

UNDERSTANDING PADDY PRODUCTIVITY AT MADA ESTATE FROM A SYSTEM DYNAMIC PERSPECTIVE: A MAPPING TOOL OF CAUSAL LOOP DIAGRAM

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Abstract: The Muda Agricultural Development Authority (MADA) paddy estate project represents Malaysia's national effort to enhance food security. However, the Economic Transformation Programme (ETP) by Malaysia falls short of attaining the 10MT/Ha paddy productivity potential. Amidst rising food insecurity, national efforts have focused on improving efficiency of domestic productivity, this specifically assessed factors influencing paddy productivity under the MADA estate project. Against the econometric technique, the causal loop diagram (CLD) in system dynamics (SD) approach was used to analyse the systemic character of productivity and its drivers. The systemic relationship was explored using expert interview and extensive literature review. Findings established four major sub-systems of the rice value chain. These include paddy production, rice production, government subsidy and self-sufficiency level. The loop polarity feature was used to establish the causal relationships and directions of causality between the sub-systems. This study contributes directly to EPP10 and EPP11 of the ETP. As a result, it supports Malaysia's effort towards strengthening food security and self-sufficiency.

Keywords: Causal loop diagram, paddy productivity, self-sufficiency level, rice value chain, system dynamics.

Introduction

The number of people who require food will grow by 2050 as the world's population surges. The global food system must expand to accommodate the increase in demand from an increasing population, while simultaneously struggling to feed the world's hungry today (Gujja & Thiyagarajan, 2010; FAO, 2015). Interestingly, rice is a main source of nutrition with about half of the global population depending on it (Krishnan, Ramakrishnan & Reddy, 2011; Fukagawa & Ziska, 2019). With the world's current population of approximately 6.07 billion expected to reach 8.92 billion by 2050, demand for rice is expected to continue growing, reaching 551 Mt in 2029/2030 (GRiSP, 2016). Increased rice production is required to meet the world's food demand,

given the expected growth in global rice demand (Krishnan, Ramakrishnan, & Reddy, 2011). Especially since rice is a staple meal in majority of developing countries, accounting for 27 percent and 20 percent of the calorie and protein intake, respectively (Fukagawa & Ziska, 2019; GRiSP, 2016).

There is need for advancing efforts towards improving rice productivity levels, particularly among those producing countries where the productivity is lower than the global average of 4.2 Mt/Ha. This is essential, given that countries with net exports or imports both share concerns for food security in relation to self-sufficiency (Mirimo & Shamsudin, 2020). However, it is critical to pursue this goal of increasing rice supply through sustainable methods such as productivity improvement per unit of land.

Understanding value chain linkages may also aid in the dissemination and acceptance of innovation aimed at increasing productivity (Abdul Rahaman & Abdulai, 2020; Sospeter *et al.*, 2021). Furthermore, for effectiveness of the intervention efforts, all aspects of the value chain of rice must be considered as a system. This is considered critical for determining intervention areas and development programmes (Humphrey & Navas Aleman, 2010). However, a system assessment of the rice sector involving all actors or sub-systems in the rice value chain is limited to existing literature particularly in the context of developing countries such as Malaysia. It is critical to recognise practical issues and tailor solutions to local circumstances (Humphrey & Navas Aleman, 2010; Sospeter *et al.*, 2021).

Malaysia, like other rice-dependent countries, has a complex value chain that demands a holistic assessment of issues before deciding on the appropriate level of action. Previous studies including ones by Chung (2018) and Bala *et al.* (2017) conceptualised the value chain for rice in the form of a system. The concepts used in these previous studies are important to the design and analysis stages used in this study because their research identified that stages across value chains are interconnected, and consequently could be considered as system. They recognised the model for rice includes the production, processing and marketing stages, all of which are linked to the central micro component of farm profitability.

However, a critical issue in the previous analysis concerns the omission of various government interventions in the sector. The current analysis however, considers the important role of government interventions in form of subsidies, import level, and targeted self-sufficiency level (SSL). In addition, focus is laid on paddy growth or production stage and milling sub-systems in MADA. Furthermore, unlike the Bala and Chung studies, which were primarily concerned with profitability, the current study is concerned with productivity improvement. In this way, the current study built on prior models through integration of other

sub-systems representing the rice value chain to reflect real-world observations.

This MADA paddy estate project is our study area, and was initiated by the Malaysian government's acknowledgement of the agricultural sector's critical importance to the country's economic growth, particularly with rice as a major food security concern. This is seen in the establishment of EPP10 and EPP11 in the National Key Economic Area (NKEA) project under Malaysia's ETP, which focuses on paddy productivity. A collection of smallholders in the paddy production unit of the MADA granary area are leading the project. As a result, a system dynamics model, which allows for system-wide research, would aid in a better understanding of the factors affecting farmers' productivity potential in the MADA NKEA project, as well as the macroeconomic consequences such as lower price level and food security for Malaysia. The remaining parts of the study discusses the paddy value chain in Malaysia; then the critical review of literature and discussion of findings and this is followed by the conclusion.

The Malaysia Paddy Value Chain

Malaysia's rice value chain can be divided into five components named as paddy cultivation, milling, government involvement, importation body (BERNAS), and, most crucially, national consumption. The interplay between these components, could be considered as a complicated system as none of the sub-systems in the rice value chain occur in isolation (Bala *et al.*, 2017; Chung, 2018 & Charles, Mattee & Msuya-Bengesi, 2021). This implies that there are connections between and among the factors in the value chain sub-systems. If the paddy production sub-system is directly linked to the paddy milling unit, and the milling unit's efficiency is linked to rice output, then both self-sufficiency and rice consumption are linked to production and import. Thus, the system approach to analysing the rice sector through the interlinkages in the value chain is critical.

The paddy production sub-system includes the entire process of cultivating paddy in

the field, from input selection through land management and nursing the plant to maturity. Malaysia divides paddy cultivation between granary and non-granary sectors. The granary lands produce around 74.1 percent of the domestic paddy supply, while non-granary areas produce the remaining 25.9 percent (Omar, Shaharudin & Tumin, 2019). Malaysia’s paddy production is concentrated on ten major granary areas. However, the MADA granary area in Malaysia’s Northern Peninsular is renowned to contribute the most to domestic paddy output. The MADA granary area provides around 38.8 percent of total national paddy production. Despite MADA’s contribution to the overall rice production, productivity has always been below potential (AbdulRahaman & Abdulai, 2020). Thus, Malaysia has focused its food security efforts on increasing rice yield and achieving the desired self-sufficiency, with a particular emphasis on the MADA granary area.

The trend in overall paddy productivity in Malaysia has increased through time, increasing from an average of 2.0 MT/ha in the 1960s to 4.08 MT/ha in 2019. Figure 1 shows that the average productivity in MADA is 5.3 MT/ha which is higher than the national average of 4.08 MT/ha in 2019 (DOSM, 2019).

