

# Protecting the Agriculture Sector During the Covid-19 Crisis

VIEWS 27 / 20 | 6 April 2020 | Ahmad Ashraf Shaharudin

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## Introduction

The agriculture sector is not spared from the devastation caused by the Covid-19 crisis. The declining bulk demand from the hospitality and tourism sectors and the disruption of the global supply chain bound to cause negative impacts on the sector.

The Movement Control Order (MCO) in Malaysia also affected the activities of the agriculture sector. For example, a few days after the MCO took place, some local farmers were reported to have difficulty selling their produce. Some resorted to social media to market their produce, while some were forced to donate or dispose of unsold produce<sup>1</sup>.

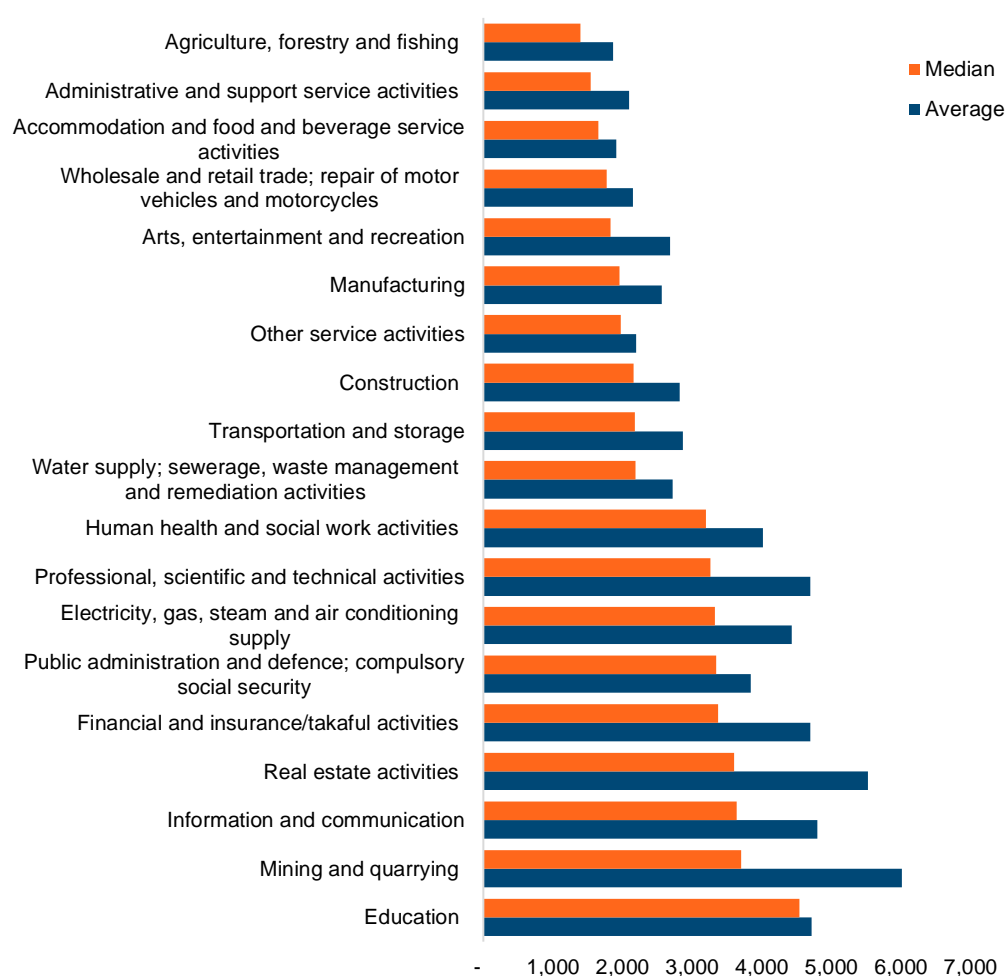
<sup>1</sup> Syed Jaymal Zahiid (2020), Bunyan ibid., Ng Xiang Yi and Ramieza Wahid (2020) & Aruno et al. (2020)

## Why pay attention to the agriculture sector?

Protection for the agriculture sector needs to be taken seriously to ensure adequate food supply especially when countries are increasingly concerned about food security and some have begun to adopt a protectionist approach<sup>2</sup>. For example, Thailand imposes a temporary ban on the export of chicken eggs<sup>3</sup>, while Vietnam suspends new rice export contract<sup>4</sup>.

