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THE GOVERNMENTS OF MALAYSIA AND THE STATE OF JOHOR

P. ESTATES UNDER PUBLIC SECTOR AUSPICES

# WORKING PAPER

JOHOR TENGAH AND TANJONG PENGGERANG REGIONAL MASTER PLAN

## 1971

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BINNIE & PARTNERS

OVERSEAS DEVELOPMENT GROUP  
UNIVERSITY OF EAST ANGLIA

SHANKLAND COX OVERSEAS

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## ESTATES UNDER PUBLIC SECTOR AUSPICES

This is a preliminary paper, intended to provoke discussion, in the light of which further work will be required on objectives and methods of control, joint ventures and other aspects.

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## WORKING PAPER

### ESTATES UNDER PUBLIC SECTOR AUSPICES

The main paper was prepared in October 1970 as a preliminary paper for discussion.

The range of possible forms and structures of estates under public sector auspices is very wide - from estates which are wholly financed and managed by public sector agencies to estates in which some private capital is invested but which are subject to effective public sector control towards public objectives.

In the Draft Project Report, Chapter 6, public sector estates are divided into two classes:

1. Public settlement schemes - which are initially established and managed as estates by a public sector agency, but which are committed from the beginning to transfer the land eventually to a certain number of "settlers", in individual lots or to co-operative ownership.
2. Public farms - public sector estates which are established and managed as estates by or for a public sector agency, but which do not begin with a commitment to transfer the land to specific numbers of people. Initially these "public farms" will recruit a labour force and employ labour. Later, various forms of internal organisation and methods of transferring control and ownership can be introduced.

The description "public farms" has been used to mark the points that these agricultural production agencies need not be merely duplicates of private estates, under public ownership, and that they may eventually evolve in a variety of forms. This description may be taken as covering the "public sector estates" proposed for the SMP land development programme (one of the first examples is now being introduced in Trengganu). It may also include "joint ventures" (which

are also proposed for the SMP) where there is substantial public sector control over the objectives and methods of the joint venture.

A distinction must, however, be drawn between public sector estates which once established are intended to be run on ordinary commercial lines and those which are not. In the decision to establish the former class of estates, social considerations - and especially the need to provide employment in a particular area - will have played a part; but as far as internal management, objectives, incomes and control of workers are concerned, they will not differ from private estates.

A special example of the latter class of public sector estates are FLDA schemes, which are established with the object of eventual transfer of productive holdings to individual settlers or co-operative societies of which settlers are members. This paper is mainly concerned with wider variations within this latter class: estates which, without an initial commitment to transfer to specified numbers of people in certain specified ways, can establish ongoing production on a sound basis and thereafter introduce a range of "limited risk" experiments in internal management and methods of transfer of ownership to employees and perhaps others.

This class of agency is briefly described in Chapter 6 of the Draft Project Report (pages 48-54) and discussed further in Supporting Report XII on Alternative Strategies (pages 17-19), which are included in Supporting Volume 1.

ESTATES UNDER PUBLIC SECTOR AUSPICES

1. The range of possible variations under this heading is very wide indeed. There are mainly alternative combinations of structure of organisation, sources and methods of finance, degrees of control and sharing of income by participants, responsiveness to changing requirements of national or State policy etc. etc.
2. All will have two characteristics in common:
  - (i) they manage agricultural production on relatively large blocks of land;
  - (ii) they are initiated by some Government department or agency, which retains some element of control.
3. FLDA schemes, in their present stage before debt repayments are complete, are examples of specific forms of public sector estate. Ownership of the estate land is being transferred to the individual settlers or to co-operatives and, when this is done, the schemes will move into the private sector. In the meantime both the prospect of this future transfer and the fact that the number of settlers in each scheme is fixed limit the flexibility of the organisation. The following section concentrates on other forms of public sector estate which have greater flexibility in these respects - they recruit their labour force and can vary its size and composition to achieve their objectives in changing conditions; the employer/employee relationship is clearly defined.
4. One classification, by degree of private participation, would include:
  - (i) Estates wholly-owned, financed and controlled by public sector agencies (e.g. Public Development Corporations);

- (ii) Joint ventures - estates whose ownership and control is shared between a public sector agency and a private company;
- (iii) Managing agent contract - estate managed by a private company under contract to a public sector agency;
- (iv) Private commercial estates, over whose operations a public sector agency has some specific control.

