CHAPTER 1

INTRODUCTION

1.1 RURAL DEVELOPMENT IN MALAYSIA.

The Malaysian economy grew rapidly due to the significant contribution of the agriculture sector. The agriculture sector has been the backbone, driving force and economic supporter of the majority of population as far back as the British Colonial Government's era (Mokhtar, 1990). Malaysia's agriculture sector can be regarded as bimodal in structure consisting of two major subsectors, that is, the plantation subsector and the smallholdings subsector. During the colonial era, development policies placed heavy emphasis on the plantation subsector which was highly commercialised. The traditional pastoral lifestyle of the indigenous population; namely the Malays, however, was left intact principally in subsistence agriculture concentrating on the cultivation of paddy and other subsistence crops and fishing (Zulkifly, 1988). There was a wide disparity in the income distribution between the smallholders subsector and the plantation subsector since the indigenous population were left in subsistence agriculture while the British and other communities invested heavily in commercial agricultural production.

The scenario changed after independence when the Government actively intervened not only in agricultural development but also more importantly to pursue the larger goal of rural development. The Government implemented agricultural and rural development programmes which had objectives of improving the standards of living and living conditions of the population in rural areas through increases in income and income earning opportunities as well as provision of adequate basic and social amenities (Second Five-
Year Plan, 1956-1960). The long-term objective of rural development as stated in the Second Five-Year Plan (1956-1960) was to reduce or eliminate large-scale imbalances in social and economic development between urban and rural areas (Second Five-Year Plan, 1956-1960). The Second Five-Year Plan was followed with the incorporation of a National Rural Development Plan and the Rural Economic Development or “Red Book” monitoring scheme.

The Government was immensely committed to rural development and emphasised agricultural development as an instrument for rural development. As far back as 1950s, rural development institutions were set up to diversify and enhance the productivity of the agriculture sector. The Rural Industrial Development Authority (RIDA) was set up in 1950 to improve the living standards of rural agricultural population by the implementation of both welfare and productivity enhancing programmes. The Majlis Amanah Rakyat (MARA) was established and its scope in rural development included non-agricultural activities in the rural areas (Mokhtar, 1990).

As far as rural development was concerned, land development was the main component or activity. The rural land situation was characterised by subdivision and fragmentation of holdings, relatively high levels of share cropping or tenancy, population pressures in traditional areas of cultivation, high intensities of labour use, low capital utilisation rates and a relatively low level of technology in smallholding production (Fredericks L.J., 1985). In order to address these problems, several land and rural development agencies were established at both state and federal levels during the 1950s to the 1970s period.

In 1956, the Federal Land Development Authority or FELDA was established to continue the Government's effort to uplift the standard of living of the rural population through large-scale land development for agricultural settlements. The FELDA model has
over the years seem to be one of the more successful policy instruments to induce rural change and modernisation (Fredericks, L.J., 1985).

As far as agricultural policies during the 1957-1970 period were concerned, emphasis was placed on institutional and infrastructural reforms. The Federal Land Consolidation and Rehabilitation Authority or FELCRA was established in 1966 and its main aim was to rehabilitate failed state land schemes and cultivate undeveloped and underdeveloped idle land through land development and settlement, cultivation of oil palm through a policy of crop diversification and double-cropping of rice and agricultural rehabilitation and consolidation under the in-situ development programmes. Its efforts were mainly directed towards less successful land schemes that were developed by the various state governments. The rehabilitation programme involved the improvement of agricultural holdings through the adoption of modern agricultural practices and the provision of basic infrastructure facilities and support services (Fourth Malaysia Plan, 1981-1985). Many other agencies such as the Regional Development Authorities such as PERDA, JENGKA, KETENGAH, KESEDAR and KEJORA were set up in the States under the supervision of the Ministry of Rural Development to implement various economic and rural development programmes at the regional level.

In conclusion, the Government actively implemented various rural development programmes and policies in Malaysia to improve the socio-economic well-being of the farming communities in particular, and the rural populace in general. At present, the Government’s objective of rural development is to eliminate hard-core poverty. The various policies and programmes implemented included among others the Five-Year Plans, the National Rural Development Plan, the "Red Book" Monitoring Scheme, the New Economic Policy, the Outline Perspective Plan I and II and the National Agriculture Policy with priority given to subsistence and smallholder agriculture.
development and it plays a vital role in initiating the process of development by establishing institutions upon which the market system can operate. As cited by Cho Soon, Lewis (1955) said that in many cases, the government played the catalytic role for development by motivating the people to exercise their "will to economise". Government intervention was dominant in almost all high performing economies, except in Hong Kong. In Japan, for example, ever since the Meiji Restoration in 1868, the Japanese Government played a paternalistic role in economic development and this has been followed by other Asian countries.