Although productivity varies within and across granary and non-granary areas, there

are certain similarities. Malaysia’s government agriculture policies are focused on increasing national rice production by addressing productivity issues in each granary (Ali *et al.*, 2019; Omar *et al.*, 2019). Furthermore, the granary areas were the focus of most government subsidies and interventions in the rice sector, making them major research and development locations (Firdaus *et al.*, 2012). Paddy milling, government involvement, rice consumption, imports, and SSL are all macroeconomic factors that have a strong link to productivity (Soullier *et al.*, 2019). Consumption growth is a major element affecting paddy productivity in Malaysia today.

Rice is a staple food in Malaysia, as it is consumed in a variety of forms on a daily basis throughout the country (Rahim *et al.*, 2017; Omar *et al.*, 2019). Rice consumption per capita in Malaysia decreased from 83.9 kilogrammes per person per year in 2009 to 80 kilogrammes per person per year in 2016 (Omar *et al.*, 2019). Malaysia’s rice consumption per capita will be greater than the global average of 54.6kg per person, higher than that of India at 69.0kg per person and Japan at 54.8kg per person, but lower than Indonesia that consumes 135.0kg per person, The Philippines, which consumes 116.7kg per person, and Thailand that needs 116.7kg per person. Rice consumption in the

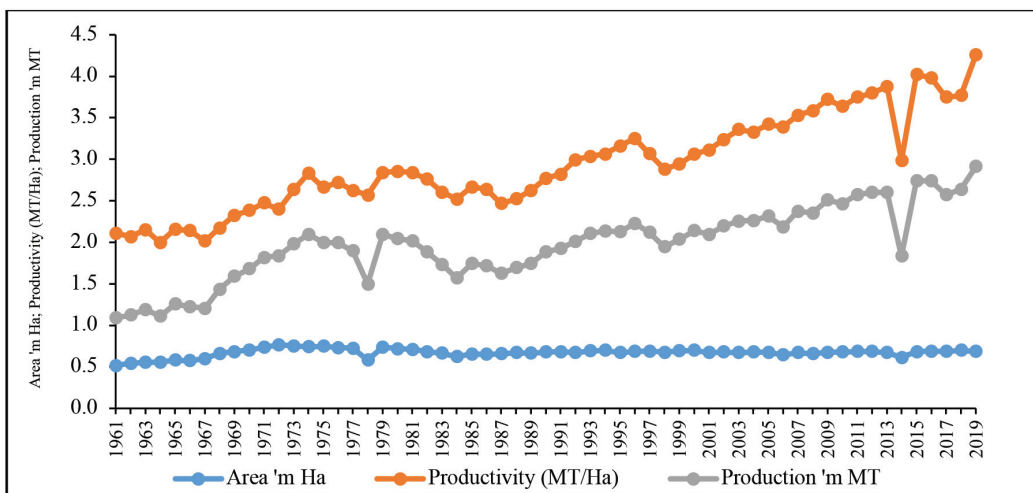


Figure 1: Area, production and productivity of rice in Malaysia (Source: FAO Statistics, 2019)

Malaysia has increased from 1.55 million tonnes in 1990 to 2.86 million tonnes in 2010 (see Figure 2). Malaysia’s local rice production meets between 60 percent to 70 percent of total demand, while imports account for the remaining 30 to 40 percent.

The paddy milling sector is directly related to the characteristics of the rice production. Paddy milling is the process by which the brown outer layer of paddy is removed to produce white rice (Chung *et al.*, 2016). Paddy milling plays a critical processing role that ensures the rough paddy is converted to white rice that is edible to consumers. Remarkably, only a few empirical studies have assessed Malaysia’s rice milling sub-sector (Chung *et al.*, 2016). Most existing research tends to focus its attention on either the production of paddy, or rice consumption. These two paddy subunits are employed by existing studies to provide easier assessment on the performance of paddy sector as a whole. Thus, the milling or processing units are given less research attention, thus the direct impact on rice supply in Malaysia is overlooked (Chung *et al.*, 2016).

In Malaysia, the paddy processing units are considered important. Based on the processing quality, the share or composition of the broken rice is considered in grouping the domestic rice into three grades: the ‘*Super Tempatan* 15 percent

(ST15), Super Special Tempatan 10 percent (SST10), and Super Special Tempatan five percent (SST5)’. The different grade numbers indicate the percentage of broken or fragmented rice contained in the milled rice. Notably, the ST15 are those consisting of 85 percent full rice and 15 percent broken rice. The paddy and rice price are supported by the guaranteed minimum price (GMP) and farm subsidies (Johnson, 2000). According to Chung *et al.* (2016), ST15 has a fixed retail price of 1.60RM/Kg (0.50 US\$/Kg) or 1.80RFM/Kg (0.55RM/Kg). The paddy mills which are not covered by milling subsidy tends to supply higher quality rice grain such as SST5. Thus, such millers receive a higher price up to 2.60 RM/Kg (0.80US\$/Kg), as a ceiling price. Thus, rice milling profitability in Malaysia is controlled to certain extent through price control.

Paddy importation has been used as an approach to compliment the domestic production in Malaysia. The import of rice in Malaysia is a sole responsibility of the Padi Beras *Nasional Berhad* commonly known as BERNAS. The BERNAS is the only licensed organisation charged with responsibilities that involves the import and distribution of rice into Malaysia (Rittgers & Wahab, 2017). It is responsible for ensuring sufficient supply of paddy to meet the rice consumption demand without challenges. Therefore, BERNAS engages in

