

## BUMIPUTERA POLICY AND STRUCTURAL CHANGES IN THE SMALLHOLDER ECONOMY: FROM TRADITIONAL TO ORGANIZED SMALLHOLDER

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### INTRODUCTION

**T**HIS paper intends to analyze and evaluate how the Malaysian traditional smallholders have been organized by the government under the Bumiputera policy implemented over two decades, from 1971 through 1990.

The Bumiputera policy has exerted a broad and profound influence upon the socioeconomic structure of Malaysia. In the agricultural sector, this policy has given priority to the elimination of poverty among smallholders. What measures, then, have been taken to achieve this goal? Here, I focus on government efforts to organize rubber and oil palm farmers with a view to measuring the significance of such efforts. Originally smallholder protection was provided mainly in the form of subsidies to individual smallholders, but the effects of this policy were found to be precarious and unstable. In view of this, the government gradually passed on to a new type of smallholder protection, applied particularly in the process of rubber tree and oil palm replanting, in favor of organizing smallholders by means of contracts with them covering replanting, production, management, and marketing processes. This article will mainly introduce the plans and functions of three government agencies engaged in "organizing" smallholders, and identify problems accompanying this effort. But before analyzing the work of the three agencies, I will outline major crop areas in Malaysia. As Table I shows, the areas planted to rubber (40 per cent), oil palm (35 per cent), and rice (11 per cent) make up 86 per cent of the total planted area of Malaysia (1987). The crop-wise planted areas have slightly changed between 1983 and 1987 in favor of oil palm at the cost of rubber and rice. Still, it is possible to analyze and comprehend the basic characteristics of current Malaysian smallholder agriculture by examining the trends in the production of these three major crops. As the structure of smallholder rice-growing is analyzed by Fujimoto in this issue, I limit myself to the analysis of rubber and oil palm growers.

#### I. RUBBER AND OIL PALM GROWING AND SMALLHOLDER PROTECTION POLICIES

Before independence, the government had no protective policy toward smallholders' cash crop production except for rubber tree replanting. This situation changed

TABLE I  
AREAS PLANTED TO MAJOR CROPS, PENINSULAR MALAYSIA, 1983-87

|          | (1,000 ha)   |              |              |              |              |
|----------|--------------|--------------|--------------|--------------|--------------|
|          | 1983         | 1984         | 1985         | 1986         | 1987         |
| Rubber   | 1,691 (44.7) | 1,685 (44.6) | 1,663 (42.9) | 1,705 (43.3) | 1,586 (39.9) |
| Oil palm | 1,100 (29.1) | 1,144 (30.2) | 1,216 (31.3) | 1,328 (33.7) | 1,380 (34.7) |
| Rice     | 473 (12.5)   | 437 (11.5)   | 464 (12.0)   | 431 (11.0)   | 451 (11.3)   |
| Coconut  | 232 (6.1)    | 226 (6.0)    | 220 (5.6)    | 166 (4.2)    | 204 (5.1)    |
| Cacao    | 84 (2.2)     | 89 (2.4)     | 101 (2.6)    | 105 (2.7)    | 124 (3.1)    |
| Others   | 206 (5.4)    | 201 (5.3)    | 216 (5.6)    | 200 (5.1)    | 232 (5.8)    |
| Total    | 3,786(100.0) | 3,782(100.0) | 3,880(100.0) | 3,935(100.0) | 3,976(100.0) |

Source: Kementerian Pertanian, *Statistical Handbook, Agriculture* (Kuala Lumpur, 1987), p. 32, Table 17.

Note: Figures in parentheses are the percentage shares.

TABLE II  
RUBBER-PLANTED HECTARAGE ON ESTATES AND SMALLHOLDINGS  
IN PENINSULAR MALAYSIA

|                    | (1,000 ha) |       |         |       |         |       |         |       |
|--------------------|------------|-------|---------|-------|---------|-------|---------|-------|
|                    | 1975       |       | 1980    |       | 1984    |       | 1987    |       |
|                    | Area       | %     | Area    | %     | Area    | %     | Area    | %     |
| Private estates    | 563.3      | 33.3  | 491.6   | 29.0  | 443.6   | 26.3  | 373.4   | 23.5  |
| Smallholder sector | 1,131.6    | 66.7  | 1,205.7 | 71.0  | 1,241.0 | 73.7  | 1,212.9 | 76.5  |
| FELDA              | 105.1      | 6.2   | 168.9   | 9.9   | 187.5   | 11.1  | 182.3   | 11.5  |
| FELCRA             | 26.1       | 1.6   | 41.8    | 2.5   | 56.8    | 3.3   | 57.8    | 3.6   |
| RISDA              | 554.0      | 32.7  | 605.0   | 35.6  | 653.3   | 38.7  | 655.8   | 41.3  |
| Others             | 446.4      | 26.3  | 390.0   | 23.0  | 343.4   | 20.6  | 317.0   | 20.0  |
| Total              | 1,694.9    | 100.0 | 1,697.3 | 100.0 | 1,684.6 | 100.0 | 1,586.3 | 100.0 |

Sources: [3, 1984 edition, p. 39] [3, 1987 edition, p. 53].

Note: "Estate" is a land area permitted to grow rubber under a single legal ownership, or a 100 acres (40.4 hectares) or larger land plot actually planted to rubber; "smallholding" is a farm of less than 100 acres.

drastically in favor of protective measures. This occurred in connection with the establishment of the Federal Land Development Authority (FELDA) in 1956, followed by the Federal Land Consolidation and Rehabilitation Authority (FELCRA) in 1966, and the Rubber Industry Smallholders' Development Authority (RISDA) in 1973. Knowledge of the plans implemented by these three government agencies is thus essential to the understanding of the changes and problems involving rubber and oil palm growing smallholders under the overall Bumiputera policy.