Two types of policies are implemented by most governments, that is, market-conforming and market-non conforming policies. Market-non conforming policies are usually implemented during the initial stages of development but due to its debilitating effects, economic reforms are required as a result. Cho Soon (1994) finally concludes that though pro-market reforms are necessary as development proceeds and the economy becomes more complex, there is a need for the Government to restructure its organisation so as to serve the people better rather than to control their activities.

Fox (1995), in his study on governance and rural development in Mexico, said that in the case of Mexico's ambitious rural development reforms, the withdrawal of past patterns of heavy-handed state economic intervention has been accompanied by the construction of new regulatory institutions that maintain significant central state involvement in rural life. His study emphasises the fact that proponents of reduced state intervention in markets recognise that effective non-market public institutions are needed for successful pro-market economic reforms. Pro-market reformers also admit that governance in the form of public institutions are required to enforce the 'rules of the game' for market activity. Even the World Bank acknowledges the importance of good governance - sustainable and effective public
institutions - to manage the states' economic and social resources in implementing pro-market or 'market friendly' economic development.

A report by the World Bank on the Arab Republic of Egypt (Egypt, World Bank, 1992) showed that until the mid-1980s, the policy framework within which the agriculture sector operated on was heavily influenced by its Government. Even though the performance of the agriculture sector was strong in the 1960s and 1970s, there was a decline in the 1980s due to the fact that the agricultural policy implemented thus far was closed and inward looking. Due to this, significant agriculture policy reforms were introduced in 1986 and this reforms enabled the farmers to be more self-reliant and take market induced decisions and hence increased competition in the agricultural markets. Here, it can be seen that government intervention was only beneficial in the beginning (1960s and 1970s) but as time went on, less government intervention was required and market forces played a more important role in the agricultural and rural sector.

Government intervention in the development process has lessened in recent times with more governments implementing economic reforms that are pro-market in nature. As discussed by Cho Soon (1994), the economic reforms to be implemented should emphasise more on macrostability with microreform. Disinflation policy and a policy of deregulation and liberalisation are needed even though such reforms are rather difficult to implement.

The next generic issue reviews the land development programmes implemented in various countries where land is considered the most important resource. As far as Malaysia is concerned, land and rural development programmes involved both the physical development of land as well as the human aspects of development. The Government established various land and rural development agencies to implement these programmes. As far as agricultural and rural development were concerned, land was seen as the basic
means of production and hence land development programmes were regarded as crucial to agricultural and rural development strategies.

According to Ichiro Inukai (Dec, 1973) in his study on Kenya's agricultural development strategy, land development programmes contributed significantly to Kenya's agricultural development. One such programme was the Swynnerton Plan which was implemented in 1954 with the main purpose of land consolidation of fragmented plots, registration of ownership in exchange with issue of land titles and introduction of better farming techniques to those who obtained land titles. This Plan, which concentrated on the Kikuyu country, brought about unparalleled agricultural growth for Kikuyu, creating a number of wealthy and landed Kikuyu people.

Another land development programme that was implemented in Kenya was the Million Acre Settlement Scheme which had the objectives of providing land to the landless, providing employment opportunities by making farm life more attractive and profitable, providing modern agricultural extension services and increasing marketable production by the African farmers enough to permit them to pay off any loans on land and development made to them under the land reform programme while leaving them a large net income and hence a higher standard of living (Ichiro, 1973). This programme is somewhat similar to the land development programmes implemented in Malaysia.

Ichiro (1973) concludes that the agricultural development strategies, based on land consolidation and registration, settlement schemes and extension services, had brought an agricultural boom in Kenya and that the small farm sector demonstrated its growth potential by a rapid rise in the value of marketed produce from this sector.

In the case of Tanzania as studied by Ichiro (1973), the Government implemented an overall development programme known as the Transformation Approach which was similar to Kenya's Swynnerton Plan. Through this programme, the rural people of Tanzania
were provided with tractors, improved houses and rural water supplies which concentrated on the new Village Settlement Schemes hence making them modern farmers in every sense. These Village Settlement Schemes are somewhat similar to FELCRA’s In-situ Village Development Schemes.