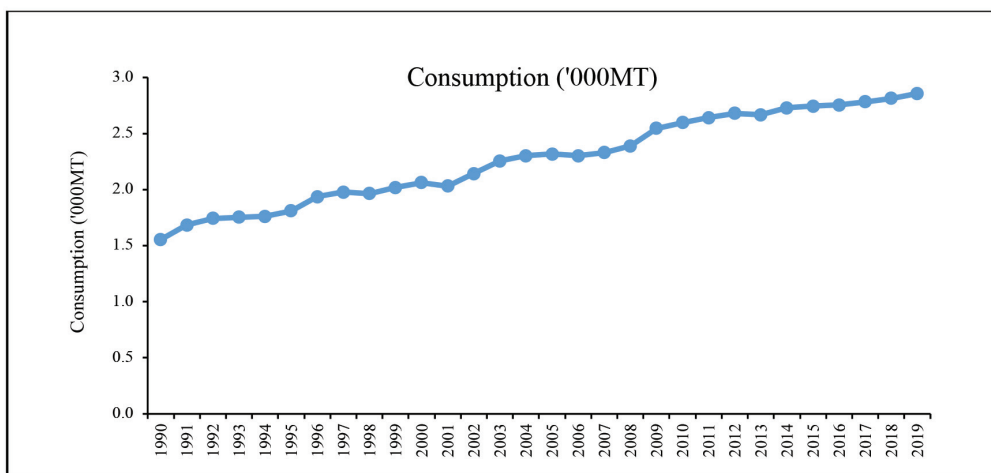


Figure 2: Rice consumption in Malaysia from 1990 to 2019

the promotions of price and market stability so as to ensure affordability by the consumer. Additionally, BERNAS is also responsible for ensuring adequate rice supply and accessibility by every Malaysian citizen (Muhammad, 2013). Thus, rice enjoys high government-support and protection in Malaysia (Malaysian Agricultural Research and Development Institute (MARDI) 2013). The monopolistic arrangement of rice import has been reported by studies to influence productivity negatively and thus has remained a subject of interest among researchers. However, an interesting and major factor is the role of government policies in both milling and paddy production sub-systems in Malaysia (Chung, 2015; Chung, *et al.*, 2016). The government is engaged in providing support to paddy sector both directly and indirectly including the output and input subsidies for the growth of domestic rice production. The Malaysian government also make use of tariffs as protection and as a way to ensure competitiveness of domestic rice production.

However, studies argue that the excessive provision of farm subsidies and domestic protectionist policies accorded to the paddy farmers by Government contributes strongly to inadequate practices, poor paddy quality which then poses a challenge to rice milling (Chung *et al.*, 2016). This is despite the specified guideline and payment deducted from paddy farmers in accordance with the moisture content, and dirt found in the rough paddy. Even though, the paddy farmers seldom agree to the deduction from the subsidy payment when the moisture level and dirt in the rough paddy are high. In-view of the resistance, of between 17 and 18 percent is adopted as uniform deduction rate which is applied irrespective of the actual deduction value of between 23 and 24 percent on average (Salman, 2010). For the rice millers, paddy purchasing makes up almost 85 percent of total production costs, thus the deduction rate increases the overall production costs since paddy with high moisture content cannot be efficiently recovered (Salman, 2010; Chung *et al.*, 2016).

MADA NKEA Project and Paddy Productivity

Malaysia recognizes the crucial relevance of the agricultural sector specifically the paddy sector to its economic growth especially with respect to food security. Therefore, in view of the need to ensure national food security, many developing countries such as Malaysia has deployed policy measures to improve productivity, to ensure steady supply to keep up with increased demands (Arshad *et al.*, 2019). Further, the policy measures are also targeted at transiting from import reliance to food self-sufficiency as an important national objective. Malaysia has fulfilled several national objectives of SSL and food security including social obligations through a variety of agricultural policies.

The agricultural policies in Malaysia has evolved over time beginning with the three National Agricultural Policies (known as NAPs I to III), the National Food Security Plan (known as NAFS 2008), and the recent National Agrofood Policy (known as NAFP) (MoA, 2011). More recently is the introduction of the Economic Transformation Programme. The NAFS policy explicitly states the goals of food security and laid out comprehensive strategies to achieve them. However, NAFS was replaced with the NAFP and the later new Economic Transformation Programme (ETP) (2011-2020) (Arshad *et al.*, 2017). Accordingly, the management at MADA granary area has aligned its objectives with the national policies as highlighted in Table 1.

According to MADA (2021), the MADA Irrigation Scheme (RPM) was launched in 1965 with the help of a loan from the World Bank as a developmental project in Malaysia. During this period, the productivity at MADA was about 3.36MT/Ha. In 1976, with the introduction of double cropping, productivity improved by an average value of 4.178 MT/Ha. However, among these policies, the average productivity at MADA was highest during the National Food Security Guaranteed Policy (6.15MT/Ha) even when compared with productivity of 5.69 MT/Ha under the current Economic Transformation Programme (ETP).

Table 1: Policies summary and programs for MADA

Year	MADA's Programme/ Government Policy	Average Gross Productivity (MT/Ha)	Total Production (MT)	Description
1965	Muda Irrigation Scheme (RPM)	3.37	316,992	Single Cropping/ Year
1976	Implementation of RPM and - double cropping / year	4.178	770,815	Double Cropping Entirely the Whole MUDA Area
1980	Paddy fertiliser subsidy scheme	4.674	866,183	The Scheme Started in Year 1979
2004	Implementation of the 10 Mt package	5.475	1,055,457	The Package Started in Season 2/2001 (Focus on Technology)
2008	Paddy production incentive scheme	5.7	1,100,695	Started in Season 1/2007 (Focus on Technology and Management)
2009	National Food Security Guaranteed Policy	6.15	1,187,663	Started in Season 2/2008
2011-2020	National Key Economic Area (NKEA) EPP10	5.688	1,140,440	Started in Year 2011

Source: MADA (2019)

The ETP expands on the directions established in the Tenth Malaysia Plan to create a significantly new strategy to achieving the Government's goals (Performance Management Delivery Unit (PEMANDU), 2010). The implementation of tangible improvements in certain sectors and areas of the economy was the ETP's starting point. As a result, 12 National Key Economic Areas (NKEA) were chosen as the ETP's core, among which is the agriculture sector (MADA, 2019). The agriculture NKEA aims to increase total Gross National Income (GNI) contribution from RM34 billion to RM49 billion by 2020. The NKEA will provide 75,000 employments, especially in rural areas, with the goal of increasing the earnings of farmers who participate in programmes by two to four times. The agriculture NKEA intends to bridge this gap through 16 Entry Point Projects (EPPs) worth RM28.9 billion in GNP. These EPPs will enhance the formation of large scale,

market-driven, and integrated agribusinesses centred on four themes that: exploit competitive advantages, open premium markets, and ensures food security objectives are in line with the increase in GNP and expansion in participation level across value chain in the region.

Among the 16 EPPs under the agriculture NKEA, EPP10 is primarily aimed at increasing and improving paddy farming productivity in the Muda area. As a result, MADA built the paddy estate project, with a potential paddy productivity objective of 10MT/Ha. MADA was primarily focused on providing incentives to encourage land management outsourcing and the establishment of an integrated rice business or paddy estate. Despite efforts to promote the MADA paddy estate project's goal of producing 10MT/Ha, productivity has fallen short of the target. As a result, there is a need for an assessment of the reasons for the inability to meet the targeted production potential.

The subsequent sections of this research paper are arranged as follows. The literature review is next. It presents the studies that were examined, and the series of factors associated across the rice production value chain. It is followed by the methodology of the study, which uses the system dynamics (SD) causal loop diagram and highlights a causal relationship between the variables in the rice value chain. Finally, a discussion on the findings and recommendations of this study round out the sections.