The agriculture sector also needs to be safeguarded to protect the well-being of farmers, breeders, fishermen and workers who are mostly low-income earners. The median and average wage in the agriculture sector is the lowest compared to other sectors (Figure 1).

**Figure 1: Mean and average monthly salaries and wages of workers by industry (RM), Malaysia, 2018**



Source: Department of Statistics Malaysia (2019)

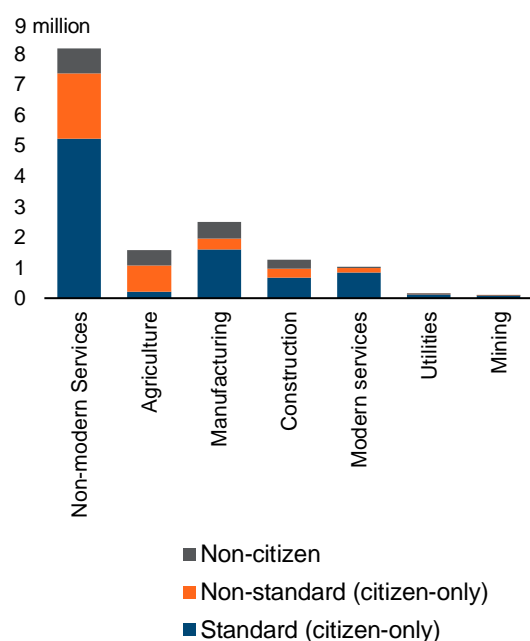
<sup>2</sup> Almeida and Sousa (2020)

<sup>3</sup> World Trade Organization (WTO) (2020)

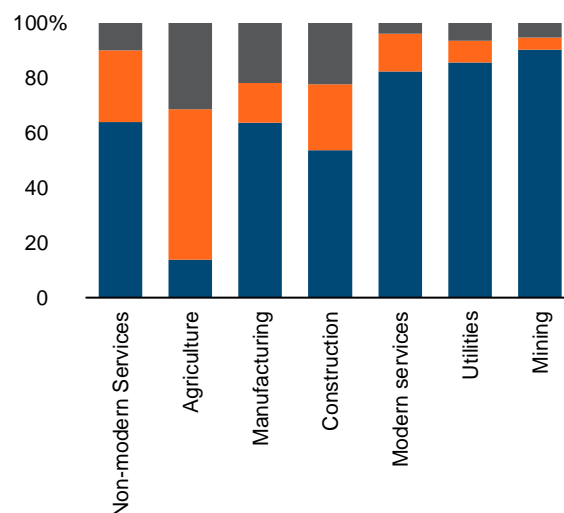
<sup>4</sup> Vu (2020)

About 56% of agriculture sector workers are non-standard workers—far more than in other sectors (Figure 3). Non-standard workers do not work full time and/or do not have formal employment contracts, and many are self-employed<sup>5</sup>. Therefore, they are at greater risk of being retrenched or being asked to take unpaid leave. Meanwhile, more than 30% of the agriculture sector’s workers are foreigners<sup>6</sup>. Foreign workers' welfare is often excluded from social policies even though they contribute significantly to the economy, including the agriculture sector.

**Figure 2: Number of workers based on sector and employment status (million), 2018**



**Figure 3: Percentage of workers based on sector and employment status (%), 2018**



Source: Nur Thuraya Sazali and Siti Aiysyah Tumin (2020)

Almost 90% of agricultural establishments are small and medium enterprises (SMEs) (Table 1). About 40% are micro-enterprises, with annual revenues of less than RM300,000 and have less than 5 employees. The agriculture sector SMEs employ approximately 190,000 workers—about 42% of the total agriculture sector workers<sup>7</sup>. SMEs are more vulnerable to the impact of the economic crisis and this exposes SME workers to the risk of being retrenched or being asked to take unpaid leave. In fact, SMEs themselves are at risk of failing.

