Agribusiness Management towards Strengthening Agricultural Development and Trade

V : Challenge of Agribusiness : Developing Countries

Challenges for Agribusiness: a Case for Malaysia

by

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Abstract

This paper reviews the past trends, the present, and the future prospects facing the agricultural sector in general and the agribusiness industries in particular. The National Agricultural Policies formulated for the benefits of the sector are also discussed in detail. Major problems besetting the Agricultural and Agribusiness sector are identified and vividly presented. Finally strategies for growth of the agribusiness sector for the next millennium are succinctly presented and evaluated.

1. Introduction

The era of 1984-91 witnessed an important transformation and development in the structure of the Malaysian economy. The traditional role of the agricultural sector as the engine of growth for the Malaysian economy ever since the 70’s ceased its domain, finally being overtaken by the manufacturing, industrial and services sector. Some of the reasons for the decline of the agricultural sector were the unfavorable prices of the agricultural commodities; increased prices of farm inputs; shortage of agricultural labor (migration to industrial jobs; increased competition for land use; and the more favorable policies accorded to the industrial sector that could have made investment in agriculture a less attractive alternative. Furthermore government allocations for the agricultural sector suffered a set back when prices of petroleum dropped from an average of RM65 to RM37.5 per barrel in 1986 resulting in a sharp drop in export earnings for the country.

The first National Agricultural Policy (NAP) introduced in 1984 was primarily concerned with expanding export crop acreage such as oil palm and coco. Besides earning foreign exchange, new agricultural land projects were expected not only to create employment and income earning opportunities, but also help reduce poverty among the rural population. NAP

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also aspired to increase agricultural sector productivity, efficiency and competitiveness through the modernization and commercialization of the agricultural activities. Nevertheless, due to the rapid growth of the industries, (backed by favorable government policies, vast government infrastructure investments and the "booming sector syndrome"), the "disfavored" agricultural sector, declined in its economic position somewhat, while playing a significant role as an important contributor to gross domestic product (see Table 1). The NAP has generally been effective in guiding resource allocation, cropping pattern etc. as evident in the growth of the value-added for the agricultural sector from 3.1% in 1981-85 period to 4.6% in the 1986-90 period. The manufacturing sector however, recorded a value-added of a whopping 13.7% for the 1986-90 period. Meanwhile, the disparity in labor productivity for the agriculture sector versus that of manufacturing is growing bigger. In 1990, labor productivity ratio for agriculture to that of manufacturing was 0.49 compared to 0.51 in 1985 (Table 2). The labor productivity ratio differences surely have direct implication on comparative income. Thus it is obvious why the total employment in the agricultural sector declined over the years while that in the manufacturing increased.

The NAP2 (1992-2010), while having similar objectives to its predecessor, emphasizes different specific objectives with different strategies. The specific objectives recognized the need to achieve a balanced development with that of the manufacturing sector; the enhancement of integrating the sector with the rest of the economy; the achievement of a higher level of development of the food industry; and the attainment of sustainable development in agriculture.

In 1999, the agricultural sector accounted for 9.4% of Malaysia’s GDP; employed some 15.9% of the workforce (involving some 1,389,000 people); and contributed about 15% of the export earnings. However, if the total agribusiness sector were to be considered, the percentage involved would be a lot bigger, with some estimates that the employment rate would be up to 25% of the total workforce.