Review of Relevant Literatures

Review of Studies Related to Model Used in Paddy Research

By definition, the model is a representation of a system, which is made up of functionally related elements that makes up a complex whole (Sterman, 1991). Models are classified into two types named as static and dynamic. For static model, Indicators, input-output (IO), social accounting matrix (SAM), and geographic information system (GIS) are all the examples where each of them has particular strengths and limitations. For example, an indicator's limitation is that it is restricted to quantitative variables. As for IO, it highlights the value chain analyses and the cross-sectoral ripple effect. The IO primary's shortcoming is that the material flows are not readily available across sectors, which is one of the important elements highlighted in the SD model. Meanwhile, SAM measures economic flows between the major economic actors and is limited to monetary flows, although it does not incorporate feedback relationships. On the other hand, GIS is an approach that records geophysical data which lacks behavioural explanations.

For dynamic category, the types of dynamic models include econometric, optimisation, and system dynamics approaches (Uehara *et al.*, 2018). These dynamic models, particularly the econometric models are widely used to forecast economic events. Among econometrics' shortcomings are that it is fully

dependent on historical data, has a restricted feedback relationship, and does not capture new phenomena (Sterman, 1991; Uehara *et al.*, 2018). The primary shortcoming of the optimisation techniques is the assumption of linearity, which is mathematically handy but is incorrect in practice. Additionally, it lacks a feedback link.

Based on the review in this paper, it is found that the SD modelling approach has many advantages that address the research problems that inspired this investigation. It is a rigorous strategy that entails the development of formal computer simulations in order to gain a better understanding of complex systems and to design more effective policies and organisations. This approach is derived from systems thinking, a field concerned with comprehending a specified system through an examination of the relationships and interactions between the components that compose that defined system (Trimble, 2013; Senge, 1996).

The strength of SD stems from its distinct characteristics in comparison to other modelling approaches. The SD model is used to comprehend and anticipate changes in complex systems across time (Trimble, 2013). According to Senge (1996) and Trimble (2013), the system's complexity is a result of the following primary factors:

- i. Circular causality or interdependence connects everything to everything else.
- ii. Effect non-linearity is rarely proportionate to cause.
- iii. Behavioural events are path or history dependent.
- iv. It's counterintuitive to focus on the symptoms of a problem rather than the root cause.
- v. Characterized by trade-offs due to feedback channel delays, with the long-run reaction of a system to an intervention commonly differing from the short-run response.

In light of this, the SD model has its own set of research steps, each of which is iterative.

The SD approach differs from other approaches in that it uses a graphical representation known as causal loop diagram (CLD) to conceptualise the complex system. Among the benefits of SD are:

- i. It provides tools for visualising systems, hence supporting qualitative modelling.
- ii. It assists in the creation of adaptable, clear models and a comprehensive grasp of the problem.
- iii. It can keep track of long-term patterns and trends in behaviour.
- iv. The model's structure and results are more transparent.
- v. That the model encourages people to work together to create their vision.
- vi. The model assists in the analysis of 'what if' scenarios for policy evaluation.

This study proposed the SD approach for the strengths mentioned above and since it provides a reliable framework for analysing paddy systems based on the aggregated examination of its components.

Review of System Dynamics Studies on Paddy Related Topics

Empirical research has employed SD in exploiting various factors that influence the growth of the paddy sector (Bala *et al.*, 2017; Chung, 2018) from productivity growth, production expansion and self-sufficiency level (SSL). Generally, to achieve optimal rice growth there is need for certain environmental factors (Yang *et al.*, 2018; Dubey *et al.*, 2018), and these factors can either be provided by nature or by the farmer themselves. Thus, the productivity of paddy is mainly controlled by a combined effect of nature dependent factors like precipitation, temperature and CO₂ (Yang *et al.*, 2018), and human-related factors such as the input usage, management practices and policies. The literature covers several factors across the rice value chain that include policies such as input usage, climate, cropping system, socio-economic factors, post-harvest management

(milling and harvesting techniques), research and development import and consumption pattern. These factors could be either positively or negatively relate to the dependent variable of interest. Thus, reviews are presented based on different variables in the studies.

Input Usage and Paddy Productivity

Among the relevant factors are the type and level of input usage in the rice model. Several production inputs in the rice system have been examined by earlier literature. For instance, a study by Rahim, Hawari and Abidin (2017) examined the relationship between land availability, technology and selling prices with rice production. The findings indicated three major factors in their study that influenced rice production viz: rice prices, the land availability and the technology. Furthermore, Reinker and Erica Gralla, (2018) in Uganda assessed the use of improved agricultural inputs, and the combination of quality verification with education-oriented interventions using SD model. Findings show that investing in a system for verifying the quality of seeds is important and both verification quality and education-based interventions have greater effect than just quality verification. Finally, capital availability to farmers was examined by Sardjono *et al.*, (2019). The study suggested an intervention strategy is needed to maintain balance in the rice sector. Furthermore, the study recommends an improvement of capital availability to farmers, especially since future conditions expect to threaten the availability of rice.

Climate Factor and Paddy Productivity

Temperature represents an important requirement for paddy growth, and productivity. Temperature exerts a strong effect on paddy seed germination (Yoshida 1981). At the germination stage, rice seeds require a minimum temperature of 6°C and a maximum of 41°C while the optimal temperature for normal growth is 37°C, while in the growth stage, the optimal temperature ranges between 20°C and 35°C is required (Yang *et al.*, 2018; Dubey *et al.*, 2018). At the specific stages

of rice growth, the rice plants have varying sensitivity to temperature changes therefore, the variation in the optimal temperatures during the growth stage, is usually between 20°C and 35°C (Dubey *et al.*, 2018). At the seedling development stage, the minimum, optimum, and maximum temperatures are 8°C, 37°C, and 44°C, respectively (Dubey *et al.*, 2018). In terms of water requirement for paddy growth, the rice plants require seasonal rainfall of between 300 and 500mm (Bahri, 2017). Under dryland condition, rice needs an estimated average of 1,000mm of seasonal rainfall. Thus, considering the water requirements, the cultivation of rice is more suitable at locations that have higher rainfall. This also results to serious water stress in rice production when drought and flood occur.

Carbon dioxide (CO₂) is another critical input required for paddy growth and productivity. CO₂ is used by plants in the manufacture of food through the process of photosynthesis. There are variations in the manner in which plant species respond to CO₂ level in the atmosphere. Based on the natural manner plants fix atmospheric CO₂, are classified into C₄, C₃ and Crassulacean acid metabolism (CAM) pathways (Boretti & Florentine, 2019; Webber *et al.*, 2020). Most plant species (about 90 percent) including rice, wheat, and soybean utilise a photosynthetic process known as C₃ photosynthesis. Rice is a C₃ plant, and therefore an increase in CO₂, can increase its productivity (Verma & Sinha, 2020). Despite the fact that, in comparison to the C₄ pathway, C₃ photosynthesis is inefficient at converting inputs into grain (IRRI, 2018). However, a combination of precipitation, temperature, and CO₂ regulates productivity (Yang *et al.*, 2018).