5. These four classes are not necessarily linked with different classes of operations or objectives. For example, a wholly owned public sector estate may adopt objectives and practices which are almost identical with those of many private commercial estates, with no adaptation to possibly conflicting requirements of national policy. On the other hand private sector estates, with only a small degree of public sector control or influence, may well adapt to national policy requirements, for example, by providing more training for workers, greater security and perhaps greater employment than could do justified by short-run purely commercial considerations.

6. In other words a public sector estate will not necessarily act (just because it is controlled by a public sector agency) in the wider public interest nor in the interests of its employees more than a private estate. Objectives must be specified and observed and methods of control designed and implemented. This is the first important proviso. The second is that the estates must be commercially successful - the choice of objectives must not conflict with the ability to earn incomes by production and sale.

7. With these provisos, it is possible to introduce into various forms of public sector estate substantial differences from present private commercial estate operations. Most of

these differences relate to the distribution of benefits from development. In examining these differences it is useful to make comparisons with present FLDA schemes. The form of public sector estate taken as the main example is one wholly controlled by a public sector agency.

8. Initial Assumption

Consider an initial model of an estate, which is wholly financed by Government, established and managed with standards equal to those of a good FLDA scheme, by managing agents - a private estate company or (perhaps) by arrangement with FLDA. The estate is in production and earning \$480 per annum per acre net of management costs, processing and other charges, of which \$180 is paid to Government in interest and capital repayment.

9. (These figures are used for illustration and are roughly those used in estimates of income from FLDA oil palm schemes. The balance of \$300 per acre would be paid to an FLDA settler in wages and "dividend").

10. Various assumptions can be made about distribution or use of income and terms of employment on the public estate.

11. Use of Income

Assume the estate employs 1 worker per 12 acres (this is about the average for a private estate with good standards of cultivation of mature oil palm) and pays a market wage of \$125 per month = \$1,500 per annum. The surplus accruing to the estate is \$175 per acre per annum.

12. This surplus might be used in the following ways:

- (a) as a direct addition to general Government revenue;
- (b) for specific purposes of expenditure for the benefit of people other than those employed on the estate: e.g. for expenditure on further and faster land development or other

employment-creating productive investment;

(c) for distribution to, or expenditure for the benefit of, those employed on the estate.

13 (b) requires that the estate should be within some larger organisation - e.g. a development corporation - which receives the surplus and invests in developments outside the estate. If the receipt of the surplus reduces the finance provided to the corporation from general Government sources, then, (b) amounts to the same as (a).

14. In either case, if the public estate is to be an effective device for spreading benefits of development widely among under-privileged groups, it is important that the receipt of the surplus by the public sector should lead a rise in total public expenditure for the benefit of those groups. There appear to be good grounds for suggesting that, if the surplus is not wholly distributed to the estate's employees (as in (c)), it should be used for additional investments which benefit those groups.

15 (c)- the distribution of the surplus to the employees of the estate - is similar in principle to practice on FLDA schemes. The FLDA settler on a mature oil palm scheme receives the whole surplus, net of debt repayment and interest, in dividend. This follows from the fact that the FLDA settler is a landowner, owning the equity of an individual lot or a share in the equity of the scheme (purchased by instalments out of wages plus "dividends"). It also reflects the intention to bring settlers into the "modern sector" with a substantially higher income than they were earning, on average, in rural kampongs. On present price expectations, this aim seems likely to be achieved in FLDA oil palm schemes, with incomes of \$250-\$300 per month, though not usually on rubber schemes where incomes from the main crop may average \$125-\$150 per month, compared with \$125 per month for estate labour.

16. Employees on the assumed public sector estate are not landowners, so the first justification for full distribution of the surplus to them does not apply. The extent to which the second argument should apply requires further discussion.

17. Terms of Employment

Creation of employment opportunities is one of the objectives of new land development. If it were the only objective it might be enough for a public sector estate to offer terms of employment which would attract the required labour supply, but no more. It is probable that these terms would have to be more attractive than present "market" rates, especially in remote areas. But a relatively small improvement (possible in oil palm, though difficult in rubber) might provide jobs for those with previous experience of estate work, which would be acceptable jobs in conditions of general unemployment. (An important group are Indian estate workers who have become redundant in the past decade, among whom unemployment is especially serious).

