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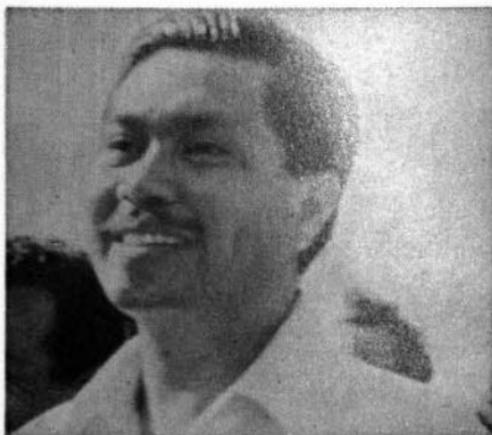


**POLICIES FOR THE
DEVELOPMENT OF
FARMERS'
CO-OPERATIVES
IN MALAYSIA**

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FOREWORD



The Farmers' Organization Authority, Malaysia is producing a series of booklets, on the farmers' co-operative movement in Malaysia.

The booklets will cover a wide range of subjects which are of particular interest to farmers' co-operative members and co-operators in general.

This volume is the first in the series, and explains public policy with regard to the development of the farmers' co-operative movement in Malaysia under the Third Malaysia Plan 1976-1980.

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Authority responsible for rural institutions

The Farmers' Organization Authority (FOA) is the Government agency responsible for the promotion and development of rural institutions in Malaysia. It is a statutory body incorporated by an Act of Parliament.

Legislation

The Authority administers three laws governing three rural institutions, namely:

- (a) agro-based co-operative societies, registered under the Co-operative Societies Ordinance, 1948;
- (b) farmers' associations, registered under the Farmers' Association Act, 1967; and
- (c) farmers' organization (now known as farmers' co-operative), registered under the Farmers' Organization Act, 1973.

Agro-based co-operative society

Under the Co-operative Societies Ordinance, 1948, an agro-based co-operative society means any co-operative society whose principal objects or main functions concern agricultural production, agricultural credit, marketing or processing or any such commercial or trading ventures.

Farmers' association

A farmers' association, registered under the Farmers' Association Act, 1976, has the following objects of promoting the economic and social interest of its members:

- (a) *operation and formulation of extension and training programme for the advancement of agriculture, horticulture, animal husbandry, fisheries, home economics and rural youth;*

- (b) *promotion and establishment of demonstration farms;*
- (c) *assistance in the conducting of farm products, exhibitions and agricultural shows;*
- (d) *procurement, allocation and processing of farm supplies and daily necessities for farmers;*
- (e) *provision of marketing services and facilities for farm and livestock products;*
- (f) *provision of warehousing and processing facilities;*
- (g) *provision of saving and credit services and facilities to farmers; and*
- (h) *improvement of efficiency of farm management.*

Its membership is open to farmers who are engaged in agricultural or livestock production and whose income is derived from those activities; or those who are engaged in river or estuarine fishing and they derive their income from such activities.

Farmers' co-operative

A farmers' organization, registered under the Farmers' Organization Act, 1973, has the following objects:

- (a) *to provide extension services and training facilities to farmers so as to equip them with technology essential for the advancement of agriculture, horticulture, animal husbandary, home-economics, agri-business and other commercial enterprises;*
- (b) *to expand agricultural production amongst farmers and smallholders so as to promote greater diversification and commercialization of agriculture and to expand and promote agri-business;*

- (c) *to make available farm supplies and daily necessities including other facilities required for progressive farming and better rural living;*
- (d) *to provide farm mechanization facilities and services necessary in modernizing farming operations;*
- (e) *to provide credit facilities and services and to promote greater investment in agricultural and economic pursuits;*
- (f) *to promote, encourage, facilitate and offer services for rural savings;*
- (g) *to provide marketing services, storage, drying complexes, warehousing and other facilities;*
- (h) *to operate and provide transportation facilities to enhance agricultural marketing and related operations;*
- (i) *to establish and operate processing plants and milling complexes necessary for processing of agricultural products;*
- (j) *to facilitate capital formation and promote investment amongst farmers through equity participation in commercial and agri-business ventures;*
- (k) *to assist members in acquiring land and to undertake land development projects for the benefit of members;*
- (l) *to promote and stimulate group action through various community projects and facilitate leadership development;*
- (m) *to provide social services, educational and recreational facilities to enhance the social advancement and wellbeing of farm families.*