Perennial crop products such as palm oil, rubber and cocoa continue to form the bulk of Malaysia’s agricultural exports. In the year 2000 it is estimated that the agricultural sector’s contribution to GDP declined to 8.8%, employing slightly a lesser number of the workforce (15.5%) and contributed to about 10% of the export earnings. Thus, in term of total contribution to the Malaysian economy, the agricultural sector showed a comparative decline. However in term of absolute value, its contribution to the economy not only remained significant (as evidenced in table 1), but has gradually appreciated.
<table>
<thead>
<tr>
<th>SECTOR</th>
<th>RM million ( in 1978 prices)</th>
<th>Share of GDP (%)</th>
<th>Growth Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, L/Stock, Fishing</td>
<td>5,809 14,827 16,406 18,460 22.2</td>
<td>18.7 13.6 10.5 2.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>1,214 7,757 8,938 10,023 4.6</td>
<td>9.8 7.4 5.7 2.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5,374 21,340 39,825 66,251 20.5</td>
<td>26.9 33.1 37.5 13.3</td>
<td>10.7</td>
</tr>
<tr>
<td>Construction</td>
<td>1,186 2,832 5,277 8,560 4.5</td>
<td>3.6 4.4 4.8 13.3</td>
<td>10.2</td>
</tr>
<tr>
<td>Electricity, Gas &amp; Water</td>
<td>592 1,526 2,823 4,686 2.3</td>
<td>1.9 2.3 2.7 13.1</td>
<td>10.7</td>
</tr>
<tr>
<td>Transport, Storage &amp; Communication</td>
<td>1,696 5,487 8,787 14,599 6.5</td>
<td>6.9 7.3 8.3 9.9</td>
<td>10.7</td>
</tr>
<tr>
<td>Wholesale, Retail, Hotel &amp; Restaurant</td>
<td>3,296 8,806 14,568 22,378 12.6</td>
<td>11.1 12.1 12.7 10.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Finance, Ins, R. Estate, Biz.services</td>
<td>2,155 7,758 12,884 20,977 8.2</td>
<td>9.8 10.7 11.9 10.7</td>
<td>1.1</td>
</tr>
<tr>
<td>Government Services</td>
<td>3,398 8,447 11,683 14,354 13.0</td>
<td>10.6 9.7 8.1 6.7</td>
<td>4.2</td>
</tr>
<tr>
<td>Other Services</td>
<td>657 1,678 2,436 3,749 2.5</td>
<td>2.1 2.0 2.1 7.7</td>
<td>9.0</td>
</tr>
<tr>
<td>(-) Imputed Bank Services</td>
<td>308 4,076 8,414 13,242 -</td>
<td>5.1 7.0 7.5 15.7</td>
<td>9.5</td>
</tr>
<tr>
<td>(+) Imported Duties</td>
<td>1,120 2,947 5,108 5,840 -</td>
<td>3.7 4.3 3.2 11.6</td>
<td>2.7</td>
</tr>
<tr>
<td>GDP at Purchases’ Value</td>
<td>26,188 79,329 120,316 176,635 100.0</td>
<td>100.0 100.0 100.0</td>
<td>8.7 8.0</td>
</tr>
</tbody>
</table>


Note: * = in 1970 prices
Table 2  Employment by Sector 1999 – 2000

<table>
<thead>
<tr>
<th>Sector</th>
<th>1999</th>
<th>2000e</th>
<th>Annual Growth Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1000)</td>
<td>(1000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(% share)</td>
<td>(% share)</td>
<td></td>
</tr>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>1,389.0</td>
<td>1,382.0</td>
<td>-0.5</td>
</tr>
<tr>
<td>Mining</td>
<td>42.0</td>
<td>41.0</td>
<td>-2.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2,379.0</td>
<td>2,455.0</td>
<td>3.2</td>
</tr>
<tr>
<td>Construction</td>
<td>804.0</td>
<td>828.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Electricity, gas and Water</td>
<td>72.0</td>
<td>74.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Wholesale and retail trade, hotels and Restaurants</td>
<td>1,449.0</td>
<td>1,485.0</td>
<td>2.5</td>
</tr>
<tr>
<td>Finance, insurance, real estates and business services</td>
<td>420.0</td>
<td>434.0</td>
<td>3.3</td>
</tr>
<tr>
<td>Transport, storage and communications</td>
<td>442.0</td>
<td>458.0</td>
<td>3.6</td>
</tr>
<tr>
<td>Government services</td>
<td>877.0</td>
<td>863.0</td>
<td>-1.6</td>
</tr>
<tr>
<td>Other services</td>
<td>867.0</td>
<td>908.0</td>
<td>4.7</td>
</tr>
<tr>
<td>Prymary sector</td>
<td>1,431.0</td>
<td>1,423.0</td>
<td>-0.6</td>
</tr>
<tr>
<td>Secondary sector</td>
<td>3,183.0</td>
<td>3,283.0</td>
<td>3.1</td>
</tr>
<tr>
<td>Tertiary sector</td>
<td>4,127.0</td>
<td>4,222.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Total</td>
<td>8,741.0</td>
<td>8,928.0</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Table 3 shows that 33% of the Value added in the Agriculture, Livestock, Forestry and Fishing Sectors in 1999 was contributed by oil palm. In the year 2000, almost the same share value will be accorded by oil palm as far as value add is concerned. This denotes that oil palm featured predominantly in the agricultural scenario of the country. In fact Malaysian agriculture has always been dominated by the plantation sector of large commercial undertakings. While oil palm showed a 0% growth in value added, rubber, the next main industrial crop, is expected to post 9% decline for the year 2000. The declining trend for rubber has been featured in the past years mainly due to declining rubber prices in the world market.
Table 3  Value Added in the Agriculture, Livestock, Forestry and Fishing Sector in 1987 Prices