First let us see how the area planted to rubber was divided into estate and smallholder areas in 1975, 1980, 1984, and 1987 (Table II). The smallholder area is subdivided into four categories, namely, FELDA, FELCRA, RISDA, and

TABLE III  
RUBBER-PLANTED AREAS IN MALAYSIA BY FORM OF MANAGEMENT

|                          | (1,000 ha) |         |                 |
|--------------------------|------------|---------|-----------------|
|                          | 1960       | 1980    | Growth Rate (%) |
| Private estates          | 782.9      | 491.6   | -37.2           |
| Traditional smallholders | 753.8      | 805.9   | 6.9             |
| Organized smallholders   | 11.8       | 399.8   | 3,388.0         |
| Total                    | 1,548.5    | 1,697.3 | 9.6             |

Source: Lim Sow Lin, "Marketing Malaysian Rubber: An Approach by Sector," in *Proceeding of the International Rubber Marketing Conference* (Kuala Lumpur: Rubber Research Institute of Malaysia, 1983), p. 348.

- Notes: 1. In the above cited paper, it is not quite clear which government-scheme farmers, except for FELDA farmers, the author regards as "organized" farmers.  
2. The original list is in acres.

"other" areas. The most important trend read from this table is that the smallholder area increased while the rubber growing area owned by private estates, which are large rubber farms, gradually decreased both in absolute and relative terms. Also important to note is the fact that the increase in the smallholder area owed primarily to the drastic increase in the area controlled by the three smallholder protecting agencies, FELDA, FELCRA, and RISDA. By contrast, acreage belonging in "others" dropped both absolutely and relatively.

There is another categorization of Malaysian rubber growing smallholders—"organized" smallholders and "traditional" smallholders. The former comprise those smallholders who are organized and controlled by the three government agencies and the latter those running their affairs on their own responsibility and by their own judgment in free market conditions. Table III gives distribution of rubber-planted hectareage between the two categories of smallholders.

As this table indicates, the rubber-planted hectareage of the "organized" smallholders grew thirty-four times between 1960 and 1980. The definitions of "organized" and "traditional" smallholders are unclear except that the first definitely include FELDA settlers. However, my field surveys convinced me that in addition to FELDA smallholders, the overwhelming majority of FELCRA plan-covered small rubber growers as well as those small replanters under RISDA's mini-estate program were also to be classified as "organized" smallholders. If this is correct, the hectareage share of "organized" smallholders must be by now very close to that of "traditional."

Let us then look at the situation of small oil palm growers (Table IV). In this table, the hectareage of the FELDA and FELCRA scheme area seems to correspond to that of "organized" smallholders. In Peninsular Malaysia, the hectareage of oil palm estates grew by 30 per cent, that of "traditional" and "organized" smallholders by 50 per cent, and that of publicly-owned oil palm farms managed by RISDA/ESPEK and states by 50 per cent between 1980 and 1985. Since 1985 the weight of "organized" smallholders in rubber and oil palm agriculture has further grown;

TABLE IV  
AREAS PLANTED TO OIL PALM BY MANAGING BODY

|                     | (Hectare)       |                   |                   |
|---------------------|-----------------|-------------------|-------------------|
|                     | 1980            | 1984              | 1985              |
| Private estates     | 494,461 (53.5)  | 613,965 (51.3)    | 644,522 (50.0)    |
| Government agencies | 351,045 (38.0)  | 430,028 (36.0)    | 475,210 (36.7)    |
| FELDA               | 306,593 (33.2)  | 375,159 (31.4)    | 397,722 (30.8)    |
| FELCRA              | 20,311 (2.2)    | 29,329 (2.5)      | 49,814 (3.8)      |
| RISDA/ESPEK         | 24,141 (2.6)    | 25,540 (2.1)      | 27,674 (2.1)      |
| States              | 35,898 (3.9)    | 54,942 (4.6)      | 60,370 (4.7)      |
| Smallholders        | 42,625 (4.6)    | 97,065 (8.1)      | 111,806 (8.6)     |
| Total               | 924,029 (100.0) | 1,196,000 (100.0) | 1,291,908 (100.0) |

Source: For 1980, [4, 1980 edition, p. 5]; for 1984 and 1985, [4, 1985 edition, pp. 2-3].

Note: Figures in parentheses are the percentage shares.

the hectare share believed to have reached 40-50 per cent in rubber and more than 80 per cent in oil palm.<sup>1</sup> "Organized" smallholders have thus come to assume a great importance in Malaysia's rubber and oil palm agriculture. What then are the features of the management policy of FELDA, FELCRA, and RISDA which control "organized" smallholders who are settlers in the government-scheme areas? In other words, how are the status of the settlers as agricultural operators in government-planned areas different from that of "traditional" smallholders? Let me first examine the FELCRA scheme.

## II. OUTLINE HISTORY OF FELCRA SCHEME AND FELCRA'S NEW STRATEGY

FELCRA was founded by the federal government in 1966 in order to take over the Fringe Alienation Scheme launched in 1962 in different states. The scheme was aimed at creating rubber growers of an appropriate size, six acres each, and at raising the general income level of farmers. This was done by providing smaller holders with uncultivated land areas around their villages. This meant that growers with three acres were given another three acres and those with four acres two acres of unopened land.

Established in 1956, FELDA also intended to create owner cultivators by

<sup>1</sup> Table III shows that among rubber smallholders the ratio of "organized" to "traditional" farmers is 1:2 in 1980. Following the introduction of the RISDA's mini-estate system, "organized" farmers have been increasing. Also, a growing number of rubber growing traditional smallholders are switching from rubber to oil palms when they face replanting. Judging from these, it can be estimated that "organized" smallholders among the whole rubber growers have reached 40-50 per cent today.