Individual members and member-units of a farmers' organization comprise of:

- (1) *any person who is a citizen of Malaysia, has attained the age of 18 years, and*

- (a) *is engaged in agricultural or livestock production;*
 - (b) *whose income is derived from agricultural or livestock production; or*
 - (c) *is in command of any of the factors of agricultural or livestock production.*
- (2) *an agro-based co-operative society or a farmers' association as unit-members.*

Interpretation of the New Economic Policy

The main thrust of the functions of the FOA is spelled out under Section 4(3) of the Farmers' Organization Authority Act, 1973, i.e. it shall perform functions "in furtherance of the policy of the Government for the time being in force and in particular the policy relating to the re-structuring of society", and the eradication of poverty.

(a) Poverty eradication through co-operatives:

The policy is to increase the income of farmers who are members of co-operatives so as "to cover minimum food requirements and minimum needs with respect to clothing, housing, consumer durable goods and transport services to sustain a decent standard of living".

(b) Re-structuring of society through co-operatives:—

The policy is to create a network of self-reliant and viable *co-operatives* in order:—

- (i) to bring about institutional changes which will break the existing relationships between the farmers and the rural capitalists by providing them (the small and marginal owner-farmers, tenants and sharecroppers) such services as extension, credit, inputs, mechanization, transportation, storage, warehousing, marketing and agro-processing;

- (ii) to usher (the co-operatives) into modern occupations in the agricultural economy, namely in agric-business, mechanization, farm transportation, marketing, and agro-industrial enterprises, thereby weakening the existing private sectors' stranglehold in the "money-lending, merchandizing-marketing system";
- (iii) to mobilize co-operative assets, properties, capital and other resources so as to remove exploitation on their members; and
- (iv) to create a class of modern commercial farmers (who are co-operators) from among the existing smallholders, and thereby uplift them into the middle of the social hierarchy.

Re-structuring of rural institutions

The long term policy of the Government is to create a network of 210 farmers' co-operatives throughout Peninsular Malaysia.

The strategies to be followed in creating the 210 farmers' co-operatives are as follows:—

- (a) the designation of 210 farmers' development areas in the smallholding sector; each farmers' development area covers an agricultural area (rubber, coconut, padi, and mixed agriculture areas) roughly between 5,000–10,000 acres, covering around 1,500 farm families;
- (b) in each area, there will be only a single co-operative for farmers; this is to be achieved through the integration of the local farmers' association with the agro-based co-operative societies to form a new farmers' co-operative registered under the Farmers' Organization Act, 1973, and
- (c) under the law now is prohibited the registration of farmers' association; an agro-based co-operative society may be registered, but is subject to the condition that it becomes a unit-member of the local farmers' co-operative.

The desired role of farmers' co-operatives

It is Government policy to develop the farmers' co-operative movement so that it could perform the following functions:

- (a) provide a vehicle for mutual assistance among their members — for sharing labour, mobilizing and using savings and other financial resources, building, acquiring and operating transportation and processing equipment and irrigation system, acquiring and distributing fertilisers and other production inputs, marketing surplus products, and even to test new varieties and innovations in cropping and livestock practices;
- (b) they make it possible for a more effective interaction between the farmers and the administrative, service-providing agencies of government; these organizations can retail the resources provided wholesale by government agencies. The Ministry of Agriculture has formulated a co-ordinating framework wherein the farmers' co-operative should be the channel for aid and services provided by other agencies having direct dealing with small farmers. The co-ordinating model is illustrated in the Appendix to this paper.