18. But the objectives are not only to provide work for the currently unemployed, but to provide employment in agriculture and other activities in the project areas which will remain attractive during the next 20-30 years in comparison with other employment and career opportunities and rising incomes in surrounding areas and towns. The employment must satisfy the realistic aspirations particularly of the younger members of the group from which the majority of FLDA settlers are drawn - rural poor with little or no land and often with little knowledge of modern agriculture or other modern sector activities (the majority being Malays).

19. Public sector estates which are not committed to eventual transfer of land to a fixed number of smallholders or co-operators can introduce innovations in prospects and opportunities which satisfy these aspirations in different ways from other land development organisations.

20. FLDA schemes offer land ownership with a package of credit, management, training, services, house and a prospect of relatively high incomes. The demand for land reflects aspirations for higher incomes, security of employment, some independence and ownership of an asset to leave to children. To many rural poor - especially older Malays - land ownership is the only known way to satisfy these aspirations. But schemes which offer land ownership with little or no supporting package provide much less prospect of satisfaction to those with little credit or relevant skill and experience. They are less attractive, only partly because the alternative of FLDA exists. Employment on private estates also offers a package, but normally with little prospect of the higher incomes, security, independence or asset ownership which are required to meet these aspirations.

21. Terms and conditions of employment on public sector estates with a variable labour force should offer sufficient prospects of higher and rising incomes, security, independence and asset ownership, to compensate for the absence of individual or collective ownership of land.

22. The following additional assumptions are made:

- i) Estates of the kind described in paragraph 8 are subsidiaries of one or more larger organisations (public development corporation).
- ii) These larger organisations may have other subsidiaries in production outside agriculture and/or outside the project areas.

iii) Housing is not tied to employment.

iv) Several employing organisations are accessible to the residents of any village.

23. Variable Employment

Subject to later qualifications, the estate is free to vary the proportions of labour to capital, including land, the proportions of skilled to unskilled labour, and the nature of its crops, if such variations will increase the "surplus" earned over time. Assume initially that it pays labour wages which are considered "reasonably good" when compared with wages in comparable modern sector occupations.

24. The freedom to vary the proportions of labour to capital or to land, and the fact that the estate does not carry a labour force in excess of the fulltime employment which it requires, enable the estate both to pay initial wages to new employees which are "reasonably good" and to raise the level of earnings of its employees through time in line with earnings elsewhere. It can adapt to changes in product and labour market conditions and to improvements in technical knowledge in much the same way as a private estate which is a "reasonably good" employer. Innovations of crop and technique which raise the value of output per worker or per unit of capital are under continuous study and they are stimulated by rising wages or falling product prices. Over time these innovations are likely to mean a rising average acreage of land per worker, although the introduction of higher value crops (or livestock) and higher yielding varieties will slow the process down. In other words, the estate can maintain or increase its level of wages in line with wages elsewhere, but, in the first place, the numbers employed on the estate (of a given acreage) are likely to fall through

time and, secondly, the fall in employment will be greater, the greater is the rise in the wages paid by the estate.

25. Several questions arise:-

- i) How can this flexibility of the labour force be reconciled with the demand for security of employment and income?
- ii) The wage so far assumed is a "reasonably good" one, by comparison with wages elsewhere. What adjustments are required, if any, to provide levels of income and other advantages (a) which are "acceptable" as a policy objective and (b) which will attract young people from poor rural areas into permanent career employment in modern agriculture?
- iii) How can this flexibility be reconciled with the national objective of employment creation?

26. The first and second questions are discussed below.

27. Security

Much greater security than appears to be normal in estate employment at present could be provided by direct and indirect methods.

28. The main direct method is to include in the employee's employment agreement a guarantee of continued employment on the estate for a period varying with the length of previous employment with the estate or parent organisation, and/or a guarantee of comparable employment elsewhere, for a longer period. (This is a variation of FLDA's 5-year apprenticeship period before a settler becomes permanent).

29. Compensation for redundancy, the amount depending also on the length of previous service, should also be considered.

30. The period of guaranteed employment, in the parent organisation if not in the estate itself, could be a long one of 5 years or perhaps much more, if the parent organisation or an associated organisation offering similar jobs were expanding continuously. For example, the labour requirements in oil palm fall markedly after the oil palms reach maturity (currently from around 1 worker for 8 acres to 1 worker for 12 acres). On these figures, two thirds of the initial employees could remain employed on the oil palm estate itself after the immature period. A relatively low rate of expansion of new schemes would provide employment for the remaining one third.