Concerning oil palm growing, the estate system is considered an appropriate management system since oil palms require exact choice of harvesting time and labor arrangement needed for each processing. For this reason, "traditional" oil palm growers have been small in number right from the beginning. "Organized" smallholders among the whole oil palm growers may probably reach 80 per cent or more.

giving landless peasants ten acres each while FELCRA's policy was to confer additional land on existing smallholders. The two agencies thus pursued the same goal but with different target groups and different means. It should be clearly recognized that the schemes of the two agencies were the Malaysian version of land reform which was carried out in postwar years under American influence in a series of countries now affiliated with ASEAN. In Malaysia, a country having internal frontiers and fiscal surplus and not having obvious forms of dominant landownership by landlords, provision of newly opened land to smallholders by FELDA and FELCRA was preferred to the liberation of land owned by landlords.

FELCRA thus set out to control and manage the Fringe Alienation Scheme land it took over from state governments. This was under a new program called the Land Rehabilitation Scheme. According to the new scheme, the farming households which had obtained land under the old scheme are allowed to maintain their land title earlier conferred on them, but it is FELCRA that assumes the responsibility for the management of the scheme land by controlling the sales of the products and taking the debt repayment responsibility to the government on behalf of the farmers.

But in 1970 FELCRA launched a new scheme, called by the old name, the Fringe Alienation Scheme. Under this scheme, the participating farmers are denied landownership. They are given merely "shares," meaning their right to participate in plant growing and harvesting operations on the scheme site and to partake of the farm's earnings. This formula is called a sharing system, or, after the name of the contriver, the Nasaruddin system [1, pp. 10-11]. The designers of this new scheme were afraid that if farmers were given the title of the landownership for uncultivated land, they would just hold them and not develop them, a practice widely observed under the state government scheme. They did not want to repeat this experience. The new formula was put into practice in 1977, the year in which rubber trees planted in the scheme sites became tappable and began to yield profits.<sup>2</sup> This sharing system turned participating rubber growers from owner cultivators into half owner/half employee status. As regards management formula, this system resembles the estate system, one in which FELCRA has strong managerial rights.

The sharing system is characterized by the following: (1) The participating farmers are given a certain work area and receive wages from FELCRA. (2) The wage level is set about the same as that in private rubber estates though the correspondence is not exact. (3) When and after the scheme farm begins to chalk up profits, the participants are entitled to a certain amount of dividend, and at the same time farmers must repay the debts to FELCRA for fifteen years. (4) The participating farmers conclude with FELCRA a contract which confers the scheme land management right on the latter. (5) Unlike private estate employees, the participants in this scheme are not allowed to unionize. (6) In case a participating farmer for some reason fails to take part in work in the apportioned area, FELCRA

<sup>2</sup> The new system was launched in 1970; it took seven years for the scheme areas to reach break-even point. This period of time was required to open up jungle, plant rubber trees, and conduct cultivation control, before latex could be extracted.

TABLE V  
PROGRESS OF FELCRA SCHEME BY FIVE-YEAR MALAYSIA PLANS

| Number of Schemes             | Areas by Planted Crops (Acre) |        |         |        | Areas by Scheme / Participating Households |        |        |        |        |        |       |       |     |
|-------------------------------|-------------------------------|--------|---------|--------|--|--------|--------|--------|--------|--------|-------|-------|-----|
|                               | Oil Palm                      | Rubber | Rice    | Pepper | Cacao                                      | (1)    |        | (2)    |        | (3)    |       | (4)   |     |
|                               |                               |        |         |        |  | Acre   | No.    | Acre   | No.    | Acre   | No.   | Acre  | No. |
| <b>First Malaysian Plan:</b>  |                               |        |         |        |  |        |        |        |        |        |       |       |     |
| 1966                          |                               |        |         |        |  |        |        |        |        |        |       |       |     |
| 1967                          | 4                             | 949    | 3,316   |        |  | 4,265  | 524    |        |        |        |       |       |     |
| 1968                          | 3                             |        | 3,250   |        |  | 1,395  | 479    | 1,855  |        |        |       |       |     |
| 1969                          | 5                             |        | 4,092   |        |  |        | 795    | 4,092  |        |        |       |       |     |
| 1970                          | 6                             |        | 4,722   |        |  |        | 590    | 4,722  | 149    |        |       |       |     |
| <b>Second Malaysian Plan:</b> |                               |        |         |        |  |        |        |        |        |        |       |       |     |
| 1971                          | 8                             |        | 6,208   | 1,470  |  | 2,429  | 661    | 5,249  |        |        |       |       |     |
| 1972                          | 17                            | 6,330  | 16,948  |        |  | 5,974  | 874    | 8,804  | 672    | 8,500  |       |       |     |
| 1973                          | 7                             | 5,102  | 20,430  |        |  | 700    | 70     | 14,268 | 1,735  | 10,364 | 569   |       |     |
| 1974                          | 5                             |        | 5,420   |        |  |        | 3,994  | 5,420  | 299    |        | 310   |       |     |
| 1975                          | 5                             |        | 5,550   |        |  |        | 3,563  | 5,550  | 1,279  |        | 1,043 |       |     |
| <b>Third Malaysian Plan:</b>  |                               |        |         |        |  |        |        |        |        |        |       |       |     |
| 1976                          | 7                             | 7,770  | 7,405   | 1,000  |  | 1,368  | 3,631  | 6,927  | 2,149  | 7,880  | 1,379 |       |     |
| 1977                          | 15                            | 4,585  | 7,358   |        |  | 3,443  | 3,812  | 4,000  | 2,319  | 4,500  | 1,427 |       |     |
| 1978                          | 22                            | 7,900  | 4,500   | 1,300  |  | 2,840  | 4,647  | 5,430  | 2,593  | 10,000 | 1,425 | 820   |     |
| 1979                          | 31                            | 7,745  | 9,660   |        | 250  | 2,380  | 4,740  | 4,130  | 2,961  | 11,145 | 1,433 | 141   |     |
| 1980                          | 25                            | 6,265  | 10,062  | 1,000  | 660  | 5,570  | 5,865  | 6,802  | 3,164  | 5,865  | 1,625 | 1,060 | 146 |
| Total                         | 160                           | 46,646 | 108,921 | 4,770  | 660  | 30,364 | 34,245 | 77,249 | 17,313 | 58,254 | 9,221 | 1,880 | 287 |