Poverty eradication programs

The main thrust of the program is to increase the agricultural productivity of existing smallholdings and to maximise the returns to farmers, through the following measures:

- (a) inter-cropping or multiple cropping on land; for example, as a second source of income to coconut smallholders, cocoa or coffee is planted as an additional crop; for padi single-cropper, the planting of tobacco or groundnuts, onions, cabbages etc. is encouraged during the padi off-season as a secondary source of income;
- (b) increasing the productivity of the crop through introduction of high-yielding varieties, better farm management practices, intensive use of chemical fertilisers, insecticides etc.;

- (c) provision of incentives by increasing the returns per unit of produce through easier/liberal credit, subsidies, cheaper inputs, cheaper mechanization facilities, and organized co-operative marketing for better price; and
- (d) creating a third source of income for padi farmers, coconut, rubber smallholders and mixed agriculturists through live-stock, poultry and inland fisheries projects.

Group farming

The strategy to be followed in the commercialization of small-holding agriculture is group farming, a transformation from the existing mode of production, i.e. separate and small-scale farming operations, to large scale consolidated group farming.

Group farming, as practised by farmers' co-operatives, operates along the following lines: (i) on lands where individual farming still persists, i.e. the small farmers still operate and manage individually their plots of land; however, the local farmers' co-operative arranges for the ploughing of the lands; provide credit to the group, and undertake the marketing function; and (ii) on lands where farmers jointly operate on a group basis; no particular plot is allotted to the participating farmers; they agree to contribute their labour on a work-schedule, and the returns are shared on an acceptable formula.

Poverty Eradication Funds

Under the Third Malaysia Plan, the Government has allocated a sum of \$28,024,000 for the following:

Program	Objective	Allocation (\$)
(i) Agricultural diversification	— commercialisation of small-holding agriculture through planting of cash crops (credit and subsidy)	24,024,000
(ii) Model farms	— for demonstration purposes, so that farmers can initiate farm improvement through agric-technological changes, proper farm practices etc. (credit and subsidy)	320,000
(iii) Joint-farming	— aggregations of farmers' lands for joint-production as pilot projects (credit & subsidy)	570,000
(iv) Horticulture	— production of vegetables for self-sufficiency in food; emphasis on women projects (credit & subsidy)	3,085,000
(v) Livestock/inland fisheries	— pilot projects (credit and subsidy)	25,000
		<hr/> <hr/> \$28,024,000

Credit and subsidy policies

For group farming, a package of integrated services are provided to members of farmers' co-operatives, namely:

- (a) extension service,
- (b) seeds and planting materials,
- (c) fertilisers,
- (d) insecticides, weedicides,
- (e) fencing (where necessary)
- (f) land preparation, and
- (g) marketing.

Under the FOA subsidy/credit policies, projects for cash crops only are being financed, as subsidies for perennial crops come under Department of Agriculture AID program. Items (a) and (g) are normally provided free by the farmers' co-operative. Where crops are planted for the first time in a given locality and their viability is not yet ascertained, items (b) and (d) are given as subsidies, and the rest are provided in the form of credit which is given for the planting of established cash crops. Fencing is normally given as grant under the package program.

Those who qualify for assistance must be members of farmers' co-operative, have adequate share capital and provide the labour themselves.

Participants are required to contribute 5% of the value of the loan towards his share capital when he receives his returns.

The credit policy of the farmers' co-operative is liberal. As small farmers have no fixed income, have no lands and other properties to charge as collateral, credit given is in kind and utilization of the inputs is supervised by the management staff of the farmers' co-operative.

The costs of servicing the loan are borne by the farmers' co-operative, which is given personnel by the Government (FGA). As such no interest is levied, except a service charge in order to remunerate project leaders who will be responsible for the recollection of the loan. Loans are normally given to the farmers' co-operative, which in turn enter into a sub-agreement with the participants of the project.