31. The guarantee would have to be subject to satisfactory performance by the employee. This raises problems, but they are much less serious than those faced by FLDA in considering the eviction of an "unsatisfactory" settler.

32. Other measures also contribute to security and independence.

- i) If residence is separated from employment, as assumed in paragraph 22, the individual retains security of occupation of his house.
- ii) It was also assumed, in paragraph 22, that normally several different employing organisations should be within access of a village. Preferably their activities should be diverse. Then the population of the village does not rely for employment solely on one large organisation, but has alternatives and also some independence in choice of work.
- iii) It will be argued later that varied training should be given more emphasis in public sector estates than in schemes which lead eventually to land ownership.

This training will lead to promotion of some employees within the parent organisation and will increase the range of job opportunities open to workers leaving the estate voluntarily or compulsorily, so increasing their personal independence.

- iv) Arrangements can be made for employees to acquire assets in addition to their house and transferable pension rights.

33. To sum up on terms of employment; public sector estates can offer various combinations of wages, prospects of training and possible promotion, security and personal independence which are more limited in one sense, than that given by land ownership, but less limited in other senses, in that they are not tied to an individual lot of land. The wage element, it is proposed, should be in line with market wages. This implies that the monetary income per employee will initially be lower than that of an FLDA settler on a mature oil palm scheme (with present price expectations) although its increase in the long run should be greater. So the non-wage elements in the combination must add up to more than in FLDA schemes if work on public sector estates is to be equally attractive to similar groups, if and when general unemployment ceases to be serious.

34. Training and assets acquisition are discussed later (paragraphs 39-42, 53-60). The next section considers the problem of reconciling the assumption of a variable, fully-employed labour force with the present need to create employment opportunities.

### 35. Partial Employment

On FLDA schemes the number of settlers will normally be larger than the number of workers on a private estate with similar acreage and crop, and the number of people seeking

work in an FLDA village will certainly be larger than can be fully employed in cultivating the scheme's main crop. (e.g. mature oil palm estates employ 1 worker for 11-13 acres and some employ 2 workers per household - i.e. one household to more than 20 acres; FLDA has 1 settler and 1 household for every 10 acres). In this way FLDA provides more "job opportunities" per acre than private estates - in partial or under-employment on the main crop - at incomes which are intended to be reasonable. Put another way, the FLDA system brings into a village a working population larger than can be employed immediately. It is intended that, in time, ancillary activities will develop to provide additional employment and/or that employment opportunities for settler's dependents will arise outside the scheme area. In the meantime, settlers' households have partial employment, at least, and (once production starts) a reasonable income.

36. In contrast, the public sector estate, as assumed, attracts to the area only those whom it needs to employ. Other employers in the area do the same. Other people may wish to come to the area without any definite prospect of work; but this movement is voluntary - they are not brought into the area by a public authority. If most of the working population of the area are attracted to definite employment, there will be little or no local unemployment in the first stages.

37. It would be possible, but difficult, to modify the operations of the public sector estate so that it provided partial employment for a greater number. It could be required to provide part-time employment only on certain operations (e.g. in oil palm harvesting one man might be confined to half the acreage which he could handle by full time work).

However, this runs into obvious problems. Greater management effort is required to manage more part-timers than fewer fulltimers. As full time jobs develop elsewhere workers will move to them unless they are bound to the part-time employer (as on FLDA by agreement and landownership) -- this implies a high turnover of employees, and probably of the better ones.

(Note: it is assumed here that workers are paid proportionately less for part-time work on the public sector estate than they would be paid for full-time work elsewhere. If the estate effectively pays a higher rate per hour, this will 'bind' part-time workers to it. In the terms used in paragraph 38, the primary attraction will then be income).

38. These problems would persist in any public sector estate whose primary attraction to workers was employment. Therefore a distinction has to be made between public sector estates whose primary attraction is something else - the prospect of land ownership as in FLDA, or the provision of training - and those whose main attraction is, more simply, worthwhile employment with prospects of advancement. The former may provide partial employment for larger numbers if national and local conditions make this desirable. The latter generally should not.