Source: "Data, perangkaan dan maklumat yang di-petik dari laporan tahunan/penyata kira FELCRA yang telah di-bentang/di-luluskan dalam mesuarat lembaga dan parlimen" [Statistics and interpretations collected from FELCRA's annual reports and financial reports —passed through debates and deliberations by government agencies and the parliament], obtained from FELCRA Headquarters on June 15, 1983.

Note: (1) = Land Rehabilitation Scheme; (2) = Fringe Alienation Scheme; (3) = Youth Scheme; and (4) = *In-Situ* Scheme.

can hire another person for the work; the proxy however cannot receive dividends. (7) The land in the scheme area is not owned by individual participating farmers but by all the members as a group; however, this joint ownership right takes effect only when the participants have fully repaid their site development loans to FELCRA. (8) The right of the participant to participate in the work and to receive the wage, namely, the "share," can be transferred to one of the family members in case the holder of the right dies; but the "share" cannot be shared by more than one person.

Table V gives statistical figures about the implementation of FELCRA's five-year programs until the end of 1980. The table shows that since the Bumiputera policy was adopted, many FELCRA schemes have been launched. But FELCRA was reorganized in 1984 for reasons of development strategy reorientation, with the number of scheme categories reduced from four to two. For this reason, it is not possible to meaningfully bridge the pre-1981 statistics with later year figures.

Currently FELCRA's strategy is focused on the existing village redevelopment scheme (*Rancangan In-Situ*), meaning that no new development schemes on the "sharing" basis be undertaken. The existing village redevelopment scheme is mainly aimed at revitalizing abandoned agricultural areas as is explained in Fujimoto's paper dealing with rice growing. The change of emphasis certainly reflects the fact that Malaysian agriculture is now at a crucial turning point.

### III. RISDA—PROBLEMS OF RUBBER TREE REPLANTING AND MINI-ESTATE SCHEME

Rubber trees planted for tapping are said to have an economic life of twenty-five to thirty years, beyond which their latex output goes down below an economically significant level. Therefore, rubber plants should be replaced at this interval. But replanting is in fact a heavy burden on rubber growing farmers. The Malaysian authorities, already in 1951 (before independence), began to subsidize replanting using replanting cess as the fiscal source. At that time, government protection for rubber smallholders had two components. The first was the provision of subsidies to enable growers to replace their old rubber trees with high yield varieties and the second was the dissemination of knowledge about advanced growing and processing know-how. The first policy was implemented by the Rubber Industry Replanting Board (RIRB), which was a government agency, and the second was undertaken by the Rubber Research Institute of Malaysia (RRIM), a private outfit founded jointly by private estate owners. RISDA, founded in 1973, inherited the functions of these two bodies in order to further the goals of Bumiputera policy.

Now RISDA offers more comprehensive protection to smallholders by promoting their replanting by economic means, by helping them to improve management of rubber plant cultivation, latex processing technique, and marketing organization, and by combining such economic measures with steps to encourage overall development of rural communities. The replanting promotion policy has since its inception been a subsidy program financed by replanting cess. This tax is levied on rubber exports from each estate and the smallholders sector. However, in the case of the

TABLE VI  
RUBBER-REPLANTED AREAS BY ETHNIC GROUP AND FARM SIZE,  
PENINSULAR MALAYSIA (1953-JUNE 30, 1983)

(Acre)

|                   | Replanted Areas |                |                    |                  |
|-------------------|-----------------|----------------|--------------------|------------------|
|                   | Malays          | Chinese        | Indians and Others | Total            |
| Less than 5 acres | 458,047 (57.2)  | 173,102 (19.2) | 8,111 (20.6)       | 639,259 (36.7)   |
| 5-6               | 97,352 (12.2)   | 93,279 (10.4)  | 2,803 (7.1)        | 193,433 (11.1)   |
| 6-7               | 59,602 (7.4)    | 52,002 (5.8)   | 1,658 (4.2)        | 113,262 (6.5)    |
| 7-8               | 39,493 (4.9)    | 49,920 (5.5)   | 1,386 (3.5)        | 90,799 (5.3)     |
| 8-9               | 30,722 (3.8)    | 57,980 (6.4)   | 1,565 (4.0)        | 90,267 (5.2)     |
| 9-10              | 26,841 (3.4)    | 94,318 (10.5)  | 2,813 (7.2)        | 123,972 (7.1)    |
| 10-15             | 46,135 (5.8)    | 156,730 (17.4) | 5,002 (12.7)       | 207,868 (11.9)   |
| 15-30             | 29,567 (3.7)    | 129,830 (14.4) | 6,756 (17.2)       | 166,152 (9.5)    |
| 30 or more        | 12,653 (1.6)    | 93,770 (10.4)  | 9,237 (23.5)       | 115,660 (6.6)    |
| Total             | 800,412(100.0)  | 900,931(100.0) | 39,329(100.0)      | 1,740,672(100.0) |

Source: Made from data obtained in July 1983 from RISDA office, Seremban, Negeri Sembilan State.