There are 3 types of loan, namely:—

- (a) short term padi production credit, which is for a period between 6 months to 1 year, carrying a service charge of between 4–6%;
- (b) short term credit for specified cash crops, e.g. tobacco (6 months to 1 year), groundnuts (4 months) and ginger (4 months). Loans for these crops carry a service charge of not more than 6%. For other crops like red onions, soya beans etc. whose viability is not yet ascertained (4 months to 1 year), the service charge for the loan does not exceed 3%.
- (c) medium term credit for tapioca, pineapples, bananas (1–2 years), pepper, passion fruit (1–3 years), carrying a service charge of between 4–6%.

As has been stated above, part of the service charge is imposed to remunerate the project leaders, and part of it goes towards the equity or share capital of the farmers' co-operative.

Farmers' co-operatives as an instrument in the re-structuring of farm society

The sole objective of creating farmers' co-operatives is to break the institutional relationships between farmers and the middlemen; such relationships are illustrated thus: if the farmer is a worker on the farm of the landlord, he gets wages; if he is a tenant, he pays rents; if he is a borrower, he pays interests; if he markets his product to him, he gets some profits. The middleman's strategic control over the small farmer arises from his ownership of certain forms of capital (credit, lands, machines, storehouse, processing plants etc.), and all these give him the power to keep rents high, wages low and margins between selling price and buying price on what are monopolistic terms favourable to him.

There is no redistribution of profits. In most cases, profits and the income derived by the middleman are to be further used to increase his ownership of capital and properties. His profits are seldom reinvested for the benefit of the farmers, but instead reside in urban banks and reinvested in non-agricultural enterprises.

The development of a strong farmers' co-operative, therefore, is crucial in re-structuring farm society. Co-operatives ensure a redistribution of income through payments like rebates and dividends as well as providing services at least costs and charging interest rates on loans or credits which are much lower than that charged by middlemen.

Funds for the programs of re-structuring of farm society

In order to restructure the agricultural economy, co-operatives can act as a countervailing economic power to weaken the institutional relationships between the farmers and the middlemen in a more competitive agricultural economy. In the effort to build up the capital and financial resources of the farmers' co-operatives, the Government has provided the following funds:

Infrastructure facilities	Objective	Allocation (\$)
(i) Farmers' development centre	— business and administrative headquarters for the local farmers' cooperative-storage, warehousing facilities (capital transfer items)	10,686,000
(ii) Collecting centres for agricultural produce	— facilitate marketing (capital transfer items)	1,256,000
(iii) Farm mechanization centres	— repair of farm machinery, sale of spare parts (capital transfer items)	1,200,000
(iv) Seed banks	— storage of seeds (capital transfer items)	1,585,000
Agro-based industries projects		
(i) Cocoa processing centres	— to process cocoa beans so as to secure better prices (credit)	858,000
(ii) Coconut kilns	— to produce copra (credit)	440,000
(iii) Tobacco barns	— provide curing facilities for members of co-operatives, so as to ensure higher margin of profits (credit)	692,000
(iv) Fruit processing	to process local fruits, especially for soft drinks (e.g. passion fruit juice) as well as for canning of local fruits (credit)	70,000
(v) Banana chips	— to commercialize banana production (pilot project for women farmers); (credit)	30,000
(vi) "Unallocated" projects	— to meet unforeseen expenditure when new projects are identified (credit)	1,085,000
		<hr/> <hr/> \$3,175,000

Farm machinery & transportation

(i) Farm machinery	— to reduce the power gap in the agricultural sector through the distribution of 4-wheel & 2-wheel tractors; to remove exploitation; (grants, subsidy & loan)	10,965,000
(ii) Transportation	— farm transportation for input distribution & marketing operations; to reduce dependence on middlemen (grant, subsidy and loan)	3,748,000
		<hr/> <hr/>
		\$14,713,000

With regard to the mechanization and farm transportation facilities, liberal policies are also adopted. It is the objective of the FOA to provide every farmers' co-operative with at least 3 four-wheel tractors at the end of the Third Malaysia Plan, complete with disc-plough, harrow, rotavator, ridger, trailer, padi cage-wheel etc. In accordance with this policy, the distribution of 4-wheel tractors by the Government is in accordance with the following:—