<sup>5</sup> Nur Thuraya Sazali and Siti Aiysyah Tumin (2020)

<sup>6</sup> Ibid. Based on the Labor Force Survey Report 2018. The total number of foreign workers in the agricultural sector is 492.4 thousand and the total number of workers in the agricultural sector is 1,570.3 thousand.

<sup>7</sup> Department of Statistics Malaysia (2017)

**Table 1: Number of agricultural establishments 2015**

Category	Criteria	No. of establishments	Percentage (% all)
<b>Micro</b>	<ul style="list-style-type: none"> <li>Annual turnover of less than RM300,000</li> <li>Less than 5 full-time employees</li> </ul>	4,863	42%
<b>Small</b>	<ul style="list-style-type: none"> <li>Annual turnover of between RM300,000 and not more than RM15 million</li> <li>5 to 75 full-time employees</li> </ul>	4,143	36%
<b>Medium</b>	<ul style="list-style-type: none"> <li>Annual turnover of between RM15 million and not more than RM50 million</li> <li>75 to 200 full-time employees</li> </ul>	1,212	10%
<b>SME</b>		10,218	88%
<b>Not SME</b>		1,410	12%
<b>All establishments (including SME)</b>		11,628	100%

Source: Department of Statistics Malaysia (2017)

Note: SME: Small and medium enterprises

## How has the agriculture sector been protected so far?

The government has announced various initiatives for the agriculture sector. These initiatives include lending facilities and fund injections for infrastructure development and short-term agriculture projects. Apart from special assistance to the agriculture sector, the government also provides assistance to small and medium enterprises (SMEs) and low-income earners, which will also benefit the farmers, fishermen, livestock and agriculture sector's workers. Table 1A in the Appendix summarises relevant initiatives and assistance for the agriculture sector.

### Policy for small and medium enterprises (SMEs)

Loan facilities provided through the **Agrofood Facility** and **Bank Simpanan Nasional (BSN) Microcredit Scheme** can relieve cash flow problems among agricultural SMEs. This cash can be used to cover operating costs or to purchase assets and develop projects.

However, loans made by SMEs solely to cover operating costs so as not to close down are unproductive loans. These loans will not increase the income of SMEs in the long run. Instead, SMEs will have to pay their loan instalments along with interest rates for a few years. As such, borrowing for consumption in times of crisis is not the most viable option, especially when the current crisis is expected to last for a long time<sup>8</sup>. Furthermore, after the crisis has been resolved, SMEs will take time to recover.

Meanwhile, Central Bank of Malaysia (BNM) announced a 6-month moratorium in bank loan repayments beginning April 2020. The government, together with Tenaga Nasional Berhad, has also introduced discounts on electricity bills for the commercial, industrial, agriculture and household sectors. Both measures are welcomed to ease the burden of SMEs.

<sup>8</sup> United Nations Development Programme (UNDP) (2020)

## Policy for labour

The government has introduced an **Employment Retention Program (ERP)** aimed at providing financial assistance of RM600 per month for a maximum of 6 months for workers who are asked to take unpaid leave. This assistance is an extension of the Employment Insurance Scheme (EIS) originally intended for terminated employees. This initiative is very good, but there are still some shortcomings.

Christopher Choong (2020) highlights some issues. First, this initiative does not protect workers who face other forms of labour reductions such as pay or working hours cuts. Second, the initiative does not protect non-standard and self-employed workers who do not contribute to EIS. Third, the total amount of RM600 is below the minimum wage and covers only 26% of the average salary<sup>9</sup>. The first and second points are particularly relevant for the agriculture sector where more than half of the workers are non-standard. In addition, ERP does not protect foreign workers.

The government also introduced a **wage subsidy** programme to help employers retain workers. The government will provide a subsidy of RM600 per month per employee for 3 months for workers earning less than RM4,000 and employers who have experienced a 50% reduction in revenue since 1<sup>st</sup> January 2020. As a condition, employers must ensure that they do not dismiss employees or ask them to take unpaid leave for three months after the program is implemented. In addition, employers are not allowed to deduct employees' existing pay.