<table>
<thead>
<tr>
<th></th>
<th>Annual Growth Rate (%)</th>
<th>Share to Agriculture (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
<td>2000*</td>
</tr>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>3.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Rubber</td>
<td>-12.9</td>
<td>-9</td>
</tr>
<tr>
<td>Oil Palm</td>
<td>29.2</td>
<td>0.9</td>
</tr>
<tr>
<td>Other Agriculture Including Livestock</td>
<td>-3.2</td>
<td>2.3</td>
</tr>
<tr>
<td>Forestry and Logging</td>
<td>-11.3</td>
<td>1.5</td>
</tr>
<tr>
<td>Fishing</td>
<td>4.4</td>
<td>0.3</td>
</tr>
</tbody>
</table>

A look at the Structure of Agricultural Commodities in Appendix Figure 1. shows that the crude palm oil (CPO) is most dominant at 58.97%. Presently Malaysia is leading the world in oil palm production with 3.00 million acres in harvestable area and a 3.5 million planted acreage.

In Appendix Figure 2, the export structure of Malaysia shows that 52.9% of the value that was exported in 1996 was electrical and electronic products and in the year 2000 it is expected to soar to 61.1% or a value of RM 242,244.392 million. (RM1 = 115 baht). The agricultural sector only put forth a small export value contribution of about 5 – 6%.

The overall scenario is that the agricultural sector contribution to the economy is getting relatively smaller, (smaller share in GDP). However, its absolute output over the years has been on the increase. A concise picture of the phenomenon can be grasped by studying the Appendix Figure 3.

Against the backdrop of industrialization, agriculture and agribusiness will continue to be significant to the economic growth and development of Malaysia because it provides income especially to the rural populace. The rural sector is directly or indirectly dependent on agriculture. The bulk of the non commercial agriculture activities such as production of the fresh vegetables, livestock, fisheries, fruit orchard etc. are mainly for own consumption less the surplus that could be sold for cash. The oil palm, rubber and rice small holders earn their living from their produce. Agriculture therefore provides income, and employment, both full and part time.
The agricultural sector also provides revenue to the government through various export taxes. Meanwhile, a lot of foreign exchange earnings are realized through raw and value added exports of agricultural commodities.

Presently, the government is encouraging investments in the food and agribusiness sectors such as processing and developing of new product lines by the private sectors. New investment will help spur the economic growth.

However, a more salient contribution of the agricultural sector, is the socio-political stability it accords the country. The bulk of the population is either directly or indirectly related to the rural populace, who in turn are dependent on agriculture. A contented agricultural community means stability for the nation.