- (i) the farmers' co-operative is given a 4-wheel tractor as a grant from the Government in first instance;
- (ii) for a second tractor, the farmers' co-operative is given a 4-wheel tractor on the basis of 70% subsidy by the Government, and 30% capital contribution by the co-operative either through the securing of a loan or an outright capital contribution;
- (iii) for a third tractor, the Government contributes 30% of the cost of the tractor and the co-operative contributes 70% of capital contribution either in the form of securing a loan or on outright capital contribution.

- (iv) fourth tractor, payment of at least 30% of value of tractor, and the rest in the form of loan, carrying a service charge of 4%, over a 4 year period.

It is the intention of the Government that the co-operatives operate these tractors on an economic basis, so that they would be able to pay for the wages of the driver, as well as to meet the operating costs. The FOA, however, for the 1st year of its operation, will pay for the road tax and the insurance fees of the tractor.

The policy with regard to transportation is also liberal, Lorries etc. are given in the form of grant, and operating costs will be borne by the co-operatives. Drivers, however, are provided by the FOA in cases where the transport facilities are used as back-up services; in cases where the transportation facility is strictly for commercial use, the driver's wages will be borne by the co-operative.

As back up services for the tractors and lorries, the Government also provides farm mechanization service centres for the expressed purpose of providing repair and maintenance services, undertaking bulk sale of diesel, petrol, and the sale of spare parts etc. These centres help to create new jobs in the agricultural sector.

Revolving capital projects

To promote the agri-business activities of farmers' co-operative, the Government has created 2 revolving funds for the following purposes:

	Objective	Allocation \$
(i) Agric-chemicals, seeds and planting materials	— to increase agricultural productivity through use of chemical fertilisers, better seeds and planting materials; to reduce dependence middlemen (credit)	8,166,000
(ii) Co-operative marketing operations	— to promote marketing activities by farmers' co-operatives, especially in respect of cash crops planted on a commercial basis by farmers who are in receipt of credit etc. from the co-operatives; to intervene in the market situation so as to increase bargaining power of co-operatives and reduce the monopolistic or monopsonistic practices of middlemen (credit)	2,660,000
		<hr/> <hr/> 10,826,000

Total Funds

These funds, totalling in all \$43,441,000 will contribute towards the re-structuring of the agricultural economy by farmers' co-operatives during the Third Malaysia Plan (1976-1980).

Other assistance to co-operatives

The Government provides 3 other major assistance for farmers' co-operatives, namely:

- (i) the provision of personnel to manage the farmers' co-operatives;
- (ii) statutory auditing of these co-operatives; and
- (iii) exemption from income tax and other taxes.

Personnel

As has been stated above, a farmers' co-operative, once formed will perform multipurpose functions such as extension, credit, supply, marketing, mechanization, processing, savings and other services. To assist these co-operatives in farm plan preparation and project management, and in their administrative and financial management, the Government provides a maximum of 6 officers, namely the General Manager (normally a Diploma in Agriculture or Business Management), and 5 other assistants, normally with secondary education in agriculture, co-operative accounting, etc. Their salaries and allowances are borne by the FOA.

Statutory audit

The submission of audited reports together with audited financial statements at the end of the year, and the holding of annual general meetings according to schedule, constitute one of the most important measures to ensure that these co-operatives become institutionally accountable for their performance to the general body of members. For this purpose, FOA provides the statutory auditing services for which nominal audit fees are levied on these co-operatives. For agro-based co-operative societies, the charge per co-operative is a minimum \$10 and a maximum of \$200. For farmers' co-operative/association, the audit fee is based on 10¢ per member, but not less than a minimum of \$50 and not exceeding \$250 per audit year. For state level farmers' association, the fee levied is based on \$10 per unit-member, but not less than a minimum fee of \$100 and not exceeding \$500 per audit year.

