

Executive Summary

Malaysia's paddy and rice sector is one of the most assisted and subsidized industries within the country, which has severe implications on the cost of rice production as well as the productivity of the industry. The government is faced with a challenging sectorial objective to balance between national food security, farmer welfare and low consumer prices. With the paddy sector's stagnating productivity growth and the subsidy programs presenting an ever-increasing fiscal burden, there is a call to review and recalibrate how we approach these challenges.

In 2018, IDEAS conducted a research study of 125 interviews with paddy farmers from two major granary areas, MADA and IADABLS, to explore the efficacy of subsidies in Malaysia's paddy sector in improving farmers' welfare. Additional data were collected through focus group discussions with farmers and institutional officers to cross-reference the data collected. This Policy Ideas presents the findings of the study and the impact that agricultural subsidies have on farmers' yield, income, cost and behavior. The results show that:

- The elder generation continues to be involved in rice farming activities, which has serious implications on the long-term sustainability of the industry as elderly farmers tend not to be involved on a full-time basis in farm management, which leads to lower productivity and higher cost.
- Farmers do not know the specific roles of the various types of subsidies that they receive. Respondents found it difficult to relate to various subsidy schemes except regular programs related to fertilizers, pesticides or improved seeds, which are

easily recognized by the farmers. Thus, a significant information gap exists in farmers' awareness on the programs, which calls for a complete review on how each program is to be rebranded.

- Although a majority of farmers considered the quality of subsidized agricultural inputs to be good, several concerns were raised, including: the suitability of fertilizers with the farm soil type, the subsidized pesticides creating a secondary problem such as new diseases, the timing of delivery for subsidized inputs, and the quality of subsidized inputs being inferior to those available in the open market.
- A majority of responses indicated that there were no significant short- to medium-term effect on farm acreage, yield, income nor productivity as a result of an increase in the producers' price support scheme (SSHP). The negligible effect may be due to the deteriorating quality of the land from intensive use of fertilizers, pesticides and other chemical-based input and geo-physical factors that affect the land productivity.
- Input subsidies in fertilizers have led to the continued dependence on chemical-based inputs, which leads to the degradation of soil quality and the increasing fertilizer use needed to maintain yields. Almost half of the farmers interviewed did not use organic inputs due to the cost of organic inputs, the lack of subsidies for organic fertilizers, and the uncertainty about the benefits associated with organic inputs.

- In many cases, subsidized inputs (fertilizers and seeds) end up in the hands of unproductive farmers, those without required resources (e.g., land and labour), or productive, but resource-rich, farmers. This results in the crowding out of some commercial input demand, which is a displacement that has a negative impact.
- Government intervention in the input and output markets has led to the distortion of both markets. Such market control has created structurally weak input and output markets that has negatively affected the local rice industry and stifled the effort to achieve self-sufficiency and food security in Malaysia.