The SD study of Suryania *et al.*, (2014) developed different sub-models including population and rice demand, land area, productivity, rice stock and distribution in the SD sector to examine their effects on rice productivity and food security in Malaysia. The study found that, productivity depends on temperature, humidity, sunshine, land surface height, rainfall, fertiliser, seeds volume, and the

availability of irrigation. In a unique approach that combines both crop simulation and SD approaches, Vaghefi *et al.*, (2016) assessed the impact of climate on rice production and food security in Malaysia. Based on the crop simulation under the DSSAT model, during the 2 growing seasons, both temperature increases and alteration in rainfall pattern respectively reduced rice productivity by 12 percent and 31.3 percent by year 2030. Meanwhile, the SD's results showed a decline in rice productivity is projected to lead to a decline of income by farmers and the national rice SSL.

Policy Factors and Productivity

The policy factors constitute the rules and regulations that are enacted by government or established body to facilitate the achievement of targeted objectives in the rice sector or agriculture sector in general. The policies can be in the form of input subsidy, price control or guaranteed minimum price, cash transfers, trade policy or import control. These factors can influence the rice production, SSL, productivity and farm income in different dimensions. Employing the use of SD, several studies have thus shown how individual factors, or a combination of these factors influences the dependent variable of interest. Numerous earlier studies that examined the relationship between policies and the dependent variables (productivity, production and SSL) include those by: Rahim, Hawari and Zainal Abidin, (2017); Chung, (2018); Emmy *et al.*, (2015); Ramli *et al.*, 2012); and Arshad *et al.*, (2011).

The usage of SD technique supported the efforts towards overcoming the rice supply shortage for Egypt (Khodeir & Abdel-Salam, 2015). Through evaluation of policies related to productivity, production losses, the growth in population and income. Similarly, in Iran, using SD, the long-term influence of policies on exchange rate and fixed prices were identified on Iran's food SSL. The use of floated price along with exchange rates were examined as counter policies to the current policy (Parvizian & Karimi-Tabar, 2002). Earlier studies have

also examined price subsidy and found it to be negatively related to SSL. Notably, Rahim, Hawari and Zainal Abidin, (2017) established a negative relationship between price subsidy and rice SSL in Malaysia using a SD approach. Variables in the model includes rice production and SSL, local, import, demand, population and price of rice. Findings show that increase in the price subsidy leads to a substantial increase in demand as the price of rice drops. Increases in demand then decreases the SSL. Although the local production increases, the rice SSL decreases slightly as the increment in local production is insufficient to meet the huge rise in demand due to which the rice price drops because of the price subsidy.

Cash subsidy was also found to show a negative effect on SSL in the study by Arshad *et al.*, (2011). The study examined several factors including cash subsidies and its effect on SSL. Other factors include physical loss along with paddy area, paddy production, income and rice SSL, fertiliser, land conversion and fertility. Results indicate that for paddy production; an increasing trend in paddy production is observed, which is influenced by continuous R&D and subsidies, though the SSL was found to decline. Similar studies by Parvizian and Karimi-Tabar, (2002) also found a negative effect between fixed price and SSL. SD was employed to examine the long-term effect of fixed price and exchange rate policies on the food SSL in Iran. Results show that with the fixed price policy, the normal nutrition index increased steadily. The SSL decreased from 1.0 to 0.92 by 2030. Alternatively, the study tested the floating price and exchange rates as counter policies to the fixed price policy. As anticipated, when the relative price is higher than the profit while demand reduces. The findings show that SSL increases from 0.92 to 1.01 consequently declines as demand experienced. This indicate an increase of 8.9 percent which is lesser than the 18 percent increase in the case where the price is not fixed.

Contrarily, Chung (2018) found a positive relationship between the removal of the price

control and SSL. The study examined the effects of withdrawing price control measures along with the import monopoly on both rice SSL and general prices in Malaysia. The result indicates that, the removal of price controls leads to increase in rice prices, reducing demand which could help achieve an SSL of 100 percent . Another alternative policy dimension examined by various studies is the fertiliser subsidy. Many studies have shown a positive effect of fertiliser subsidies on production. Notably, is the study on the fertiliser subsidy's impact on Malaysia's rice sector that comprises of productivity as a variable of concern (Ramli *et al.*, 2012). Fertiliser subsidy upsurges the productivity and hence increases the production of paddy. Similarly, Arshad *et al.*, (2011) examined the association of: cash and fertiliser subsidies, land fertility, physical losses, area conversion and then SSL. The result points to the positive effect of these factors on productivity and SSL.

Alternatively, a SD model by Emmy *et al.*, (2015) showed that the policy related to cash subsidy can help to improve Malaysia's SSL to 80 percent by 2050. Furthermore, Rusli, Arshad, and Ibragimov, (2017) studied the MADA granary area by developing a causal loop for paddy deduction system. Findings indicate the possibility of farmers to expand income from paddy through better farm practices. This involves the maximum use of suggested practices which has the capacity to lower the moisture content of paddy, which leads to the lower deduction rate. However, price control as observed by the study will lead to suppression of paddy miller's growth as influenced by increased processing cost.

Cropping System and Productivity

Cropping system is another factor that influences paddy productivity. A study by Cui, Huang and Tang (2009) considered the effect of three crops per year by employing the SD approach and field experiment in China. The findings showed that the development of three crops per year in paddy fields may improve long-terms productivity and stainability of paddy field ecosystems.

Alternatively, Chapman, *et al.*, (2016) assessed the effect of triple-cropping as a sustainable adaptation strategy on rice production at Mekong Deltas in An-Giang Province of Vietnam. The findings of the SD model indicate that even though recent shift to triple-cropping annually provides short-term income boost however, there is high risk of productivity decline and similarly for profitability.

Research and Development and Paddy Productivity

A study by Bala *et al.*, (2014) employed a different set of factors in the SD model. The study examined the effects of Research and Development (R&D) for higher productivity varieties, using bio-fertilisers and emergent techniques on extension for rice productivity and food security in Malaysia. The outcome suggests the need for gradual evolution towards the use of bio-fertilisers, more funds for R&D, particularly for high productivity hybrid rice and increased cropping intensity assures better productivity. Similarly, Arshad *et al.*, (2011) also examined food security in terms of SSL of rice in Malaysia using the SD modelling. Among the considered other variables are physical loss, along with paddy area, paddy production, income and rice self-sufficiency, fertiliser, cash subsidies, land conversion and fertility. For the intervention scenarios, the results showed that an increasing trends of paddy production is influenced by continuous R&D and subsidy.