Exemption from income tax and stamp duties

Under the income tax law of the country, an agro-based co-operative society, a farmers' association and a farmers' co-operative is given income tax exemption for the first 5 years after their date of registration. At the end of the 5 year exemption period, thereafter, where the members funds of such organization as at the first day of the basis period for the year of assessment is less than \$500,000 will also be exempted from income tax. "Member's funds" for this purpose, means the aggregate of the *paid up capital* (in respect of shares, subscriptions and entrance fees and not including any amount in respect of bonus shares to the extent they were issued out of capital reserve created by revaluation of fixed assets), *statutory reserve fund, reserves* (other than any capital reserve which was created by revaluation of fixed assets and provisions for depreciation, renewals or replacements and diminution in value of assets), *balance of share premium account* (not including any amount credited therein at the instance of issuing bonus shares at premium out of capital reserve created by revaluation of fixed assets), and *balance of profit and loss appropriation account*.

Income tax exemption is also given to such co-operative organization in respect of excess profit tax and development tax; and the income tax law also provides that dividends issued by the co-operatives to its members are not subject to taxation.

Apart from income tax exemption, the three organizations namely the agro-based co-operative society, farmers' association and farmers' co-operative are exempted from paying stamp duties under the Stamp Duties' Ordinance, in respect of instruments executed by these organizations.

Co-ordinating model of the Farmers' Development Centre within the goal-program matrix of the farmers' co-operative

Goal	Program	Agency — (function & service)	
(i) Increase productivity of farmers' lands	Land utilization	Dept. of Agriculture	— soil survey
		MARDI	— research on new crops
		NTB	— provides Quota for tobacco production
		Dept. of Agriculture	— all cash and perennial crops.
		MARDI	— new crops and technology
	Extension	Agric. University	— new crops and technology
		NTB	— tobacco
		Veterinary Dept.	— livestock & poultry
		Fisheries	— inland fisheries
		Dept. of Agriculture	— planting materials and seeds for cash and perennial crops.
Subsidies on agriculture and off-farm activities.			fertilisers, insecticides
	FOA	— planting materials, seeds, fencing	
	Veterinary Dept.	— poultry chicks; stud cows.	
	Fisheries	— ponds and fish fries.	
	RISDA	— planting materials and seeds for cash crops.	
(ii) Provides institutional credit.	as local credit centres.	Agricultural Bank	— all forms of agricultural credit.

		FOA	— credit for 2-wheel tractors, padi fertilisers, other fertilisers, insecticides; marketing funds.
		Co-operative Bank	— padi fertilisers and other agricultural credit.
		CGC	— all forms of agricultural credit.
		Commercial banks	— all forms of agricultural credit.
(iii) Mechanization & transportation	subsidy & loan	FOA	subsidy for transportation facilities and 4-wheel tractors.
		Agricultural Bank	— loans
		Co-operative Bank	— loans
		Dept. of Agriculture	— tractor rental services.
		RISDA	— tractor rental services.
Institutional marketing	through co-operatives	FAMA	— regulates marketing & provides market intelligence.
		MARDEC	— issues rubber marketing licences.
		NPRA	— issues padi purchasing licences.
		NTB	— co-ordinates tobacco marketing
Processing of agricultural produce & livestock.	through co-operatives or as suppliers of raw materials.	NPRA	— provides drying & milling of padi
		FAMA	— provides coffee, cocoa & copra processing
		MARDEC	— provides rubber processing
		Veterinary Dept.	— milk collecting centre.

Key:

- FOA — Farmers' Organization Authority
- MARDI — Malaysian Agricultural Research & Development Institute
- NTB — National Tobacco Board
- RISDA — Rubber Industry Small-holders Development Authority
- CGC — Credit Guarantee Corporation
- FAMA — Federal Agricultural Marketing Authority
- MARDEC — Malaysian Rubber Development Corporation
- NPRA — National Padi & Rice Authority.

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