Note: Figures in parentheses are the percentage shares.

estate sector, this tax revenue, proportionate to the value of rubber exports by each estates, is automatically returned in the form of replanting subsidies. The remainder is used as the replanting subsidy fund for smallholders. This system thus can be regarded as a protective measure for replanting smallholders.

First, the replanting subsidies used to be paid exclusively to individual rubber growers (1951), but then became payable to replanting groups of rubber growers (1970), and then also to mini-estate schemes (1979). Now the subsidies are given through all three.

Rubber trees become ripe enough for latex tapping five or six years after planting. Because of this time lag, a number of problems arise involving for instance the livelihood of growers' families during the unproductive period and sources of funds to meet the cost of cultivation of the trees. Another difficulty involving individual growers is one pertaining to acquisition of replanting labor and replanting skills. The shift in the subsidized body from individual rubber growing households to replanting groups, and then to mini-estates reflects RISDA's search for the solution of these and other difficult problems entailing replanting. In particular, one government headache has been the low replanting ratio among the Malay smallholders of whom vast numbers are tiny holders with five acres or less. Table VI gives replanted areas by ethnic groups and farm size (1953-83).

Clear from this table is the fact that the share of less than five acres in the ethnic total of replanted areas is the largest among Malay farmers (57.2 per cent), by far exceeding the corresponding figures of Chinese (19.2 per cent) and Indians (20.6 per cent). While the minimum rubber farm size amenable for replanting is considered five to seven acres, Malay rubber growers generally have smaller farms



TABLE VII  
RISDA'S RUBBER REPLANTING SUBSIDIES (PER ACRE), 1981

|              | (Ringgit)      |                    |
|--------------|----------------|--------------------|
|              | Up to 10 Acres | More Than 10 Acres |
| First year   | 640            | 500                |
| Second year  | 360            | 200                |
| Third year   | 250            | 200                |
| Fourth year  | 250            | 200                |
| Fifth year   | 250            | 150                |
| Sixth year   | 250            | 150                |
| Seventh year | 200            | 100                |
| Total        | 2,200          | 1,500              |

Source: RISDA's pamphlet on replanting subsidies.

than Chinese and Indians. Table VI clearly reflects this inequality. The group-based replanting system was introduced in 1970 precisely to alleviate this obstacle. By encouraging small farmers in the same area wishing to replant to work together, this formula aimed to achieve higher efficiency in resources utilization. But this system failed to function satisfactorily because RISDA did not intervene in the process of rubber cultivation. Work forces needed for cultivation were not adequately organized, nor was the cultivation skill high enough. Adjustment of conflicting interests was extremely difficult among growers with different sizes of farms. It is said that in many cases group leaders were overburdened with this difficult task and the groups collapsed. It was precisely to overcome the low replanting rate of Malay rubber growers that the mini-estate scheme was introduced in 1979. The low replanting rate in fact reflected the small farm sizes of Malay growers as well as the difficulties they encountered in organizing labor for cultivation and effectively utilizing funds provided. Before I go to discuss the mini-estate scheme, let me outline the subsidy system.

The amount of replanting subsidies has changed over time with the rise of replanting costs. The subsidy system as revised in 1981 provides that subsidies are paid not only for rubber tree replanting but also for replanting of oil palm trees, coconut trees, and pineapples. In addition to such cash crops, subsidies are provided to rice growing too in some exceptional cases. However, replanting subsidies actually go overwhelmingly to rubber and oil palm. The amounts of subsidies for these two major crops are shown in Tables VII and VIII.

In rubber tree replanting, the subsidy per acre is 2,200 ringgit up to ten acres of replanting. Beyond ten acres, the subsidy per acre is 1,500 ringgit. The disbursement however takes place over seven years, on the basis of RISDA's evaluation of the recipient's progress in replanting. In the case of oil palm, the subsidy per acre is 1,500 ringgit, reduced to 1,200 ringgit for portions exceeding ten acres.

After the failure of the group replanting system, RISDA passed on to the mini-estate scheme. According to RISDA's annual reports, 314 sites totaling 35,176.5 hectares and involving 17,995 households were covered by the scheme

TABLE VIII  
RISDA'S OIL PALM REPLANTING SUBSIDIES (PER ACRE), 1981

|             | (Ringgit)      |                    |
|-------------|----------------|--------------------|
|             | Up to 10 Acres | More Than 10 Acres |
| First year  | 600            | 500                |
| Second year | 450            | 350                |
| Third year  | 300            | 250                |
| Fourth year | 150            | 100                |
| Total       | 1,500          | 1,200              |

Source: RISDA's pamphlet on replanting subsidies.

in the 1979–85 period. The mini-estate scheme thus is spreading fast among Malay smallholders. What then are the characteristics of this scheme?

The author in August 1983 conducted a field survey in rubber growing villages in Pontian District, Johor State. Through this survey, I can identify the following as the characteristics of mini-estate management. The most important aspect in this formula is the obligation of the prospective mini-estate participating household to sign a contract with RISDA, called Agreement of RISDA Mini-Estate Scheme (Surat Perjanjian Rancangan Mini-Estate), prior to their affiliation. The main points of the agreement are as follows:

(1) RISDA is entrusted by the participant with the right of management including the removal of old trees, land preparation, replanting, control of cultivation, harvesting, and product marketing.

(2) The participant cannot terminate his status as an estate member for at least twelve years, the period of time estimated to be required for the complete repayment of his debt to RISDA [5, p. 138].