### 39. Training

It was suggested above that emphasis should be given to training of employees on public sector estates, partly in order to add to their security and personal independence. Clearly training of some kind is essential to the introduction of new groups to modern agriculture; but more than this is implied. The objects are to increase skill not only for possible promotion in the estate or parent organisation, but

to widen the range of job opportunities (including industrial and service jobs) open to employees.

40. The scope and need for training related to the estate's own operations are probably greatest in annual crops, livestock and mixed farming which it is hoped can be introduced into the project areas, and in which the range and frequency of farming decisions to be made by manager or worker are much greater than in rubber or oil palm. A strong programme of training and gaining experience is necessary to the introduction of these new activities. Ten years' employment on public sector estates could be made one of the main routes to becoming a versatile, skilled, modern farmer. If so, many employees would leave after gaining experience and some, having accumulated initial capital, would become self-employed farmers. It would be a desirable function of public sector estates to act as a training ground in this way (as many private firms do). But the necessary provisos are that the estates must be well-managed and commercially successful.

41. In the present main crops of rubber and oil palm there is less scope for varied training related to the estate's own agricultural operations. The arguments for emphasis on varied training on a public sector estate, to increase security and independence, still stand; so do the national arguments for training in general. It is not desirable that, say, a public sector oil palm estate should include unrelated training among its own functions. It should pay (from its surplus) for training to be provided to its employees. This suggests that public sector estates with little scope for a varied training programme related to their operations should be located close to centres in which training can be combined with estate employment.

42. The emphasis on training implies that the selection of the majority of initially unskilled employees should prefer those who want training and can be trained; but the selection should not be limited to those with L.C.E. and above.

43. Finance - methods and sources

So far it has been assumed that the capital for the public sector estate or its parent organisation is supplied by loans from Government which it repays with interest over, say, 20 years. This follows the present principles of FLDA financing - loans are made by Government to FLDA which FLDA gradually repays, at the same time as new loans are given to maintain or increase its rate of development expenditure. This section comments briefly on this system, then discusses finance from non-Government sources.

44. The system of repaying earlier loans while borrowing anew to maintain the rate of investment gives the lending authority continued financial control over the operations of a public sector agency. But it contrasts with the method of finance of a private company, which will normally raise its initial capital by issue of shares, as permanent capital. This capital is not repaid except in special circumstances; the company pays taxes and dividends but will otherwise retain the whole of its surplus, reinvesting this to maintain or increase the value of its assets.

45. If a public sector agency is entirely dependent for finance for new investment on authorisations year by year or at best for five years ahead, its ability and inclination to plan ahead may be severely reduced. If an agency is established with the intention that it shall continue

and expand its activities, it is desirable that part of its initial capital - and preferably a large part - should be permanent. The Government then exercises control as a shareholder.

46. (For similar reasons it is also desirable that a public sector agency of the kind discussed here should be financially independent in its current expenditures - financing its expenditure on management, for example, initially out of working capital and later out of the revenue from sales. FLDA management has so far been financed, not from sales revenue, but by a grant from the Vote of the Ministry of National and Rural Development. This requires justification of details year by year in the course of the examinations of Estimates of Government expenditure).

47. Larger issues are raised by the suggestion that finance should be raised directly from private sources. The implementation of the New Economic Policy is expected to require greater public sector participation in land particularly in land development.

Distinctions should be made between the methods used to finance commercial public enterprises and those used for other public non-commercial agencies. It is suggested that public sector commercial enterprises should be empowered to issue shares carrying rates of dividend which are more closely related to profit-earning capacity than are rates of interest on Government debt. Shares carrying a basic dividend of 7-9 percent, with additions depending on current profits, might be one appropriate form.

