 1979. Significant increases in production resulted mainly from growth in yields, among others, made possible through technological advances in research and development. In rice, growth in terms of the average annual rate of increase in per unit yield, however, has not been as significant, averaging only about 1.6% and 2.8% per annum for the main and off season crops respectively for the 1955-76 period (M. Tamin, 1982).

After the cultivation of crops, important agricultural related activities are forestry and fishing. Forestry has been significant in terms of land-use and contribution to export earnings. Peninsular Malaysia has about 8.3 million hectares of forest, almost two-thirds of its total area; Sabah and Sarawak together have 15.7 million hectares, almost four-fifths, of their area. Production has been mainly for exports — primarily in the forms of saw logs as well as sawn and processed timber, including plywood, and its contribution to export earnings is ranked third next to rubber and oil palm (Malaysia, 1981). Fishing, on the other hand, being one of the traditional rural activities, has been significant in terms of employment. At the beginning of the 1980s, the fishing industry directly supported about 90,500 fishermen of which the West Coast of Peninsular Malaysia accounts for about

¹Structurally, the rubber sub-sector has changed significantly with the area under estates having declined from 753,000 hectares in 1965 to 507,000 hectares in 1980, mainly as a result of a switch from rubber to oil palm; whereas the area belonging to smallholders has increased from 1,000,000 hectares to 1,200 hectares during the same period.

²There has been rapid expansion in planted area in oil palm from a mere 122,000 hectares in 1965 to 880,000 hectares in 1980 representing more than 6.2 fold increase.

³Between 1970 and 1980, the area under cocoa had increased from 7,400 to 38,000 hectares, representing on eight fold increase.

55%, the East Coast has 29%, and the remaining 16% in Sabah and Sarawak. The production has been for export, in the case of fresh 'high grade' fish, and for domestic consumption. Between 15 to 20% of domestic fish consumption came from imports in the late 1970s, especially in the off-fishing seasons (E.K. Fisk and H. Osman Rani (Eds.), 1982).

Taken together with forestry, fishing and animal husbandry, agriculture has been the basic industry of Malaysia. It is also the main foundation of Malaysia's economy and society and carries economic, social and political importance. In 1980, the agricultural sector's contribution to the Gross Domestic Product (GDP) in constant 1970 prices was 22.2% (Malaysia, 1981). Export earnings from agriculture, comprising agricultural products, timber, fish and livestock, accounted for about 43% in 1980 (Bank Negara, 1981). During the 1960s and 1970s, the growth rate of agriculture has averaged over 5%, due largely to rapid expansion in land development, the adoption of high yielding varieties and the use of modern inputs, and the doubling of rice production through double-cropping. In 1980, agriculture, forestry and fishing employed about 41% of the country's labour force and has been the major source of employment (Malaysia, 1981). However, it is rather unfortunate that the agricultural sector also accounts for the highest incidence of poverty, accounting for 46.1% for all households in 1980 as compared to other sectors of the economy whose incidence ranged from 14 to 34%. Within the agricultural sector, the largest group in poverty are the fishermen (55.3%), padi farmers (55.1%), rubber smallholders (41.3%), and coconut smallholders (38.9%) (see Table I). In general, about 66.6% of poverty households were within the agricultural sector (Malaysia, 1981).

The development of agriculture, particularly the smallholder sector, and the improvement of socio-economic status of the general rural population, has always been given heavy emphasis in development and economic policies. In fact in agriculture, the government's role has, all the time, been "supportive". This has been clearly evident from policies and strategies outlined in the country's five-year development plans which symbolises the government's endeavour to achieve the stated objectives of development policy. Distinct in the policy framework is the pursuit to reduce the high incidence of poverty, particularly in the agricultural (and rural) sector. The whole process requires accelerated growth and structural transformation of the economy along lines which emphasise, among others, the modernization of agriculture and effective policy as well as public sector interven-

Table I
 Peninsular Malaysia:
 Incidence of Poverty in Agricultural Sector

	1970		1975		1980	
	Inci- dence of Poverty (%)	Percen- tage among poor (%)	Inci- dence of Poverty (%)	Percen- tage among poor (%)	Inci- dence Poverty (%)	Percen- tage among poor (%)
Rubber Smallholders	64.7	28.6	59.0	28.0	41.3	26.4
Oil Palm Smallholders	30.3	0.3	9.1	0.1	7.8	0.3
Coconut Smallholders	52.8	2.1	50.9	2.1	38.9	2.0
Padi Farmers	88.1	15.6	77.0	13.7	55.1	12.5
Other Agriculture	91.8	16.0	78.8	14.9	64.1	16.6
Fishermen	73.2	3.5	63.0	3.1	45.3	2.9
Estate Workers	40.0	7.5	47.0	7.1	35.2	5.9
Total	68.3	73.6	63.0	69.0	46.1	66.6

Source: Malaysia, (1981).