Another rural development strategy implemented by the Tanzanian Government was the *Ujamaa* Village Development Strategy which was adopted in the Second Development Plan of 1969-1974. Here, the farmers were allowed to continue cultivating their private plots. Each *Ujamaa* Village opened up communal plots in which the members of the village put their labour and shared the proceeds hence leading to an organisation of producers’ and consumers’ co-operatives in the village. The strategy emphasised on the importance of correct ideology and organisation rather than just material inputs provided by the Government. The Government of Tanzania firmly committed itself to the *Ujamaa* Village Development Strategy not only to expand agricultural production but more importantly to encompass a larger goal of rural development. This is similar to the objectives of the agricultural and rural development programmes implemented by the Malaysian Government through its various land and rural development agencies.

Ichiro (1973) concludes that the *Ujamaa* Village Development Strategy in Tanzania is one of the most ambitious and comprehensive rural development programme ever attempted in developing countries.

The final generic issue raised discusses the need for implementing community development programmes as an integral part of the overall agricultural and rural development strategies of the various countries. The community development
programmes comprise both the economic and institutional development of the rural community².

As far as rural development in Malaysia is concerned, agricultural and rural development programmes not only involve the physical development of land but also takes into consideration the human aspects of development. For economic development to really succeed and pay-off, it must involve both the physical as well as the human or social aspect of development. This social development or social reengineering process is what is known as community or settler development.

A World Bank Report (World Bank, 1994) on Tanzania agrees with the notion that human development is a very important aspect of rural and agricultural development. The study done by the World Bank on farmers’ development in Tanzania included the institutional development of the farmers. This institutional development involved the establishment of the farmers’ co-operatives, which were private institutions established and managed by the Tanzanian farmers, involved in agricultural processing and marketing. These co-operatives are similar to FELCRA’s scheme co-operatives.

Another World Bank Report on the Arab Republic of Egypt agrees with the above viewpoint on the importance of co-operatives as farmers development institutions. As stated in this study, within the context of rural development, co-operatives play a significant role in providing services to farmers in the areas of input distribution and marketing, in promoting initiatives for rural diversification (World Bank, Egypt, 1992). The World Bank’s study on Egypt’s development programmes concluded that the human development or the social reengineering aspect must be given greater emphasis in order to succeed in overall agricultural and rural development.

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² Institutional development refers to the establishment of both economic and social institutions such as farmers’ co-operatives, youth associations, women’s associations and other such institutions that cater for the economic and social needs of the community.
According to Jolly, R. (1971), development is for the benefit of the human population but at the same time the human stock is the fundamental economic resource. Capital, technology and natural resources are of course important, but without the human agent, they are passive. It is the initiatives and actions of people which create and develop other factors and bring them into use. It is thus the human resources, the people of the country, on which development ultimately depends on.

According to Griffin and Knight (1989), development policies must emphasise human development both to foster economic growth and as an end in itself. The ultimate focus of economic development is human development. According to Amartya Sen (1983), the process of economic development can be seen as a process of expanding the capabilities of people. Griffin and Knight (1989) further conclude that development policies and programmes must encompass not only the growth of national income per head and improvements in its distribution but must also include social reengineering, that is, the enhancement of the capabilities of the people to be and to do more things and to lead fuller lives.

Besides emphasis on human development in development policies, there is also a need to organise the population so that it can participate in its own development. Participation by the population is a very important aspect of the social reengineering process. According to Griffin and Knight (1989), participation in representative community-based organisations can help to identify local priorities to determine which needs are essential and which are of secondary importance. Participation also helps to identify priorities and design the programmes that incorporate them. Participation in functional organisations such as the co-operatives, land reform committees, irrigation societies and women's groups can be used to mobilise support for national and local policies and programmes and local projects. Finally, participation can be used to reduce the cost of
public services and investment projects by shifting responsibility from central and local governments (where costs tend to be relatively high) to the grass-roots organisations (where costs can be low). (Griffin and Knight, 1989).

A study by Dharam Ghai (1989) conforms with Griffin and Knight's conclusion. Dharam Ghai states that "Participation" is both a means and an objective of development. He illustrates the participatory approach to development through a study of selective grass-roots group activities in a few Asian and African countries. All these group activities concentrated on the poor and took the form of promoting participation through credit programmes, organising women working in urban/rural slums into trade union-type trade associations, organising peasant groups to undertake collective initiatives and to struggle for their rights, and mobilising labour and other resources through self-help, co-operatives and mutual aid initiatives.