However, the question is, is the RM600 subsidy per employee sufficient to encourage employers to retain workers? If we take the average wage in the agriculture sector of RM1,865 a month, employers still have to pay the extra RM1,265 per worker—68% of the original wage. Given that the company already experiencing a 50% decline in revenue, the RM600 subsidy is too little to ensure that this employee retention policy is effective.

## Policy for the people

To ease the economic burden of the people, the government also introduced the **i-Lestari scheme** for the Employees Provident Fund (EPF)'s contributors. Under this scheme, all EPF members under the age of 55 can withdraw their savings in Account 2, subject to a maximum of RM500 per month for the 12 months beginning April 2020. However, the scheme has some disadvantages in protecting vulnerable groups as described by Adam Firouz (2020b).

First, not all active members of the EPF have sufficient savings. According to estimates, almost 40% of EPF active members have a savings of Account 2 less than RM6,000. Therefore, they cannot fully utilise this scheme. Second, the scheme compromises retirement savings. Based on *The State of Households II* (Khazanah Research Institute (2014)) report, the average EPF savings for those on the verge of retirement (aged 51 – 55) is not enough to sustain their life after retirement, based on the current average life expectancy. Third, this scheme is only beneficial to

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<sup>9</sup> Christopher Choong (2020)

EPF contributors and most non-standard and self-employed workers do not have an EPF account<sup>10</sup>. Even if they voluntarily contribute to the EPF, their savings are small due to the lack of an employer's contribution. Given that most agriculture sector workers are non-standard and low-income earners, the issues mentioned are extremely relevant.

Through the **Bantuan Prihatin Nasional (BPN)**, the government extends cash assistance to the M40 households (middle 40%), in addition to the B40 households (bottom 40%). Assistance is also provided for single individuals over the age of 21 who earn less than RM4,000 a month. In contrast to the Employment Insurance Scheme (EIS), this cash aid is also extended to the self-employed or non-standard workers who lose their jobs. However, the disadvantage of BPN is that for those who are dismissed and unable to take advantage of EIS, the money given by the BPN is limited and only for 2 months when they are unlikely to find a new job in the near future.

### Special funds for the agrofood sector

The government allocates **RM1 billion for Food Security Fund**. The fund aims to provide various forms of assistance to farmers and fishermen, including agricultural inputs to boost domestic production. An additional RM100 million will be allocated for the development of agro-storage and distribution infrastructure as well as crop integration programmes. These provisions are needed to strengthen the agrofood sector, but implementation aspects need to be emphasised to ensure efficiency and effectiveness.

Special funds of between RM100,000 and RM200,000 will be given to the **Area Farmers' Associations (PPKs) and the Area Fishermen's Associations (PNKs)** that are able to undertake short-term agricultural projects. The objective is to ensure an adequate food supply for the country. This initiative is good and the purpose is clear.

However, allocating funds for farmers under PPK and fishermen under PNK only does not take advantage of the ability of farmers and fishermen who are not under the associations, which may be more efficient and productive. Based on comparative data from the Department of Agriculture (DOA) and Farmers' Organisation Authority (LPP), vegetable and fruit farmers under the LPP only account for less than 5% of the total number of farmers in each commodity (Table 2).

**Table 2: Number of vegetables and fruits farmers (excluding Sarawak), 2017**

Commodity	Total (DOA data)	Under LPP	Not under LPP
<b>Vegetables</b>	40,215	1,160	39,055
<b>Fruits</b>	126,527	2,388	124,139

Sumber: Department of Agriculture Malaysia (DOA) (2018), LPP (2017a) & LPP (2017b)

Note: LPP: Farmers' Organisation Authority

<sup>10</sup> Adam Firouz ibid.

## Some considerations

In order to strengthen the agriculture sector and protect the workers during this crisis, I think three general approaches need to be taken. **First**, make sure all agricultural activities, from farming to selling to consumers, can be carried out normally with minimal interruption, not only during the Movement Control Order (MCO) but also after the end of the MCO. **Second**, measures to ensure that agricultural SMEs survive and that workers are not terminated or required to take unpaid leave should be given priority. **Third**, if workers have to be laid off or told to take unpaid leave, protection for them should be sufficient.