Note:

1. The calculations took into consideration the effects of programmes implemented during 1971-80 as well as changes in other factors, such as prices and costs.
2. Data from studies conducted by Economic Planning Unit and Socio-Economic Research Unit in Prime Minister's Department, Ministry of Agriculture, Department of Statistics and other agencies were used in the computations.

tion in the process of growth to maximise desired effects on distribution.

The main thrust of public policy (and public sector intervention) in agriculture has been directed to the peasantry and smallholder sector. They are specifically aimed at increased farm productivity and economic prosperity of the farming community through extensive irrigation schemes for rice farmers, new land development programmes for landless farmers and labourers, and substantial support programme for *in situ* development of agriculture. A very large proportion of the country's resources has been used in direct support of this policy. Under the Fourth Malaysia Plan (1981-85), agriculture and rural development has been allocated with \$8.3 billion, i.e., 21.3% of total development budget, not to mention the equally substantial actual expenditures of \$1.1 billion (26%), \$1.79 billion (24%) and \$4.6 billion (22%) during the First (1966-70), Second (1971-75), and Third (1976-80) Malaysia Plan, respectively.

The rationale underlying public policy and active public sector involvement in agriculture, particularly the smallholder sector, involves economic, social and political considerations. Economically,

agriculture provides livelihood for nearly half of the country's working population and still contributes significantly to the GDP and foreign exchange earnings. The socio-political considerations arise from the fact that agriculture is primarily an indigenous sector. Moreover, the agricultural sector, or, at least, the peasantry and smallholder components, such as fishing, padi, coconut and rubber smallholders, has always been economically backward relative to the more advanced agricultural sector and the non-agricultural sector.⁴ Also, and rather unfortunate, the smallholder sector is beset with many inherent and complex socio-economic problems, among others, including a high incidence of poverty. This, directly or indirectly, contributes to make the sector depressed or deprived when compared to other sectors in the economy. As the indigenous population, and the Malays being the majority in particular, are politically dominant, but constitute the majority of the poor in the country, it is imperative that the formation of any policy for agricultural (and rural) development must give as much attention to the effect of its policies on the welfare of the smallholders as to the effects on the general level of economic activity of the country as a whole. In other word, it is a political (and social) necessity that the development policy in agriculture should manifestly be to the advantage of the farming population in the smallholding or peasant sector, at least uplifting their income levels and improve their welfare.

Conceptually, public policy and public sector involvement in agriculture emanates from the Federal Government and the respective State governments. The major areas of policy actions include intensification, that is enhancing the productivity of existing land holdings through the application of new technology, improved planting materials, fertilizers, better irrigation, pest and disease control; extensification, that is extending the area of land in production by bringing new land under cultivation; and diversification, by increasing the range of products produced through the introduction of wider cultivation of new crops, or by increasing the value added

⁴The peasantry and smallholder agricultural sector of the economy suffers, by comparison with other sectors, from both a lower income per head and an income which is more variable over time. The low and varying income are due primarily to their poor productivity arising from many interrelated factors. They include uneconomic size of farm units, price fluctuations of export and major crops, traditional and inefficient farm practices, lack of new knowledge and skills, and inadequate access to modern inputs such as credits, fertilizers, pesticides, improved planting materials, marketing and processing.

to processing before export, thus increasing opportunities for rural wage employment.

System of Agricultural Incentives

The system of agricultural incentives in Malaysia exists at two levels. At one level, there are the trade and other taxes, officially regulated prices, credit policies, general extension services, and public infrastructure which are the result of decisions implemented by the Federal government. At the second level, specialised public institutions operating in the agricultural sector, and entrusted with the responsibilities or directly concerned with the development of agriculture, frequently intervene between the Federal government and the farmer to influence output and input prices, grant credit on favourable terms, provide subsidies in the form of cash or goods and services, and otherwise affect the environment within which the farmer operates (Harcharan, S.K. et al, 1979).

The most important instruments of public policy affecting the incentive structure of agriculture are subsidies on inputs and output, taxes on imports and other direct and indirect taxes,⁵ agricultural credit, guaranteed minimum prices (GMP) for agricultural products, and the provision of drainage and irrigation as well as other agricultural facilities and services, including extension, research and marketing, all of these affecting, primarily, the smallholder sector. They, directly and indirectly, helped to provide essential development inputs and a wide range of other agricultural services towards upgrading and improvement of income and productivity in traditionally padi-growing and other smallholder areas, including rubber, oil palm, coconut, tobacco, pineapple, and government smallholder schemes.