(3) After this contract has been signed, the land plot of the signatory household is virtually taken as mortgage to RISDA. In actual fact, RISDA becomes the priority holder (caveat *pemegang-lien*). (In some states, the participant's land plot must be offered to RISDA as security.)

In other words, RISDA obtains assurance that it would be preferentially indemnified for its loans in case the mini-estate participant fails to repay its debt. The participant thus can get his land title deed returned only when he has fully repaid his debt to RISDA. RISDA's claim in connection with delinquent loan repayments is not merely to the mortgaged land but also to crops from his land.

(4) When crops become harvestable from the scheme land, RISDA must (a) offer the participant its marketing facilities, organization, and mechanism and (b) advance on behalf of the participant all procedural fees involving its priority rights, such as the stamp cost, registration fees, and land taxes, which are to be later collected at an annual interest rate of 2 per cent.

(5) A dividend of up to twenty ringgit per acre per month will become payable to the participant beginning in the eighth year for rubber and the fifth year for oil palm out of the revenue from the mini-estate. If the profit exceeds twenty

ringgit per month, the surplus is appropriated to repay the participant's debt to RISDA. Should the dividend received by the participant fail to reach twenty ringgit, deferred loan repayment to RISDA is permitted.

(6) If the area of the participant's farm is ten acres or less, the replanting promotion subsidy (Skim Penggalak Tanam Semula—SEPENTAS) shall be 100 ringgit a month, a loan which does not carry interest. Should the area exceed ten acres, the participant shall pay 2 per cent interest on that portion of the loan. The subsidy shall be disbursed in installments spread over seventy-two months.

The above are the main clauses of the contract. It is obvious from these that the most important feature of the mini-estate management is the separation of landownership from management. The mini-estate scheme participants are not incorporated at all, either in the form of cooperative or producer association. The only management body that existed in the case surveyed is a mini-estate management committee (*jawatan-kuasa mini-estate*) composed by five participating households and two RISDA representatives. But the two RISDA officials were the chairman and secretary general of this committee. The participating households did have as their representative a manager (*wakil pengurus*) on the committee, but the impression could not be escaped that the real right of management of this committee rested with the chairman and secretary general, both RISDA men who monopolized financial powers and replanting skills.

The manager is also the subcontractor to operate all kinds of rubber cultivation, and has the right, on behalf of the committee, to recruit workers on a competitive bidding basis. Profits earned out of this subcontract work are controlled by the management committee, and, after RISDA's approval, are evenly distributed among the participating smallholders.

It is generally said that organizing and operating cooperatives consisting of independent landholders is difficult. This is because the sizes of landownership, the operating size and the number of family members are different among the participating smallholders. Organizing cooperative system for production purposes among such greatly differing household situations would generate knotty problems of adjustment of interests.

The mini-estate scheme has barely succeeded in overcoming this difficulty and ushering in "cooperative management," no matter how primitive, only by separating management from landownership. In fact, this is an arrangement whereby renewal of the capital goods, rubber trees in this case, is done through introduction of necessary funds in the form of replanting subsidies and other development funds in exchange for the transfer of the mini-estate management rights to RISDA and the mortgaging of landownership to it. The virtual ownership rights of the participants' land has thus been transferred to RISDA. The problem here is how long this separation of management from ownership can last. As was earlier said, the participants cannot quit the mini-estate scheme for at least twelve years. After the lapse of this term, what management form will the mini-estate take? RISDA is silent on this point.

Another important point that should be made clear about the mini-estate scheme is that the farmers who have mortgaged their land to RISDA are assured that

they can work in the mini-estate. Subcontractors offering labor are supposedly duty-bound to preferentially hire the scheme participants or people in the scheme-covered village to work for the estate. Accordingly, the participating farmers are assured, as estate workers, the same level of wage as their counterparts in private estate, and are paid, in addition, dividends from the estate after a certain period of time. Whether after twelve years RISDA's activities will be strengthened or whether the participating farmers continue to remain as mere laborers after they have fully repaid their loans to RISDA is still to be seen. It will take several more years to say anything definite about this.

Over all, RISDA's full commitment to the rubber replanting and rubber producing processes can be defined as a protective policy for Malay smallholders. While RISDA is entrusted with management rights, it does not collect fees for managerial services. The government meets all the costs involved, including the public servants' salaries, provision of facilities, and other services required for the management of the mini-estates.

Though not absolutely zero, the participation of Chinese and Indians in this scheme is minimal. From this fact also, it can be concluded that the mini-estate scheme is a protective measure for Malay rubber growers. RISDA is the government organization to exercise this protection.

#### IV. PURPOSES AND DEVELOPMENT OF FELDA—CHANGE FROM SMALLHOLDERS TO AGRICULTURAL WORKERS

When it was established in 1956, FELDA had a clear goal to achieve—creating smallholders by settling landless peasants and peasants with only one to two acres of land in new clearings and thus ensuring them fairly high incomes. Politically FELDA intended to prevent communist influence from infiltrating the rural area by thus eliminating poverty among the peasantry.

Now let us examine statistics in order to check how large the land area thus opened for settlers has been, and how many landless peasants have moved in as settlers (Table IX). This table shows that by 1989, 787,000 acres of land had been developed as clearings where approximately 120,000 farming households lived as settlers. Of this area, 73 per cent was used to raise oil palm and 24 per cent rubber trees, 97 per cent altogether. Other crops grown by the settlers are cacao, sugarcane, and coffee. Settlers are heavily concentrated in Pahang and Johor, 62.6 per cent of them in these two states.