Due to the varied reasons mentioned earlier, the government finds it important to have a proper agricultural policy in place. The first National Agricultural Policy (NAP) was introduced in 1984. When Malaysia had abundant agricultural land. Thus, emphasis was on an expansionist policy, especially oil palm and to a lesser degree cocoa. Investment was mainly in infrastructures and new land development schemes in order to produce more oil palm; to increase foreign exchange; to create employment; and to combat rural poverty. The NAP2 (1992 – 2010) put greater emphasis on increasing productivity; efficiency and competitiveness in the context of sustainable development; and linkages. Also there was a greater emphasis on a bigger role of the private sector participation in short and medium term food production; marketing reform; importance of biological diversity; and conservation of sustainable natural resources.

The rapid liberalization of the agricultural trade and the financial crisis of 1997, that further liberated the financial market, had made the currency market volatile and highly vulnerable to speculation. This has negatively affected the stability and security of Malaysia’s food supply. Such a situation may lead to serious social and political implication if left unchecked. The NAP2 did not anticipate such dramatic changes in the domestic and international economy. The quagmire posed challenges to the agricultural sector. Thus the third NAP (1998 – 2010) was formulated which was actually a revised NAP2.

In NAP3, new strategies, policy thrust and implementation were highlighted in order to meet the national aspiration for agricultural development. The emphasis is on food security;
productivity; inflation; private sector investment in agriculture; enhancing exports and reducing unproductive import, conservation; and sustainable use of natural resources.

The high demand for food has led to increases in food prices. The weakening of the Ringgit during the financial crisis has put further pressure on food and agricultural imports including inputs. Thus the country’s import bill swelled from RM4.6 billion in 1990 to RM11.0 billion in 1998. The crisis has highlighted the urgent need to enhance food security through expansion in domestic food production and lesser dependence on imports. In order to affect this need, some of the rectifying measures employed were:

- A focused production on major food items that are cost competitive including fisheries, livestock, vegetables and fruits.
- Zoning of areas for specific food items.
- Research & Development intensification programs aimed at increasing production and efficiency, and to reduce post harvest losses.
- Zoning of some areas specifically for food production.
- Provision of special incentives and support for food production including infrastructure.

Efforts would be stepped up to include strategic sourcing of essential food items through the following means;

- To facilitate inverse investment and joint venture in food production in low cost countries including investment in ASEAN growth areas and the Mekong River Basin. Recently a joint livestock production was planned with India.
- Bilateral Government to Government arrangements on the supply of food to the country.

The removal of market imperfections and a reduction of marketing margins will improve market efficiency. This will be undertaken by the following measures:

- Improved marketing systems will be instituted by reducing market intermediaries and improving parallel market systems such as “the farmers’ market”; direct marketing; and contract farming.
- More farm collection centers, packinghouse facilities, trading and wholesale markets will be established in production areas such that transaction time and post harvest losses will be minimized.
• Market intelligence will be further improved so that producers can make better marketing and production decisions.

An area of concern in the agricultural sector is the mismatch between increases in labor factor prices with that of productivity. For the period of 1990-1995 labor productivity has been increasing at only 5.9% per annum versus farm wages increasing more than 45%. It is also noted that labor productivity in agriculture is only about 60% of the labor productivity in the manufacturing sector. In order to increase productivity, NAP3 will focus on development of new products and future industries. The new products include that of biotechnology such as extraction of natural chemicals from biological sources; the utilization of oil palm biomass; floricultural products; and aquarium fish to generate growth for the industry and create new and higher value industries. Efforts and necessary resources will be directed at enhancing knowledge building and technological capabilities and development of these products. The reduction of the labor force in agriculture to merely 0.9 million by year 2010 will be achieved through:

• Reduction of labor intensive agricultural enterprises especially rubber by 494,000 hectares, coconut by 73,400 hectares, cocoa and pepper by 30,700 and 2,000 hectares respectively.
• Promotion and cultivation of new crops that require less labor input including timber species, bamboo and rattan.
• Promoting intensive production systems that are automated such as aeroponics and hydroponics for high value crops. This also helps to control a balanced environment.
• Intensifying R&D and technology transfer efforts in labor saving technologies, especially in harvesting operations of oil palm, fruits, flowers, vegetables and tapping rubber.