Acknowledging the fact that poverty and low productivity among the smallholders has been associated more with low technology, slow modernization due to low capital investment, inadequate access to modern inputs, including credits, and inadequate institutional support, the provision of various incentives in agriculture directly related to crop production would encourage positive response to improved output and productivity. These relevant incentives, in

⁵Taxes as instruments affecting incentive structure in agriculture include, for example, export duties on principal agricultural exports, including oil cake and other residues resulting from the extraction of vegetable oils, such as that of oil palm nuts or kernels and coconut (copra); tariffs on principal agricultural imports, such as tobacco (manufactured and unmanufactured), rice, pineapple and synthetic rubber latex; and tariffs on imported inputs into the agricultural sector, such as fertilizer, pesticides, insecticides, agricultural machinery, tractors, trailers, etc.

addition to agricultural facilities and services, include, particularly, subsidies and credits. Table II indicates the magnitude of agricultural subsidies, reflecting, in part, the heavy commitment and the 'supportive' role of the government in the development of smallholder agriculture. The allocation of agricultural credits, primarily through Bank Pertanian, for various agricultural purposes is given in Table III.

Table II
Subsidy Allocation in Agriculture on Selected Activities
in Peninsular Malaysia, 1976-81*

Types of Subsidies	1976	1977	1978	1979	1980	1981
Seed farms and seeding nursery	137,134	168,032	289,003	439,736	515,450	1,000,000
Group farming and agricultural production	2,380,110	2,839,144	4,151,350	4,761,654	5,387,404	5,000,000
Farm mechanization facilities and services	1,756,472	1,386,202	3,168,578	5,248,551	3,617,092	500,000
Agriculture input subsidy	—	—	—	26,792,798	99,884,850	n.a.
Input Subsidy/Crop diversification	4,570,112	6,377,249	16,849,350	15,002,997	12,964,384	n.a.
Coconut replanting/rehabilitation	4,138,909	5,050,259	6,620,546	7,073,065	9,314,926	9,622,000
Financial assistance to fishing industry	1,030,685	1,156,595	13,273,250	11,065,134	18,038,606	17,484,238
Rubber replanting	28,642,497	21,480,307	28,520,960	48,369,163	93,626,010	78,340,000
Pineapple replanting	2,303,424	2,364,942	2,201,115	1,833,460	n.a.	1,489,859
Rice subsidy	—	—	—	—	110,603,000	n.a.
Total	44,959,343	40,922,730	76,074,152	120,586,558	453,971,722	113,436,097

Source: Budget Division, Ministry of Finance, 1981.

Note: *It does not include subsidies provide for livestock and other agricultural activities of lesser significance. n.a. not available.

Table III
Loan/Credits Approved According Type, 1975-79
(\$'000)

Type of Lending/ Credits	1975	1976	1977	1978	1979
Padi Production	26,303	28,462	27,768	16,336	21,064
Tobacco Production and marketing	9,101	8,705	18,353	24,032	39,127
Equipment	903	593	1,579	1,836	1,687
Other crops	322	829	832	2,151	6,718
Livestock	335	76	522	493	7,022
Fishery	220	896	1,756	2,793	3,299
Agribusiness	999	5,007	5,749	2,793	3,299
Pineapple Credit	—	48	50	114	—
Total	38,183	44,616	56,600	53,257	83,550

Source: Bank Pertanian, Annual Reports (various issues).

The allocation and distribution of agricultural incentives cover a wide range of activities from *in situ* development and replanting/rehabilitation to diversification and group farming. The categories of smallholders include the crop sub-sector, i.e., rubber, padi, coconut, pineapple, pepper, tobacco, etc. and fishing as well as livestock sub-sectors. However, what is immediately apparent is the different rate of support and subsidy provided to different areas of activities and to different groups of beneficiaries. Table IV, for instance, indicated the differential rate of support and subsidy for smallholder replanting which, in effect, involves primarily input subsidies such as planting materials, fertilizers, pesticides, etc.

The provision of agricultural incentive facilities to the smallholders involved, primarily, public sector participation via a large number of Ministries and agencies, both at the Federal and State levels.⁶ An indication of the Federal public sector's involvement in the provision of agricultural facilities and services is shown in Table IV. It follows that, in addition to the wide range of facilities and services, i.e., research, extension, subsidies, credit, inputs and marketing, there are also specific incentive facilities made available to different agricultural commodities. These facilities were provided mainly through various development programmes in agriculture, including, among others, replanting programmes for rubber, replanting and rehabilitation programmes for coconut, double-cropping of rice, agricultural credits for production, marketing and equipment, support services for *in situ* development of agriculture, and price supports, etc.

The provision of input subsidies has been very significant. It covers technical advice, contract services, replanting grants, and supply of essential inputs such as fertilizers, pesticides, planting materials and chemicals, irrigation and drainage. These inputs are either directly subsidised or were supplied on more favourable terms than would have been possible without public sector, viz. government intervention.