Table X gives the monthly incomes of the settlers. Their incomes fluctuate from year to year obviously because of the bumpy international market prices of rubber and palm oil. In 1985–86 FELDA had to be temporarily subsidized as the settlers' incomes dropped too sharply. But now the situation has been normalized. Oil palm growers, as the table indicates, receive larger incomes than rubber tree growers. Both however enjoy far higher income levels than ordinary farmers. Their incomes well compare with urban blue- and white-collar workers. The FELDA settlers thus form a rural middle class, and FELDA can take credit for this success.

TABLE IX  
DEVELOPED AREAS BY STATE AND CROP AND NUMBER OF SETTLER HOUSEHOLDS, 1989

| States          | No. of Scheme | Area Developed (ha) |         |        |         | No. of Settled Scheme | No. of Settler Family |     |
|-----------------|---------------|---------------------|---------|--------|---------|-----------------------|-----------------------|-----|
|                 |               | Oil Palm            | Rubber  | Others | Total   |                       | No.                   | (%) |
| Pahang          | 176           | 243,345             | 50,487  | 8,416  | 302,248 | 115                   | 45,170 (37.9)         |     |
| Johor           | 82            | 115,631             | 25,973  | 3,480  | 145,084 | 74                    | 29,512 (24.7)         |     |
| Negeri Sembilan | 51            | 23,872              | 68,023  |        | 91,895  | 51                    | 17,816 (14.9)         |     |
| Terengganu      | 26            | 39,901              | 3,663   |        | 43,564  | 21                    | 8,090 (6.8)           |     |
| Kelantan        | 24            | 36,018              | 2,746   |        | 38,764  | 11                    | 3,420 (2.9)           |     |
| Perak           | 22            | 23,961              | 14,692  |        | 38,653  | 17                    | 6,211 (5.2)           |     |
| Kedah           | 11            | 283                 | 12,745  | 1,123  | 14,151  | 10                    | 3,245 (2.7)           |     |
| Selangor        | 7             | 9,460               | 3,033   |        | 12,493  | 7                     | 2,600 (2.2)           |     |
| Perlis          | 3             |                     | 1,985   | 3,995  | 5,980   | 3                     | 893 (0.7)             |     |
| Melaka          | 5             | 842                 | 4,023   |        | 4,865   | 5                     | 1,328 (1.1)           |     |
| Sabah           | 51            | 74,778              |         | 11,312 | 86,090  | 7                     | 1,008 (0.9)           |     |
| Sarawak         | 3             | 3,217               |         |        | 3,217   | n.a.                  | n.a.                  |     |
| Total           | 461           | 571,308             | 187,370 | 28,326 | 787,004 | 321                   | 119,293 (100.0)       |     |

Source: [2, 1989 edition, Tables 5 and 8].

TABLE X  
AVERAGE MONTHLY INCOMES OF SETTLER HOUSEHOLDS, 1983-89

|      | (Ringgit) |          |
|------|-----------|----------|
|      | Rubber    | Oil Palm |
| 1983 | 484       | 765      |
| 1984 | 505       | 1,231    |
| 1985 | 421       | 886      |
| 1986 | 405       | 376      |
| 1987 | 530       | 522      |
| 1988 | 817       | 859      |
| 1989 | 672       | 668      |

Source: [2, 1983-89 editions].

Since 1972, FELDA has stepped into agro-industrial businesses such as transportation, processing, refining, marketing, storage, and export of settlers' products. This in addition to its traditional activities in the area of rubber and oil palm cultivation. FELDA embarked on the path of further development, but when it was thus expanding its activities, the status of the FELDA settlers began to change—the hollowing of settler's landownership rights and with this the transformation of the settlers into FELDA's laborers. In the following, I will focus on this process of change.

When FELDA started its operations, it signed contracts with the settlers, which gave them a rubber farm and land for farmhouse (*tanah kampung*) and stated that the land title would be conferred on them when they completed repayment

of development loans provided by FELDA. At that time, FELDA had but weak control on the management of the settlers' farms. But the land rights given to the settlers were different from those provided by traditional Malay or Islamic law. In inheritance, FELDA did not allow land to be divided up in equal portions to be given to all the children when the title-holding settler dies. Instead, FELDA decreed that the FELDA land shall be inherited by one of the children of the deceased title holder. Thus, the settlers had to follow new land right and inheritance systems, which were greatly different from those observed by traditional Malay smallholders who lived outside the settlers' areas. Nor were the settlers allowed to sell their land without the permission of the state government and FELDA, lease it to tenants, or offer it as security for borrowing.

Being in a weak position, the settlers of course could not refuse to accept such conditions offered by FELDA. The rubber farms created in the first phase of operation thus entailed heavily restricted landownership rights. But when FELDA introduced in 1975 a "block system" into oil palm settlements, even that much individual landownership right given to the rubber settlers was totally denied. What the new settlers were given was cooperative landownership (*hak milik tanah koperasi*). Under this block system, FELDA strengthened its control on organization of labor, virtually turning the settlers into laborers receiving wages and dividends. The income distribution also followed a principle of equality based on work efficiency. The FELDA-initiated farms thus assumed the character of public farms controlled by the government.

With the introduction of the "sharing" system in 1985, FELDA's control on the settlers was further strengthened. FELDA imitated FELCRA's sharing system, and so, this meant that the settlers were now little different from private estate workers except for a few points.

Let us examine FELDA's sharing system. (1) Each scheme area is registered under the Companies Act. (2) The settlers are called "participants." They are allowed to own only the farmhouse site of a quarter of an acre and denied the right of ownership of the ten-acre farm; instead, land right will be owned by FELDA, and participants are given one share per acre of the farm, and these shares can be inherited by a member of the family. (3) The participants are paid a wage, dividend, and bonus. (4) Each scheme area is organized into a business body and an independent accounting unit.