48. A specific and important reason for giving a public sector enterprise power to issue shares is not primarily to provide finance but to provide an instrument with which the enterprise can help its employees to acquire assets. An enterprise could begin share issue by selling shares or distributing bonuses in the form of shares to its employees (in ways discussed in later paragraphs). Employees should be able to sell these shares. Even if they were not intended to sell them, in practice a market of a kind would develop, in which the annual dividend income would be used to pay interest on loans to shareholders. It is better to allow a genuine market to develop. Once shares held by employees are marketable, there is little reason why the enterprise itself should not sell its shares directly in the same market.
49. It is not suggested that a new public sector enterprise should raise its initial finance in this way. But as a market develops and financial channels become established, share issue could provide additional finance.
50. If the principle of direct share issue by public sector enterprises is accepted, further study is required of mechanism and control, including the effects on existing financial institutions and the need for new ones. A device of this kind may, however, be useful in mobilising small private savings for development purposes in a way which yields reasonably good returns to the saver.
51. It should be noted that the principle is already in effect, in a different form, in FLDA and other land development schemes. The settlers are acquiring 100 percent

shares in their individual lots or shares in collectively owned schemes. The land itself becomes marketable when it is transferred to the settlers, and in the meantime it yields dividend income, which will give settlers some command over assets, if they wish, through borrowing. There is one important difference. In land settlement schemes a Government loan is given to settlers to enable them to acquire the equity of their land (i.e. the right to receive all "surplus") immediately; they are full shareholders from the start, and repay the loan by instalments. With the issue of shares to employees of public sector enterprises, as envisaged here, the employees acquire shares (and their claim to part of the "surplus") only gradually, partly or wholly out of earnings. Outside shareholders must, of course, also buy their shares before receiving dividends. The enterprise itself retains the rest of the "surplus".

52. It has been said that in Malaysia one financial problem is to find ways to mobilise small private savings for public investment with widespread benefits. The land settlement method of financing has been described, unfairly, as doing almost the reverse - using large public savings for private investment by and for individuals.

53. Acquisition of Assets by Employees

The ownership of an individual lot of land large enough to yield a reasonable income gives the desired elements of security, independence and an asset to leave to children. The asset which the landowner owns is also the physical asset he works with. He can increase its value by his own efforts.

54. For an employee, this link between the assets he owns and the assets with which he works is remote, if it exists at all. The main earning assets whose value he can increase by effort are his personal assets of skill and experience. A public sector estate or other enterprise can help to meet the desire for financial or physical asset ownership, e.g. by issue of shares in the enterprise to its employees. But the connection between the value of those shares and their individual efforts is small or negligible. Share ownership does not reduce the need for management and direct wage and other incentives to work.

55. A public sector estate can help employees to build up assets (a) by providing the instruments or channels for accumulation (b) by distributing part of the "surplus" to employees as an addition to wages. The discussion concentrates on (a) the choice of instrument or form. There are several possibilities, apart from arrangements made by the employer for deposit/investment in existing financial institutions on behalf of employees; shares might be issued (a) in the estate or other enterprise itself or (b) in the parent organisation whose subsidiaries carry on estates and other activities. These shares might be issued to employees.

- i) compulsorily as part of wages;
- ii) voluntarily as part of wages;
- iii) by paying bonuses or part of surplus in the form of shares.
- iv) by giving employees the right to acquire shares on reasonably advantageous terms.

56. On the choice between shares in the employing estate itself or in the more widespread parent organisation: shares in the estate give closer identification with the estate on which the employee works, and fit those cases in which

employees will build up a majority or 100 percent holding and the estate is transferred to them. Shares in the larger parent organisation give a wider spread of risk. Various compromises are possible - the most suitable may be shares in the estate with the basic dividend being guaranteed (in the first place) by the parent organisation (with additional controls by the parent if it has to act on the guarantee).

57. In part the choice between shares in estate and shares in parent organisation depends on the amount of surplus to be distributed in addition to wages and so on the likelihood that the estate will eventually be transferred to employees.

58. On the methods of share issue (paragraph 55) the role of employee is separate from that of shareholder. Payment of wages should be in cash, not shares. This rules out 1. 2 and 4 come to the same. Two methods of issue remain: payment of bonuses or part of the "surplus" in the form of shares and voluntary purchase.

59. Voluntary purchase of shares by employees could be on reasonably advantageous terms, the number of shares to be acquired on these terms varying perhaps with length of employment. "Reasonably advantageous terms" could mean at a small discount (10-15 percent) below the current market price. But for there to be a market price the shares must carry a dividend and be traded publicly (see arguments of paragraphs 47-51).

60. Many questions remain - e.g. on rights of minority shareholders, control, possible restrictions on number of shares acquired by outsiders etc. etc. These require further study if the general principle is accepted.