Related to the subsidies on inputs is the provision of efficient credit facilities, at low interest rates, which ranged from production credits

⁶The Federal public sector's participation involves primarily four main Ministries — Agriculture, Primary Industries, Land and Regional Development, and Rural and National Development — which, apart the government Departments under them, have statutory bodies including several land development agencies such as FELDA and FELCRA and regional development authorities. The state public sector involvement, however, is mainly through State Economic Development Corporations, State Land Development Boards and State Agricultural Development Corporations.

Table IV
Smallholder Replanting Subsidy for Rubber and Other Crops, 1982
(\$ per hectare)

Crops Payments*												
	Rubber	Coconuts	Oil Palm	Padi	Cocoa	Pepper	Clove and Nutmegs	Sugar cane	Ginger	Orange, Pineapple and tea	Orchid	Fodder
First	1,581.47 (1,235.53)	1,482.63 (1,235.53)	1,482.63 (1,235.53)	1,235.53 (988.42)	1,729.74 (1,482.63)	1,729.74 (1,482.63)	1,235.53 (988.42)	1,729.74 (1,482.63)	1,729.74 (1,482.63)	1,729.74 (1,482.63)	1,729.74 (1,482.63)	1,729.74 (1,482.63)
Second	889.58 (494.21)	617.76 (494.21)	1,112.17 (864.87)	988.42 (741.32)	741.32 (494.21)	1,235.53 (988.42)	617.76 (494.21)	988.42 (741.32)	1,235.53 (988.42)	741.32 (494.21)	1,559.11 (988.42)	1,236.53 (988.42)
Third	617.76 (494.21)	617.76 (494.21)	741.32 (617.76)	741.32 (741.32)	617.76 (494.21)	370.66 (247.11)	617.76 (494.21)	988.42 (741.32)	741.32 (494.21)	617.76 (494.21)	617.76 (494.21)	741.32 (494.21)
Fourth	617.76 (494.21)	494.21 (370.66)	370.66 (247.21)	741.32 (494.21)	617.76 (494.21)	370.66 (247.11)	617.76 (494.21)	—	—	617.76 (494.21)	—	—
Fifth	617.76 (370.66)	494.21 (370.66)	—	—	—	—	617.76 (494.21)	—	—	—	—	—
Sixth	617.76 (370.66)	—	—	—	—	—	—	—	—	—	—	—
Seventh	494.21 (247.11)	—	—	—	—	—	—	—	—	—	—	—
Total	5,436.30 (3,706.59)	3,706.57 (2,965.27)	3,706.78 (2,965.27)	3,706.59 (2,965.27)	3,706.58 (2,965.26)	3,706.49 (2,965.27)	3,706.57 (2,965.26)	3,706.58 (2,965.27)	3,786.59 (2,965.26)	3,706.58 (2,965.26)	3,706.61 (2,965.26)	3,709.59 (2,965.26)

Source: RISDA

Note:

*Provision and payments are given on instalment basis.

The figures in brackets indicated the amount of replanting subsidy provided for smallholders having holdings more than 4.05 hectares as against those with holdings less than 4.05 hectares.

to those for agribusiness. The former includes purchase and supply of inputs and agricultural equipment, whereas the latter concerns credits to industries dependent on agricultural sector as the primary markets for produce of the industry and those dependent on agriculture as a source of raw materials. These facilities have greatly helped to relieve farmers of financial burden and constraints resulting from rising production costs of modern farm inputs and application of new technology in efforts to modernise and promote diversification in agriculture and to encourage agro-based industries.

Another significant incentive facility is subsidies on output. They are provided specifically through price support policy where farmers were given a guaranteed price for their output regardless of the prevailing market price. This is applied primarily to rice⁷ — for which it had long been used in the effort to encourage the production of the country's staple food — and to some extent, to rubber through government intervention in the market as a buyer when prices were particularly low.

The above incentive structure and policies have been complemented by considerable development of physical infrastructure and other socio-economic amenities in the agricultural (and rural) sector. They in general, have provided the peasantry and smallholders with effective protection and incentives to continue the production of the wide range of crops in the efforts to encourage diversification, modernization and growth in smallholder agriculture.

Structural Change and Growth

An important development accompanying incentive policies and greater public sector involvement in agriculture has been the gradual modernization and transformation of considerable parts of the traditional and smallholder sub-sector. Particularly in irrigated rice, and also in rubber, coconut and oil palm, the incentive policies and facilities has enabled the extension of better infrastructure and services, significant technological improvement with the use of high-yielding materials, and improved husbandry and processing and marketing to much of the smallholder sector.

⁷It takes the form of a guaranteed minimum price (GMP) which is based on per picul of clean dry padi delivered at the mill door. Over the years, since it was first introduced in 1949, GMP has been increasing from \$15 per picul in 1949 to \$16 in 1960s, \$28 in 1970s and \$30 since 1980. The GMP is, in effect, a subsidy, the costs of which are borne by the entire urban as well as rice purchasing rural population.