Rice Production, Consumption and Trade Factors

Studies have shown that consumption is negatively related with SSL. Notable among these studies is Mirimo and Shamsudin, (2018). The study was carried out using SD approach to compare the rice sector of Malaysia with certain ASEAN nations. The study employed factors that includes population, rice consumption, rice imports, GDP, paddy planted area, paddy productivity, rice production, the production cost, trade liberalization, import price and export price for Thailand and Vietnam. A SD model

was thus developed to stimulate the rice sector for the period of 2013-2025. Five price scenarios based on the export prices for Thailand, Vietnam as well as Pakistan were used. The baseline scenario was based on the World Bank's commodity price forecast. The simulation outcome according to the base-line scenario shows main variables including, consumption, rice production, and Malaysia's importation quantity are on the rise during the baseline simulation period between 2013 to 2025. The SSL experienced a decline in trend resulting in the widening of the gap from consumption to production during the simulation period.

Similarly, Sulisty, Alfa and Subagyo (2016) modelled Indonesia's rice demand and supply through the SD approach to highlight the positive effect of rice productivity along with land conversion rate, and rice consumption rate on SSL. Among the factors considered in the model are rice supply and dried paddy demand, rice conversion factor, climate anomalies, and delayed harvest time. The findings for the study showed that rice importation will still be required to fulfil the rice demand in 2020, given the business-as-usual situation. Consequently, three scenarios named as productivity increment, land conversion rate, and rice consumption rate are proposed in order to achieve rice SSL. Of the three scenarios, scenario 1 which involves improving the productivity gave the most promising result.

In Indonesia, Napitupulu and Abdurachman (2016) employed SD modelling to develop a model to simulate the rice stock in Indonesia. The factors considered in the model includes paddy stock, rice stock, BULOG rice stock, supply and demand of rice, total rice consumption, rice consumption per-capita, rice production, paddy production, prices of rice, operation to flood the market with rice policy, rice procurement, population size, population growth, and coefficient of converting paddy to rice. This study developed a prototype SD model for controlling stock and the price of rice for Indonesia with several alternative scenarios built in.

Post-Harvest Management and Milling Efficiency

Harvesting techniques and agricultural practices were examined by Aprillya, Suryani and Dzulkarnain, (2019). Using the current harvesting techniques and agricultural practices, the study found that increasing the adoption of the postharvest mechanisms coupled with the application of appropriate Good Agricultural Practices (GAP) would significantly increase paddy production in East Java. According to certain researchers, large-scale investments in processing plants and/or contract farming have taken place. These have been observed in maize value chains in Ghana (Ragasa, Lambrecht & Kufoalor, 2018) and Nigeria (Ofuoku & Agbamu, 2016). Even the rice value chains in Nigeria have had a series of investments made in them as reported by Awotide, Fashogbon, and Awoyemi (2015) in Nigeria; Maertens and Vande Velde (2017) in Benin; and Maertens and Vande Velde (2017); Bidzakin, Fialor and Yahaya (2018) in Ghana.

Furthermore, a study examining the post-harvest loss effect on SSL was carried out by Emmy *et al.*, (2015). This study developed a model constitute for variables such as rice's SSL, post-harvest losses, and other factors such as subsidies, paddy land conversion and organic farming. The simulation analysis involves six scenario interventions including the business-as-usual scenario, the post-harvest loss scenario, the subsidies withdrawal, paddy land conversion, organic farming and the inclusion of structural breaks. Results from the scenario analysis indicates Malaysia may be able to achieve an SSL of 80 percent by 2050. This will be achieved based on the desired paddy productivity when combined with other four policy strategies: land management, improvement in post-harvest losses, organic farming and cash subsidy.

Further study by Arshad *et al.*, (2011) examined physical losses and food security in terms of rice SSL in Malaysia using SD modelling. The factors considered were; physical loss of the paddy planting area, paddy production slowdowns, income and rice self-sufficiency, fertiliser use, availability of cash subsidies, land

conversion and fertility. Using these factors, six different scenarios were analysed. Scenario 1 covers the current situation, while scenarios 2-6, involved combinations of the independent variables. The results indicated that paddy areas in Scenarios through 3, found similar levels of decline in the size of the planted area due to land conversion losses. For paddy production, an analysis of Scenarios 1 through 4 found a similar increasing trend of paddy production which was influenced by continuous R&D and subsidies. The analysis also found that the rice production was insensitive to land conversion and physical loss since the initial values were so small. with regard to income earned, all scenarios indicate higher income levels follow an increase in productivity. For SSL, all scenarios indicate a downward trend except for Scenario 6.

In the context of Malaysia, previous literature outlined categories of constraints for rice productivity and the productivity gaps through various approaches including expert surveys, household surveys, on-farm field surveys, on-farm experiments, crop simulation models, system dynamics and remote sensing or alternatively a combination of two or more of these approaches (e.g., Becker *et al.*, 2003; Boling *et al.*, 2010; Fischer *et al.*, 2014; Yin *et al.*, 2015; Tanaka *et al.*, 2015). Although, each of these methodologies has its own weaknesses and strengths as highlighted in the review above.

However, there are only a few researches in Malaysia that have applied the SD modelling to study rice production systems. Nonetheless, evidence on holistic assessment of the NKEA paddy estate is rare among extant studies, including Chung (2018), Bala *et al.* (2017), Chung *et al.* (2016), Ramli *et al.* (2012), and Arshad *et al.* (2011). In Chung (2018), a SD model was developed to describe the dynamic structure of and decision-making processes occurring in the Malaysian rice value chain. This study further investigated the impact of removing price controls and import monopoly on rice prices and SSL in the country. Similarly, Ramli *et al.* (2012) examined how fertiliser subsidies influences Malaysia's rice sector by considering productivity of rice as variable of

interest. A similar study also considered rice production in the country with an emphasis the four factors – physical loss, fertiliser subsidies, land fertility and paddy area conversion issues (Arshad *et al.*, 2011).

Arshad *et al.* (2011) for example, delved into issue of how the rice production industry was facing challenges in competition for land use. It also examined challenges in heavy chemical fertiliser usage to the point that soil fertility in arable lands were affected; to partly mitigate these challenges. What they concluded was that Malaysia was at risk of being unable to sustain its SSL of rice production due to climatic threats and sub-optimal rice production. In an earlier study, Arshad and Hameed (2010) also cautioned on how hikes in global food prices could threaten the very existence of rice production, which is touted as Malaysia's security crop. Similarly, Siwar *et al.* (2014) also analysed similar challenges to the rice production in which is focus is made on the increase in food price, environmental changes, arable land resource scarcity, and booming population growth. The most recent SD study on rice supply and demand in Malaysia is done by Rahim *et al.* (2017). The study included price, land availability and technology as factors affecting rice production. Likewise, Rahim, Hawari and Abidin, (2017) established a negative relationship between price subsidy and SSL in Malaysia.