Dharam Ghai's study promoting participation through credit programmes included the case of the Grameen Bank in Bangladesh which was set up in 1976 as an experiment to provide credit to poor landless men and women in rural areas. Presently, it has succeeded to become an independent bank and implements a wide range of economic, social and community activities such as cultivation, livestock, horticulture, irrigation, cottage and rural industries, marketing, health, education, child care, sanitation, schools, road, bridges and other such activities.

A case of promoting participation through self-help and co-operative efforts is the case of ORAP in Zimbabwe which was set up in 1981 by a group of people who wanted to initiate a new approach to their development problems. ORAP's first priority was to encourage and support autonomous organisations among rural people and to encourage them to undertake a variety of economic and social activities.
These studies show us that grass-roots or rural population participation in development programmes are very important to ensure sustainable economic growth and therefore community or settler development programmes must be given emphasis as far as agricultural and rural development programmes are concerned. In this aspect, FELCRA's land and rural development programmes have placed heavy emphasis on settler development as an integral aspect of its overall development programmes.

1.3 **OBJECTIVE OF STUDY.**

The objectives of this study are:

(i) to review the Government's role and intervention in agricultural and rural development;

(ii) to assess FELCRA's role in land development;

(iii) to assess FELCRA's role in settler development; and

(iv) to review FELCRA's role in the future.

1.4. **SCOPE OF STUDY.**

The study covers the role played by FELCRA in the economic and institutional development of its settlers through its land and settler development programmes. It also discusses the role played by the various settler institutions both economic and social, established by FELCRA in uplifting the socio-economic status and standards of living of its settler community.

1.5 **METHODOLOGY OF STUDY.**

The study will be carried out through the gathering, analysis and synthesis of the various published and unpublished information gathered through interviews, references,
published and unpublished government reports, conference proceedings, seminars and FELCRA's various division reports.

Both primary and secondary data was gathered and analysed. Primary data consists of interviews carried out with the relevant and available officials of the following :-

- Corporate Division, Finance Division, Planning and Evaluation Division, Settler Development Division and the Plantations Division of FELCRA.
- Officials of KPFB Holdings and KPFB.
- Officials from the Corporate Division of FELDA.

Secondary data was sourced from, among others, the following :-

- Various Malaysian Economic Reports and Malaysian Five-Year Plans.
- Outline Perspective Plan (1991-2000), the National Agriculture Policy (NAP).
- The various books used as references.
- Various Annual Reports of FELCRA, KPFB, KPFB Holdings Sdn. Bhd., FELDA, RISDA.
- Various proceedings of conferences and seminars conducted by FELCRA.
- Various Reports from the Ministry of Rural Development.
- Various references to studies and reports done by the Asian Development Bank and the World Bank.

1.6 ORGANISATION OF STUDY.

The study is divided into six chapters. The first chapter briefly discusses rural development in Malaysia. It also discusses the objective, scope and methodology of the study. Furthermore, this chapter also contains a literature review of three generic issues, that is, the need for government or state intervention in the economic, rural and agricultural development of various countries, the need for implementing land development
Programmes in achieving the overall objectives of agricultural and rural development in countries where land is considered an most important resource and finally the need for implementing community or social development programmes as part and parcel of the overall rural development programme implemented in various countries.

Chapter Two examines the evolution of the agriculture sector in Malaysia and its contribution to the development of the rural sector in specific and the overall economy in general. It also contains a brief overview of land development in Malaysia.

The next chapter discusses the role played by the Federal Land Consolidation and Rehabilitation Authority (FELCRA), a government agency, in land development in Malaysia. The chapter also discusses FELCRA's evolution from its formative years to the present years. The various land development models implemented thus far are also discussed here. Finally, an assessment of FELCRA's land development programme is also discussed.

Chapter Four discusses the role played by FELCRA in settler development and the objectives of FELCRA's various settler development programmes and strategies. The chapter also discusses both the economic and institution development of FELCRA's settlers. Finally, an assessment of FELCRA's settler development programme is also given.

The next chapter examines FELCRA's future and its plan to be corporatized. The study also discusses matters pertaining to the future of FELCRA and the changes in its role from that of a land and rural development agency to that of a corporate body venturing into economically-viable industrial based businesses. Finally, the last chapter or Chapter Six summarises the findings of the previous chapters.