The sharing system has drastically changed the nature of the FELDA scheme areas. Concerning the landownership, three different forms of ownership—individual, cooperative, and FELDA ownerships—came into effect on different FELDA farms. Table XI classifies the scheme areas in accordance with ownership forms. This table does not clearly distinguish between individual and cooperative ownership forms, but it is clear that the 136 oil palm settlements are all cases of cooperative ownership while all of the rubber settlements except about ten are individually owned. Over all, the settlements are divided into 90 (21.3 per cent) for individual ownership, 147 (34.8 per cent) for cooperative ownership, and 185 (43.8 per cent) for FELDA ownership.

But this shifting of the settlers' land rights from individual to cooperative

TABLE XI  
NUMBER OF SCHEME SITES, NUMBER OF SETTLER HOUSEHOLDS, AND PLANTED AREAS  
BY CROP AND OWNERSHIP FORM (FELDA, 1987)

|                           | Form of Ownership                   |  | Total (%)      |
|---------------------------|-------------------------------------|--|----------------|
|                           | Individual or Cooperative Ownership | FELDA Ownership (Sharing System Schemes) |                |
| Oil palm:                 |                                     |  |                |
| No. of schemes            | 136                                 | 142                                      | 278            |
| No. of settler households | 60,643                              | 4,632                                    | 65,275         |
| Planted area (ha)         | 290,992                             | 207,507                                  | 498,499 (69.7) |
| Rubber:                   |                                     |  |                |
| No. of schemes            | 100                                 | 28                                       | 128            |
| No. of settler households | 38,284                              | 2,444                                    | 40,728         |
| Planted area (ha)         | 139,734                             | 50,825                                   | 190,559 (26.6) |
| Cacao:                    |                                     |  |                |
| No. of schemes            | 1                                   | 13                                       | 14             |
| No. of settler households |                                     | 447                                      | 447            |
| Planted area (ha)         | 187                                 | 20,091                                   | 20,278 (2.8)   |
| Sugarcane:                |                                     |  |                |
| No. of schemes            |                                     | 2  | 2              |
| No. of settler households |                                     | 447                                      | 447            |
| Planted area (ha)         |                                     | 5,118                                    | 5,118 (0.7)    |
| Coffee:                   |                                     |  |                |
| Planted area (ha)         |                                     | 751                                      | 751 (0.1)      |
| Total                     |                                     |  |                |
| No. of scheme sites       | 237                                 | 185                                      | 422            |
| No. of settler households | 98,927                              | 7,970                                    | 106,897        |
| Planted area (ha)         | 430,913                             | 284,292                                  | 715,205(100.0) |

Source: [2, 1987 edition, Tables 5 and 8].

ownership and then to FELDA ownership—a process of attenuation of household land rights—understandably provoked dissatisfaction and commotion among the settlers. In 1989, settlers under Islamic fundamentalist influence (*dakwah* movement) rose up in a movement demanding full land rights over the settlement areas. This built up into a political issue. Alarmed over this move, the government recognized individual ownership in all the scheme areas. Simultaneously, the government adopted a new policy that all new settlements shall be privately run and that all the settlers shall be their employees. As the result, FELDA's settlements as of 1990 came to be divided into two categories—those recognizing individual landownership for the farm and farmhouse site (the rubber settlement type) and privately run FELDA settlements where all people working there are laborers. What form of management and organization should be adopted for the new private FELDA estates and what should be the form of employment there are still being examined.

## V. CONCLUSION: NATIONAL AGRICULTURAL POLICY AND SMALLHOLDER PROTECTING POLICY

The introduction of the "block system" by FELDA and of the "sharing system" by FELCRA had the effect of restricting the settlers' and traditional farmers' land-ownership rights and their autonomous management, and turned the settlers into virtual wage workers. In other words, estate type management began to creep into the settlers' communities. Now devoid of hope that someday they will become completely independent smallholders, the settlers have been increasingly molded into agricultural laborers. The National Agricultural Policy (NAP), promulgated in 1984, clearly stated that estate type or other collective management type agriculture was desirable in the future for rubber, oil palm, and even rice farming. The NAP maps out perspectives for Malaysian agriculture up to the year 2000, a plan formulated specifically for the future of the smallholder sector. The program purportedly intends to increase farm household incomes and eventually the national income through effective utilization of the resources of the smallholder sector and enhancing the smallholders' contribution to economic development. But what are the realities?

As has been observed, NAP merely confirmed, as far as rubber and oil palm farmers were concerned, what had been done by the government agencies in terms of the control of smallholders and management of scheme areas. The basic smallholder protective policy of Malaysia thus seems to be geared to the creation of some sort of state-run estates, which are to be rapidly privatized. Such a policy may serve the policy goal of increasing agricultural production and raising the efficiency of resources utilization. But the government's direct intervention in production process is hardly compatible with the basic principle of private enterprises—pursuit of profits. First, the participating smallholders are entitled not only to wages and bonuses but also dividends. Private estate workers never receive dividends except that they privately hold their estate's shares. Second, as regards FELCRA's sharing system, RISDA's mini-estates, and FELDA's privatized estates under the system, it is not clear who would be held responsible in case the estates generate no profits or even suffer losses.

The question therefore arises as to whether the Malaysia smallholder protective policy, no matter what the government intends, is not contradicting itself by undermining the basis of smallholders as management units. The policy of reorganizing smallholder management, as manifest in NAP, does fit into the "social restructuring," a major pillar of Bumiputera policy. However, it has an aspect that cannot be rightly characterized as smallholder fostering and protection.

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