Land being a limited resource, will be maximized through promoting agroforestry enterprises, integrating livestock with plantation crops, promoting large scale technology and intensive mixed farming ventures.

The overall objectives and strategies of NAP3 at a glance are presented in the Appendix Box 1 and 2. The Appendix Box 3 presents the area of concern for future development of the agricultural sector. Most points in this table have been discussed earlier or are self-explanatory.
3. Reasons for Declining Agriculture/Agribusiness Sector Roles in the Malaysian Economy.

What are the constraints that impede growth of the agricultural/agribusiness sector in Malaysia? The agricultural industry has been dubbed the sunset industry especially during the advent of the manufacturing era in the 80’s and again in the mid 90’s when the engine of growth shifted from manufacturing to industries such as Information Technology and high-tech electronics.

Problems besetting the agricultural sector are many and varied. Some are inherent while others are circumstantial. Below are some of the constraints faced by the agriculture and agribusiness sector.

3.1 Structural Constraints.
- Uneconomic, small or medium sized farms and enterprises whose operators are unorganized characterize the agricultural sector of Malaysia.
- Dated, traditional and semi-commercial technology often led to inefficient operations affecting quality of products.
- Inherently the private sector’s poor commercial investment response especially in food production, has led the sector’s growth to be largely lethargic.
- Very little integration between food production and downstream food chain activities resulting in an efficient market.
- Unsustainable food production practices leading to issues on food security, nutrition and safety.

3.2 Low Prices of Commodities.
- Major export commodities (palm oil, rubber and cocoa) faced steep price decline due to:
  a. Poor demand from importing countries. Mainly due to certain importing countries facing slowdown in economic growth.
  b. Stiff and highly competitive international markets.

As for rubber, Malaysia has to compete with Thailand and Indonesia who are relatively lower cost producers. Our oil palm needs to compete with not only other oil palm producing countries but also with other edible oil products such
as soy bean, rape seed, sunflower and corn. The scenario is made worse if these countries have a bumper harvest.

c. Non tariff trade barriers.
There are many instances when professional international lobbyists were paid to run down oil palm, claiming dubious side effects and health hazard potentials. Another example is, stringent import conditions were imposed, such as meeting certain dubious quality standards, in order to keep new players away from their monopolistic market.

3.3 Competition

- Capital
Because of the better, higher and steadier return generated by the manufacturing sector, preference for capital to be invested in the manufacturing firms as opposed to the agricultural firms are quite obvious. Agricultural investments are in many ways highly risky. Faced with uncertainties due to the vagaries of weather, diseases, price fluctuations, and perishability; an agricultural portfolio remains least attractive.

- Land:
Land suitable for agriculture is getting scarce. This is because much of the land once utilized for agriculture had been converted (some permanently) for other more profitable use. Return to land for agriculture has always been low priority when compared with other undertakings.

- Labor:
The agricultural sector is presently facing acute shortage of labor. During the early 80s, there was an exodus of labor from the agricultural sector to the manufacturing sector. Abandoned farms were a common feature and the labor lots that remain these days are mostly elders who are now well into their 50s. The sector is highly dependent on migrant labor. However, even migrant labor would prefer employment with the non-farm sector.


1) The government is to encourage private sector participation in food production on a large commercial scale.
During his latest Budget 2001 announcement at the Parliament House (26th October 2000), the honorable Minister of Finance of Malaysia, DS Daim Zainuddin, among others offered the following incentives for the agribusiness sector.

- Investment by companies in their wholly owned subsidiaries for food production, would be granted deductions equivalent to the amount of the investment as well as tax exemption of 100% on their statutory income for 10 years starting from the first year the company enjoys profit.

- Losses incurred before and during the exemption period are also allowed to be brought forward after the exemption period of 10 years.

2) Accelerate the adoption of labor saving techniques, mechanization and automation with the aim of reducing dependency on foreign labor.