## Specific recommendations

### 1. Make sure the entire food supply chain's activity goes smoothly

The Movement Control Order (MCO) should not stop food chain activities. Although these activities are listed as essential activities that are allowed to operate<sup>11</sup>, there are constraints that may cause them to not function normally. For example, logistics problems where authorities inspect vehicles on the streets that cost time, as well as the closing of the morning market and farmer's market. Recognising the first issue, the Royal Malaysian Police (PDRM) has set up a special lane for vehicles that carry essential goods on every highway<sup>12</sup>. To address the second issue, the Ministry of Agriculture and Food Industry (MOA) is going to propose to the MCO committee that the morning market and farmers' market be reopened to address the oversupply of agricultural output<sup>13</sup>.

The Department of Agriculture (DOA) initiative that uses social media to call farmers with marketing issues to advertise their produce on the DOA Twitter page is good but not enough. First, the coverage is quite limited. Second, not all farmers and fishermen use social media.

Proactive measures by MOA and related agencies such as the Federal Agricultural Marketing Authority (FAMA) are necessary to provide marketing support to farmers and fishermen, including those not registered under the related agencies. Identify farmers and fishermen who cannot sell their produce, for example through the information from the District Agriculture Office, and help them sell the produce.

If necessary, work with a private company. For example, after the media reported on farmers in Cameron Highlands being forced to dispose of their unsold produce, Lazada, an online shopping platform immediately sorted out the logistics and technology to enable farmers' produce to be sold [on their platform](#)<sup>14</sup>.

With the prospect of declining demand (during MCO and after it due to social distancing measures), the government should also consider ways to market surplus supply to major

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<sup>11</sup> National Security Council (2020)

<sup>12</sup> Safeek Affendy Razali (2020)

<sup>13</sup> Ahmad ibid.

<sup>14</sup> Palansamy (2020)



supermarkets as well as directly to consumers through online services. These include ensuring the freshness of the supply through good storage and distribution technology.

## **2. Interest-free loans**

The government should consider interest-free loans to farmers, breeders, fishermen and agricultural SMEs facing cash flow problems. This is to avoid the burden of interest that have to be borne after the crisis recovers while loans were used to finance consumption rather than for income-generating investments.

In Canada, farmers can borrow the first \$100,000 without interest through a program known as Advance Payment Programs (APP). Extra lending is also subject to low-interest rates<sup>15</sup>. In response to Covid-19, the Canadian government allowed an additional \$100,000 interest-free loans as long as the total loan amount is under \$1 million. The Government of Canada has also granted a 6-month repayment moratorium for this loan<sup>16</sup>.

## **3. Increase the amount of wage subsidy**

To really prevent employees from being laid off or being asked to take unpaid leave, wage subsidy should be increased. RM600 a month per worker is low compared to the average wage (overall and for the agricultural sector) and minimum wage.

Australia, for example, subsidises \$1,500 per fortnight for employees in companies experiencing at least 30% decline in turnover (and at least 50% for large companies with an annual turnover exceeding \$1 billion)<sup>17</sup>. This subsidy exceeds Australia's minimum wage of \$1,481 per fortnight<sup>18</sup>.

With limited fiscal space, the government may be able to provide different wage subsidies based on the sector's exposure to the crisis following the approach taken by Singapore<sup>19</sup>. However, this would require negotiations with sectors that may take time. Another approach to consider is to implement a wage scale-based subsidy—for example, a subsidy of RM1,000 for salaries below RM2,000 a month, subsidies of RM1,500 for salaries above RM2,000 and less than RM3,000 per month and so on. In this way, the absolute amount of subsidies increases with the level of pay but decreases in percentage.

## **4. The Employment Retention Program (ERP) should be extended to self-employed workers**

The government should consider providing ERP assistance to contributors of the Self-Employment Social Security Scheme (SKSPS) under the Social Security Organisation (SOCSO) to

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<sup>15</sup> Government of Canada (2020)

<sup>16</sup> Prime Minister of Canada (2020)

<sup>17</sup> Hurst and Karp (2020)

<sup>18</sup> Australian Government - Fair Work (n.d.)