It is apparent that SD is a very reliable approach in analysing the rice production system. To date, and to the best of our knowledge, it seems that there are yet to be any studies on the development of decision-making systems that could contribute to better rice production, so that Malaysia could be self-sufficient in the production of its staple food. Additionally, limitations exist among the current studies concerning the examination of the causal factors at the early growth stages of the rice plant. This has likely happened as a result of limitation on the availability of data at the early growth stages of rice plant such as the number of panicles, spikelet number, the proportion filled and grain weight. Thus, the current study will

extend the scope of knowledge by applying the SD approach to analyse the causal relationships among factors influencing rice productivity within and across units in the value chain system.

Methodology

This section explains the methodology used in this study which is the SD modelling process. It begins with the explanation on the principles of SD. Next, the discussion focuses on the research process being offered. Then, an in-depth explanation on the framework paddy system is presented. Finally, summary of the content closes this chapter.

System Dynamics Modelling Process

System Dynamics (SD) is a simulation approach for framing, understanding, and analysing complex issues (Cavana & Maani, 2000). In this study, the model of paddy systems is constructed based on linkages across the value chain using a SD approach. There are five stages involved in a SD modelling process however, this study is limited to steps 1 and 2 which are; Step 1: problem articulation; Step 2: formulation of dynamic hypothesis (Sterman 2004). This study only focuses on what is essentially involved in identifying the causal loop diagram (CLD) of the paddy system.

Problem Articulation

The development of the SD model starts with problem articulation. This stage involves the determination on the model's purpose, and setting the model boundaries which are the key variables that influence the overall paddy system. The purpose of this paper is to analyse the factors that affect the productivity of rice with focus is made on the number of seeds and the percentage of BERNAS rice which have failed to achieve the target for the 1st and 2nd seasons. This has become a serious issue in MADA for the Paddy Estate project. The actual data did not meet the target of 10 Mt/ha of paddy per season. This also contributed to the failure of MADA to further increase the percentage contribution to Malaysia.

Formulation of Dynamic Hypothesis

The modelling process continues with the development of the causal loop diagram (CLD). The elements of the system and its interaction is important in SD. The CLD explains how the system behaves by showing a group of nodes that are interconnected by arrows and the feedback loops created by the connections (Trimble, 2013). This relationship is then translated into the CLD to show the behaviour of the system by the nodes of the variables that are interconnected by the arrows and feedback loops.

The Principles of Causal Loop Diagram

CLD is one of the mapping tools in SD, which consists of various variables connected

by arrows denoting the hypotheses and a framework that conceptualises the modeler’s idea or the feedback structure of any complex system (Sterman 2004). The variables with plus (+) and minus (-) signs as shown in Figure 3 are assigned in the arrows to indicate the direction of influence. The plus sign means changes in the cause results in changes in the effect in the same direction. In contrast, the minus sign means otherwise (Cavana, & Maani, 2000; Sapiri et al. 2015). The positive feedback represents the growth pattern (see Figure 4) while the negative feedback represents goal-seeking (see Figure 5). The combination of these feedbacks will produce various behaviours that represent the real system. The polarity shows the loop either is reinforced (R) or balance (B).

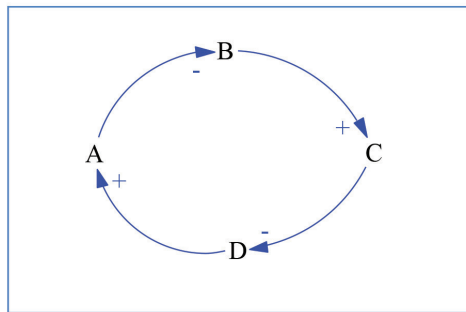


Figure 3: A basic causal loop diagram

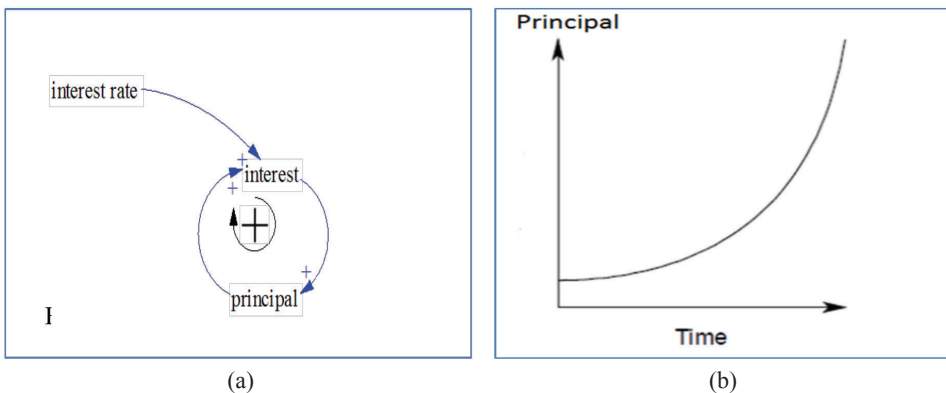


Figure 4: Example of positive feedback loop and behaviour over time of reinforcing loop

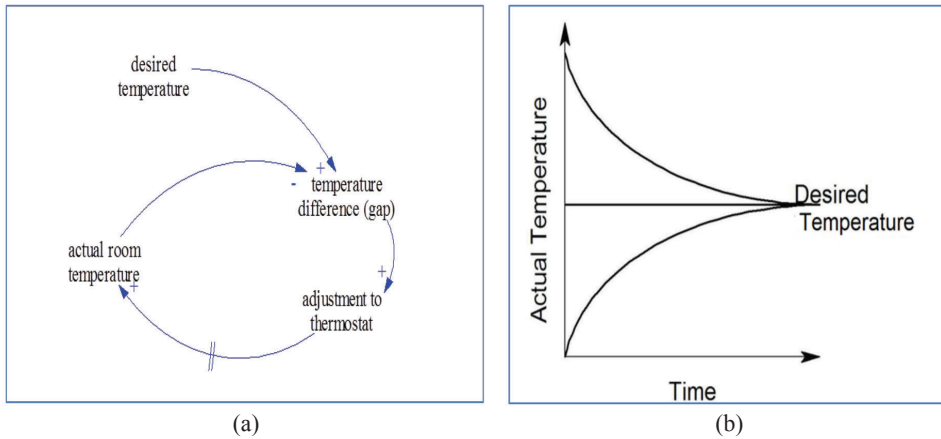


Figure 5: Example of negative feedback loop and behaviour over time of balancing loop

Using the CLD, a framework showing the causal relationship between the factors in the SD model is developed. For this study, we developed a CLD consisting of four sub-systems covering the value chain activities of the paddy and rice sector in Malaysia. The four sub-systems are:

- (1) The paddy production unit,
- (2) The rice production unit,
- (3) government subsidies, and (4) SSL unit. The CLD provides a diagrammatic representation of the causal relationship among these units. The causal direction shows the relationship within each unit or sub-systems and also between units. Thus, CLD is used as general guidelines to understand the relationship between factors.