3) Intensifying R&D efforts, especially in downstream activities to enhance agricultural based industries and to produce more end products.

4) Review the remaining tariffs imposed on agricultural inputs; gradually withdraw subsidies to promote efficiency; and prepare for challenges of market globalization (AFTA, WTO etc).

5) Review and revamp all government agricultural agencies, streamlining them for better efficiency and effectiveness. There are far too many government agencies that are involved in the agricultural and agribusiness sector and some of their functions are clearly overlapping or duplicating one another. It is definitely a case of an unnecessary waste of resources.

6) Provide more tax incentives agricultural input production companies and value added agricultural activities to enhance foreign exchange earnings.

7) Provide a conducive business environment such as improving land access and strengthening the facilitative bank support system, especially in credit and agricultural finance. Continuing airport, seaport, road, railway, communication and other infrastructural developments.

8) SET: Science, Engineering and Technology is the way forward to increase output without significant increase in land. Innovative methods of farming should be encouraged (rain shelter, aeroponics, hydroponics, multi-tier farming, precision farming etc.)
9) Development of human resources: The dire need for "technopreneur" within the K-driven economy is inevitable. Institutions are expected to produce such super farmers in the immediate future. Universiti Putra Malaysia for example, has taken the initiative to start a new program that prepares its graduates to be ready entrepreneurs by giving them intensive hands on training that includes a compulsory internship stint with relevant employers.

10) Enhancing sustainability of agriculture and food production.
Lately a lot of interest had been shown about low environmental impact activities. Agriculture must be practiced with the least possible damaging effect to the natural resource base, yet meet the highest health and quality standards. The organic farming approach is a new thing in Malaysia. Eco-friendly farming has its own niche market and is rapidly growing.

11) Development of Agro/Eco tourism.
In an attempt to instill a love for nature and pride for the environment, the government and some NGOs have been actively promoting internal tourism especially nature/agriculturally-related spots. One such facility is the Bukit Cahaya complex, which is a show case for the agricultural activities in the country. More private sector investment should be encouraged towards this end.

5. Conclusion

Malaysian agribusiness and agricultural sectors have always been well poised to face challenges. Over the years, the sector has been through turbulent times but somehow managed to adapt and evolve into a stronger sector. The supportive, proactive and benevolent government policies have complemented the sector and prepared it for the next millennium. However, the advent of globalization and free trade, soon to be a feature in this region, warrants a closer cooperation across borders especially between governments.

As long as people eat, agriculture and agribusiness will always be there and will never be out of "fashion".

The "plough to plate" or if you prefer "from cradle to grave" in many ways reflects what the world of agribusiness is all about. It is instrumental in bringing all of us together today. I hope this cooperation will continue in the future, to ensure that we, the "global citizen" will be able to do our part, to provide everybody with a plough and finally something on the plate, at the right prices, quality, quantity and time, meeting their socio, political and mortal needs.
References


Appendix Figure 1

Appendix Figure 2
Appendix Figure 3

Agricultural Sector's Percentage Share of GDP 1980 - 2000

Appendix Box 1

The Third National Agricultural Policy (NAP3)  
1998 -2010

Objectives:
- To Enhance Food Security
- To Increase Productivity & Competitiveness
- To Deepen Linkages with Other Sectors
- To Create New Source of Growth for the Sector
- To Conserve & Utilize Natural Resources on a Sustainable Basis.

Appendix Box 2

Other Strategies of NAP3

- Develop new industries from Malaysia’s rich natural resources
- Develop new high value products from agricultural commodities, waste and by-products.
- Create new markets for agricultural products for the purpose of export earnings
- Increase production of major food products to enhance food security & affordability.
- Ensure balanced eco-development through integrated and sustainable agro-forestry development practices

Appendix Box 3

Areas of Concern for Future Agricultural Development

- To control Inflation
- To improve Food Security
- To encourage Private Sector Investment
- To Reduce Unnecessary Imports
- To Conserve & sustain the use of Natural Resources.