<sup>19</sup> Seow (2020)



ensure that those who are self-employed are also protected in the event they lose their income<sup>20</sup>. SKSPS covers 20 informal sectors<sup>21</sup> including agriculture, livestock and fisheries<sup>22</sup>.

Although the Bantuan Prihatin Nasional (BPN) is available to qualified people including self-employed individuals, the amount is small and only available for a period of 2 months<sup>23</sup>. Moreover, in contrast with BPN, extending ERP to self-employed workers who lose their income, is a more targeted form of assistance.

Consider this scenario. Pak Mat is a small farmer. His wife, Makcik Leha, sells fried bananas. Because of Covid-19 crisis, they both lost their income. With their household income below RM4,000, they are eligible for BPN of RM1,000 in the first month, and RM600 in the second month—the total payment received is RM1,600. What if the ERP was extended to self-employed people like Pak Mat and Makcik Kiah? Based on the government-announced rate, both of them would receive RM600 for 6 months, RM1,200 a month for the entire household—so the total payment received is RM7,200.

In addition, this ERP program should take into account other forms of job reductions such as reduced hours or pay. It may be that the compensation provided for such a situation is not as high as the compensation given in the case of being laid off or being asked to take unpaid leave.

At the same time, the RM600 per month cash aid is low and additional payments should be considered.

## 5. Make good use of the special funds for the agrofood sector

Special funds for the agrofood sector should also be channelled to farmers who are not under any Area Farmers' Organization (PPK) but are competitive. This will leverage the ability of efficient farmers in order to increase the domestic food supply.

In addition, information on the use of these funds must be made open for public scrutiny. This is to ensure accountability and to prevent leakages.

## Conclusion

The agriculture sector needs to be given attention during this crisis to ensure food security and to protect farmers, breeders and fishermen and the agriculture sector's workers who are exposed to economic hardship. The government has introduced various initiatives, both specifically for the agriculture sector and generally for small and medium enterprises (SMEs) and the general public.

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<sup>20</sup> Hawati Abdul Hamid (2020) & Adam Firouz ibid.

<sup>21</sup> More precisely, SKSPS protects "informal workers" in 20 sectors, not "informal sectors" because some of these workers are standard workers but do not have access to social protection.

<sup>22</sup> Fahmy A Rosli (2020) & SOCSO (n.d.)

<sup>23</sup> Adam Firouz (2020a)

However, there are still several shortcomings that the government should look into to strengthen the protection provided to the agriculture sector and its workers. With limited fiscal space, the steps to address this crisis should be more targeted and problem-solving. For example, measures to ensure that the entire food supply chain activities are running smoothly do not involve direct cash transfers but require effective coordination and action. In fact, this is the most important step. As long as food producers and agricultural SMEs can farm or fish and sell their produce, they will continue to earn.

Government policy should also prioritise labour retention. Agricultural companies, especially SMEs, should be supported enough so that they do not terminate workers or direct workers to take unpaid leave, not only during the period of Movement Control Order (MCO) but also after the end of the MCO. This is to ensure the smooth operation of agricultural activities in providing domestic food supply, as well as to protect workers from loss of income.