Causal Loop Diagram of Paddy System

Figure 6 indicates the CLD as a framework that shows the causal relationships between and within units in the paddy system. The positive sign (+ve) indicates that an increase of a factor will lead to an increase the value of a factor influenced by it and vice versa a decrease in a factor will lead to a corresponding decrease in the factors affected by it. Whereas a negative (-ve) relationship is an inverse one, which shows that an increase in a factor will reduce the factor

affected by it. A detailed description of the factors in each unit, the paddy production unit, the rice production unit, government subsidies, and SSL unit is presented as follows. The green and red coloured factors are variables of concern specific to MADA and Malaysia respectively.

Paddy production: This unit highlight the total amount of unmilled rice produced annually in MT. The Paddy production unit is related to several indirect inputs such as labour use, seed quantity, fertiliser, type of paddy, temperature and the management practices (schedule compliance). Figure 6 shows how these variables in the rice production system affect one another. For example, the paddy productivity, land area and paddy production have a positive relationship. It shows that as the paddy productivity increases as the planted land area increases. While the positive relationship between the domestic production and SSL indicates that as the domestic production increases, the SSL increases. Then, the paddy production determines the domestic rice production. The paddy production unit is affected by paddy productivity per season. The paddy productivity is further influenced by factors such as the farmers’ education level, labour skill level, fertiliser type and quality, as well as temperature and CO₂ levels. Thus, the paddy productivity is an important contributor to the paddy production unit.

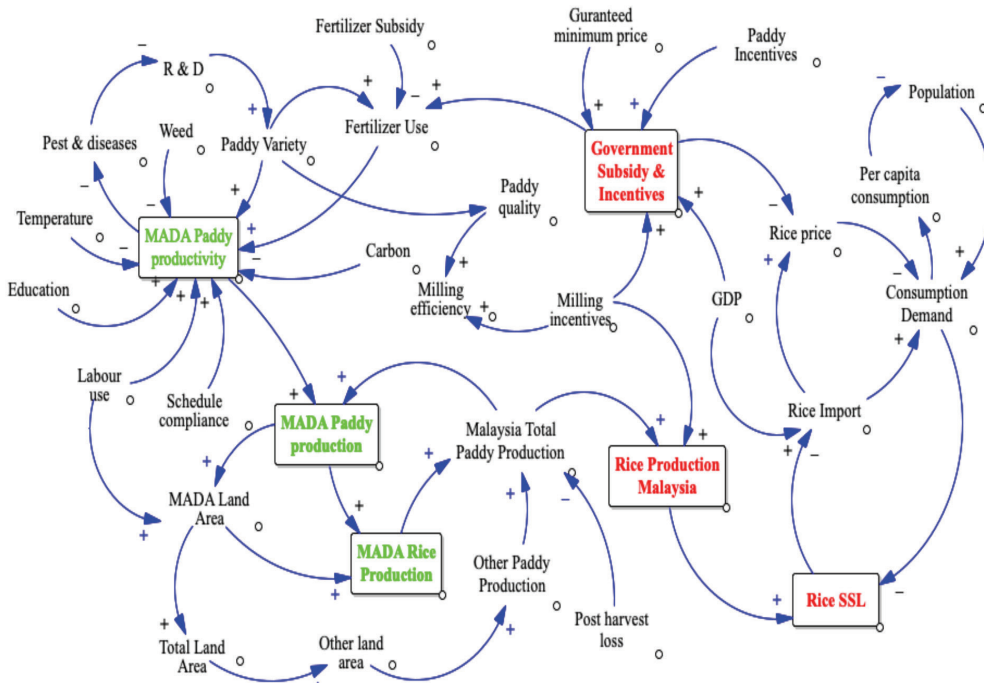


Figure 6: Causal loop diagram of holistic paddy system

Rice production: This is the total amount of milled paddy produced annually in MT. As shown in Figure 6, rice production is related to some key variables which are identified to influence paddy production, milling efficiency, post-harvest losses, rice SSL, import and consumption. The increase in paddy production will indirectly increase the SSL level of rice in general. Rice production is a function of the milling efficiency and paddy quality. Then the total rice production in Malaysia influences the SSL and consequently, the food security status as the completing sub-system of the CLD.

Government Subsidies: This constitutes all forms of government interventions to the paddy and rice sector such as guaranteed minimum price (GMP), gross domestic product (GDP) and other input subsidies. This is considered as a unit as it has a multiple effect on other subunits that is the paddy production unit through input usage, rice production unit through milling incentives, farmers’ income, and research and development (R&D).

Self-Sufficiency Level: Rice Self-Sufficiency Level (SSL) implies the measure of the extent to which any country can satisfy its rice needs from the total domestic production (Clapp, 2019). The SSL units have three subunits comprising of total production, import, and consumption demand. The domestic production is linked to the self-sufficiency level (SSL) and then import level. While rice import refers to the total quantity of rice that is acquired from another country to supplement domestic production to meet consumption demand. The overall importation is a factor that is affected by level of consumption, prices, SSL target, population growth and food security of the country. Furthermore, the SSL is influenced by population size and consumption. Higher SSL levels are indirectly related to less of rice imports, and indirectly influences the higher consumption of rice. R&D capacity is instrumental in producing potentially high productivity variety of paddy. However, the adoption of the high productivity variety and technology is also a function of extension services.

Conclusion and Future Work

This study proposed the CLD mapping tool diagram of SD approach to gain insights into the complexity that characterises the rice value chain in order to support paddy productivity in MADA. In detail, this study employed the CLD tool to highlight causality between the important variables to further understand the factors that influences productivity in the MADA region. Interestingly, four major units were integrated to the overall paddy value chain system in Malaysia. These units include, paddy production unit, rice production unit, government subsidies, and SSL unit. Particularly the analysis of all the units identified the main variables in the rice value chain especially pertaining to paddy productivity and SSL in Malaysia.

This CLD is limited in its ability to foresee the cause-and-effect variables of the productivity and SSL of paddy because this study only covers Step 1 and Step 2 of SD modelling, with emphasis on framework mapping. As a future work, the CLD could be used to provide more details by quantifying the relationship. The use of numerical data and uncertainty analysis is proposed in future studies. The current study is only focused on establishing the causal relationship and direction of causality among important variables in the rice value chain of Malaysia using CLD. Against this limitation and as a continuation of this study, stock and flow diagrams (SFD) of paddy system models should be developed to test the impact of chosen variables on the achievement of 10MT/Ha paddy production target via conducting intervention scenarios. In this SFD model development, the proposed CLD will be quantified by differentiating the variables, whether they are stock, flows, parameter, or auxiliary variables. The variables will then be quantified by using the units and equations to run the model. This process, as covered in Step 3 of the SD modelling process, will generate the behaviour pattern of focus variables. The produced behaviour trends from this simulated model will then serve as a guide on what would be the best strategy to implement in order to achieve the output of 10 Mt/Ha as a long-term plan.

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