61. Distribution of "surplus" to employees

Various disadvantages of estate employment, as compared with settlement on schemes which offer land ownership, can be removed or reduced in a public sector estate, and compensating advantages introduced. Some changes - e.g. provision of additional training - require expenditure to be financed from the surplus of the estate or parent organisation. Apart from these uses of the surplus on their behalf, how much of the "surplus" be distributed to the employees in cash or by share issue? To arrive at a standard, comparisons might be made here with the total receipts in cash and kind of settlers on land settlement schemes sponsored by public sector agencies. But these receipts vary extremely widely - from the net income and eventual ownership of 5 acres of rubber, often not very well planted, to the net income and eventual ownership of 10 acres of well planted and cultivated oil palm (as on FLDA oil palm schemes). To match the latter would imply the distribution of almost all the "surplus" of a public sector estate to its employees.

62. It is suggested that distribution of the surplus, whatever its amount, should be in the form of shares and a money dividend on shares already held, not wholly in money. If an employee sells the shares to a private purchaser, this provides him with money. Meanwhile the public sector estate or its parents retains money for reinvestment which can have more widespread benefits. The net effect will be to increase the supply of private savings for public purposes, provided that private purchasers are not, in aggregate, switching from holding government debt in some form to holding shares in the public sector enterprise. A large proportion of the surplus can then be distributed

to employees in the form of shares without reducing the resources available for wider purposes. It becomes in effect an additional sale of shares to the public.

63. The position with respect to Corporation Tax on the "surplus" of a public sector enterprise of this kind needs further examination.

64. Summary and Comparison with Private Sector Estates

The proposals made in this paper will be summarised briefly in this section. These proposals, if agreed, can then be examined to see how and to what extent they can be implemented by combinations of public/private estate or other enterprise or by wholly private enterprises.

1) The estate is well-managed by modern standards, employing managing agents (private or FLDA) or managers paid market salaries to ensure that this is so.

2) It is free to vary proportions of labour to capital, of skilled to unskilled labour and the nature of its crops, in order to increase the "surplus" earned over time (paragraphs 23, 24 and 35-38).

3) It provides good terms of employment  
"reasonably good" wages (paragraph 24)  
guarantee of continued employment for a period

(paragraphs 27-31)

exceptional emphasis on varied training (paragraphs 39-42)  
prospects of promotion within the estate or parent  
organisation (paragraph 32)

4) It provides for asset acquisition by employees  
in the form of shares (paragraphs 53-63).

5) Other measures contributing to security and independence:

- a. separation of residence from employment
- b. alternative employment opportunities accessible to village (paragraph 32).

6) The estate or parent organisation is initially financed from Government sources but raises some additional finance later by issue of shares to the public.

7) The estate or parent organisation distributes part of its surplus to shareholders (employees and outside shareholders) in dividends. This part increases through time as more shares are held by the public (paragraphs 43-63 passim).

8) The remainder of the surplus is divided between reinvestment for public purposes benefiting people other than those directly employed on the estate and general Government revenue (paragraph 12, 43-63 passim).

65. Of these points 1, 2 are characteristics of a well run private estate. 3a, b and d and some training are provided by "good" private employers, though possibly not to the extent required here. Exceptional emphasis on varied training (3c) could be provided by private estate, where appropriate, either as a condition of the allocation of land (e.g. in livestock introduction) or in return for payment by Government.

5 a and b are not matters for the individual estate. (a. requires separate arrangements for provision of housing; b. is a matter of regional planning).

6, 7, 8 are peculiar to the public sector estate (some companies do issue shares to employees and the shares of public companies can be bought (4)).

66. The main differences between the public sector estate discussed in this paper and a well-run private estate which is a "good" employer are in the distribution of benefits, both in employment and training and in the surplus earned by the enterprise.

67. The public sector estate can be directly required to select its employees from the poor - and particularly youths - in rural areas and to ensure that they are trained to higher levels of skill.

68. Part of the surplus of a private sector estate goes to Government in taxes. Some is distributed in interest and dividends. Much of the rest may be used for reinvestment with wide-spread benefits of employment. But it is only possible for Government to ensure that this happens in a few cases - e.g. an initial grant of land might be made conditional on development of a larger area for specified purposes. The public sector estate allows public control over the distribution and use of the surplus.

69. The device of the public sector estate makes possible direct control over employment and distribution in conformity with national objectives. Some of the necessary provisos have been mentioned in this paper.