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## Appendix

**Table 1A: Relevant initiatives and assistance for the agriculture sector as of March 27, 2020**

Date	Initiative/Assistance	Notes	Coverage
27 Feb 2020	Agrofood Facility for small and medium enterprises (SMEs)	<ul style="list-style-type: none"> <li>• RM1b loan allocation to increase food production for Malaysia as well as for export purposes.</li> <li>• Loans for capital expenditure, working capital, or agricultural project development</li> <li>• Maximum RM5 million per SME</li> <li>• 8-year instalment period</li> <li>• Loan interest up to 3.75% per annum</li> </ul>	Agricultural SMEs
	SME Automation and Digitalisation Facility	<ul style="list-style-type: none"> <li>• RM300 million loan allocation to encourage SMEs to automate processes and digitize operations to enhance productivity and efficiency</li> <li>• Loans for the purchase of IT solutions and services</li> <li>• Maximum RM3 million per SME</li> <li>• 10-year instalment period</li> <li>• Interest rates up to 4% per annum</li> </ul>	All SMEs
	Relaxing the Employment Insurance Scheme (SIP) eligibility criteria	Remove the minimum requirement for a 3-month contribution to be eligible for relief upon termination	All affected sectors
	Additional amount for the Bantuan Sara Hidup (BSH) cash assistance	<ul style="list-style-type: none"> <li>• BSH payment of RM200 scheduled for May 2020 is carried out to March 2020</li> <li>• Additional RM100 one-off cash payment for March 2020</li> <li>• Additional RM50 through e-wallet</li> </ul>	Eligible households
16 Mar 2020	Financial assistance to help workers who are asked to take unpaid leave	<ul style="list-style-type: none"> <li>• Financial assistance of RM600 per employee per month for a maximum of 6 months</li> <li>• Eligible for employees who were given notice beginning March 1, 2020</li> <li>• Eligible for Employment Insurance Scheme (EIS) contributors with a salary of not more than RM4,000 per month</li> </ul>	All sectors
23 Mar 2020	i-Lestari scheme for Employees Provident Fund (EPF) contributors	All EPF members under the age of 55 can make withdrawals in Account 2 subject to a maximum of RM500 per month for a period of 12 months beginning April 2020	All individuals below 55 years old
25 Mar 2020	Moratorium in repayment of bank loans to individual borrowers and SMEs	For 6 months beginning April 2020	All individuals and SMEs

27 Mar 2020	Bantuan Prihatin Nasional – one-off cash assistance	<ul style="list-style-type: none"> <li>• RM1,600 to households earning &lt;RM4,000 a month</li> <li>• RM1,000 to households earning over RM4,000 - RM8,000 a month</li> <li>• RM800 to single individuals 21 years of age earning &lt;RM2,000 a month</li> <li>• RM500 to individuals of 21 years and over who earns between RM2,000 - RM4,000 a month</li> </ul>	All eligible households/individuals
	6-month electricity bill discount starting April 2020	<ul style="list-style-type: none"> <li>• 50% discount for consumption &lt;200kW per month</li> <li>• 25% discount for consumption 201 - 300 kW per month</li> <li>• 15% discount for consumption 301 - 600 kW per month</li> </ul>	Commercial, industrial and agriculture sectors and households
	Food Security Fund	An allocation of RM1b for this fund, but no details of the initiative	Agriculture sector
	Allocation for the provision of storage and distribution infrastructure and food integration programs	RM100 million	Agriculture sector
	Special Fund for Area Farmers Organization (PPK) and Area Fishermen's Organization (PNK)	Special funds range from RM100,000 to RM200,000 to each competitive PPK and PNK to develop short-term agriculture projects that can produce outputs within 3 - 6 months	Agriculture sector
	Wage subsidy programme	<ul style="list-style-type: none"> <li>• Help employers retain employees</li> <li>• RM600 per month for 3 months for each employee</li> <li>• Dedicated to employees earning less than RM4,000 and employers experiencing more than 50% decline since January 1, 2020</li> <li>• Employers must ensure that they do not dismiss employees or direct them to take unpaid leave for three months after the program is implemented. In addition, employers are not allowed to deduct an employee's existing pay</li> </ul>	All sectors
	Bank Simpanan Nasional (BSN) Micro-credit Scheme	<ul style="list-style-type: none"> <li>• 2% interest rate without collateral</li> <li>• Loan eligibility requirements are relaxed with a minimum of 6 months of operation as opposed to one year of operation</li> <li>• Financing amount increased from a maximum of RM50,000 to RM75,000 per entrepreneur</li> </ul>	All micro-entrepreneurs
	Human Resources Development Fund (HRDF) levy exemption	For 6 months beginning April 2020	All sectors
	Suspension of income tax payment	For 3 months beginning April 2020	All SMEs
	Moratorium in repayment of government agency loans for up to 6 months	<ul style="list-style-type: none"> <li>• Including TEKUN, MARA and cooperatives</li> <li>• Beginning April 2020</li> </ul>	All SMEs

Sources: Prime Minister of Malaysia (2020a), Prime Minister Office Malaysia (2020), Prime Minister of Malaysia (2020d), Prime Minister of Malaysia (2020c) & Prime Minister of Malaysia (2020b)