POST-BUDGET 2021: STRUCTURAL IMPROVEMENTS NEEDED FOR AGRICULTURE AND FOOD SECTOR

Datin Paduka Dr Fatimah Mohamed Arshad

Without a doubt, the agriculture and food sector is indispensable to the country, with or without a pandemic. While other sectors such as services, manufacturing and construction were struggling as a result of the Covid-19 outbreak, the food sector — though disrupted — was still able to supply to the public.

Does Budget 2021 provide a magic potion to address the pandemic chokes experienced by the agriculture and food sector? To answer this, we need to match the problems besetting the sector with the budget allocated by the government.

As food is a basic need, demand is not a serious issue. Food demand continues to increase, albeit slowly under the Movement Control Order (MCO), but it has since recovered. The logistical constraints experienced under the MCO have passed, but the pandemic has left the poor unable to afford nutritious food such as milk, meat, fresh fruit and vegetables for children and old folks. On this score, the government has been supportive and generous in helping this group get by.

It is on the supply side, however, that serious problems are still brewing. Labour scarcity is a major constraint to farmers, as many foreign labourers returned to their home countries during the MCO. According to the Department of Statistics Malaysia, the sector has experienced a 22% reduction in labourers during pandemic. This leaves a lasting impact on the sector, as production is labour-intensive. Scarcity of labour reduces yield, hence production and income.

Every year, farmers face an increasing cost of production despite the reduction in petrol prices lately. It is a well-known fact that the transmission of price is asymmetric, that is, the reduction in price is not transmitted fully in the supply chain compared with an increase in price. Thus, the reduction of oil prices did not bring much benefit to the producers.

The increase in production of cost is expected, as Malaysia imports almost all of its input. This includes seeds, breeds, fertiliser, pesticides, herbicides, feed for livestock, soybean, agricultural machines and its parts and labour. Since their prices are dictated by the world market, Malaysia imports the inflationary effect too.

However, there was no direct allocation to farmers to address their labour shortage problem and continuous increases in input prices.

The pandemic opens up the opportunity to shift gears towards a new beginning. One aspect that has been long overdue is the production of our very own fertiliser using local biomass, of which there is plenty, as well as food waste. Last year, Malaysia imported RM3.6 billion worth of fertiliser — a big outflow of foreign exchange there. For a start, an incentive should be provided to induce innovations in local green input production to reduce cost and sustainability.

The pandemic is a global phenomenon. Almost all countries have been affected. Mitigation measures such as lockdowns have contracted the demand for certain commodities and some businesses have had to shut down. The production of agricultural input has also been affected despite the reduction in the world petroleum. This includes feedstuffs, fertiliser and other inputs. Currently, our local poultry producers have a problem with feed sourcing, so they have resorted to papaya and sago as an alternative. Feed accounts for a major share of the production cost of poultry, beef and dairy products.

Price risk is a norm for agricultural producers. Some are able to minimise it, but the majority of them fail, especially mono-croppers. When rubber and oil palm prices fell 20% to 30%, it was enough to place our smallholders in the poverty trap. While the parent corporation and its agencies such as the Federal Land Development Authority (FELDA) and FGV Holdings Bhd are still financially sound, smallholders face price dips every now and then with minimal hedging facilities. Towards this end, the government has allocated a sum in the budget to pay FELDA settlers debt interest and new development costs.

However, the abovementioned perennial problem requires a perennial solution. In the long term, it requires investment in the producers' capacity to improve yield and income. Other short-term options include a stabilisation fund based on contributions from the producers themselves. This means the producers need to set aside a fraction of their earnings for this fund during good times in preparation for rainy days.

Other options include deficiency payment managed by the government. Through collective effort, particularly cooperatives, the producers may hedge in the futures market to minimise price risk. Towards this end, funds are needed to help farmers minimise price risk.

Producers are aware that farm diversification is one method that helps mitigate price risk. However, they are constrained by limited capital, minimal institutional support, marketing problems and production risk. Their unreadiness for this is due to a lack of farm models to emulate.

To encourage farm diversification, support and incentives must be provided. Funds are needed for pilot or experimental farms to identify the optimal mix in accordance with geo-physical and other variables. Towards this end, well-planned R&D and extension are prerequisites.

Technology has advanced by leaps and bounds with innovations such as cryptocurrencies, artificial intelligence, supply chains that run on blockchain technology and Internet of Things platforms. But those advances have not reached the farmers. Extension agents are the bridges that could relay these technologies to the farmers.

However, these agents are certificate and diploma holders, and may be deemed inadequate to handle those complicated technologies, let alone relaying it to the farmers. They are the agricultural frontliners who are crucial in connecting the farmers to the latest innovations. Funds are needed to upgrade their skills through training and education.

The government has allocated RM60 million to Agrobank to drive Fourth Industrial Revolution (IR4.0) applications. This is very timely, indeed, but, without highly skilled extension agents, this move could be meaningless.

All of the constraints mentioned above trap the farmers in a vicious circle of low income. A total of 90% of padi producers are in the B40 category and 75% of rubber smallholders receive a monthly income of less than RM2,750.

FELDA settlers are still indebted to their parent corporation despite the good promise of their share investment on Bursa Malaysia in 2012. Downstream market players — for example, millers, processors, traders and corporate sectors — see higher profits compared with the smallholders. In short, there is inequitable distribution of profit along the supply chain.

Budget 2021 has given emphasis to important aspects of agriculture such as the promotion of community agriculture, organic farming, urban farming and numerous incentives to help farmers address the pandemic pressures. Nevertheless, the budget would have been more impactful for the agriculture sector had the above considerations been taken into account.

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