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Addressing the Felda Conundrum in Pakatan Harapan's First White Paper

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EXECUTIVE SUMMARY

- The imminent tabling of the Felda White Paper during Malaysia's first parliamentary session of 2019 presents a valuable opportunity for the Pakatan Harapan-led government to secure the political support of Felda settlers in the period leading up to the 15th General Election.
- Although the economic difficulties facing Felda settlers are not new, Felda's financial losses under the Najib Razak administration are historically unparalleled, and have left the agency and its settlers in a precarious situation.
- The White Paper can be seen as a test of the Mahathir administration's resolve to return Felda to its original goal of providing comfortable livelihoods for select groups of (mostly Malay) villagers, as opposed to enabling the corporate enrichment of politically-favoured elites.
- Recent statements by new leadership in Felda, FGV Holdings, and the Ministry of Economic Affairs suggest that any attempts to improve Felda's situation for settlers will avoid impinging on FGV Holdings' own commercial rehabilitation as a publicly-listed agri-business giant.

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INTRODUCTION¹

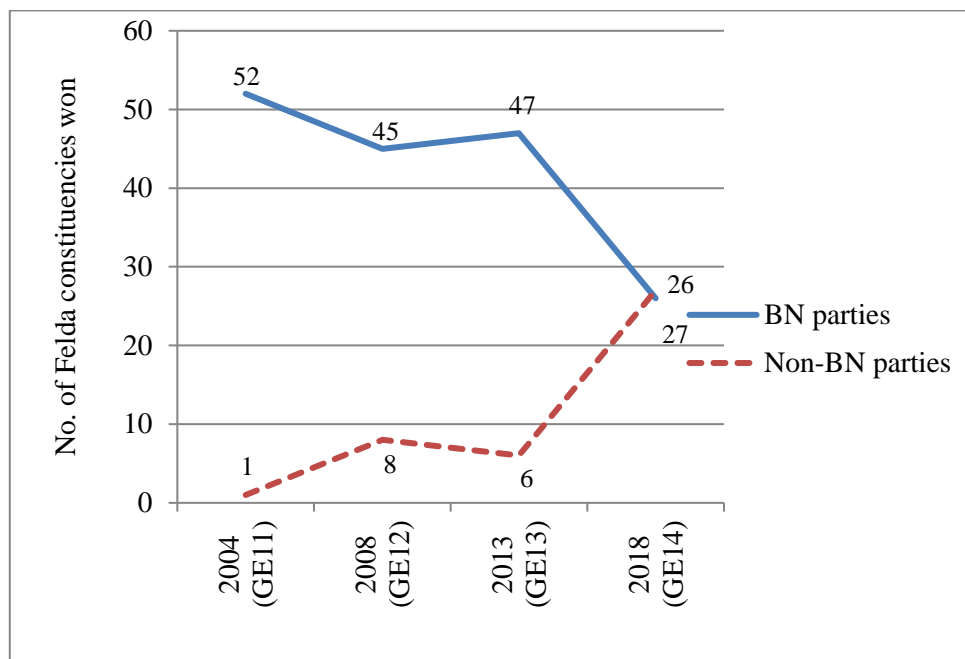
Once the crown jewel of Malaysia's rural development drive, the Federal Land Development Authority (Felda)'s settler schemes are now approaching an inflection point. Years of gross corporate mismanagement, depreciating farm assets, and indifferent commodity prices have strangled the organisation's cash flow to the point where it claims it can no longer afford to pay its settlers, staff and contractors on time. To help stave off Felda's apparent looming bankruptcy, Malaysia's new Pakatan Harapan-dominated parliament is due to table a much-anticipated White Paper before mid-April 2019, proposing strategic solutions to Felda's current malaise. Settler representatives hope that the federal authorities will generously favour Felda settlers, turn back the clock, write off a large amount of settler debt, and help the group reclaim key assets now under the purview of FGV Holdings Bhd (FGV).

Post-GE14, the Pakatan-led government, however, is saddled with broader responsibilities that complicate responses to Felda's current woes. These include obligations to FGV's new management and institutional shareholders, which besides Felda and related agencies (who together hold 38.8 per cent of FGV's shares), extend to statutory Islamic investment fund Lembaga Tabung Haji (7.78 per cent), public sector pension fund Kumpulan Wang Persaraan (Diperbadankan) (7.83 per cent) and the state governments of Pahang (5 per cent) and Sabah (4.07 per cent).² Some form of compromise between different sectoral interests is virtually guaranteed, and will involve federal funding in one form or another. Paradoxically, this tricky situation comes just when Pakatan is facing an unprecedented opportunity to win the hearts and minds of rural Malay voters; an opportunity that may not be on offer again for some time.

A CRUMBLING VOTE BANK

Malaysia's 2018 general elections saw exceptional numbers of Felda-occupied parliamentary constituencies (wards with one or more Felda settlements) reject politicians from Barisan Nasional, including those from the United Malays National Organisation (UMNO). In doing so, they helped demolish long-standing presumptions that Peninsular rural voters – including those from agricultural areas established by Felda – would invariably vote in Barisan's favour. Of an estimated 53 Felda-occupied Peninsular wards that marched to 9 May's polls, twenty-seven seats rejected the ruling establishment. Of these 27 seats, 21 were secured by parties within the Pakatan alliance, many of them first-time victories. The remainder went to Parti Islam Se-Malaysia (PAS) (**Figure 1**)

Figure 1. Felda Parliamentary Constituency Results, 2004-2018



Source: Geoffrey K. Pakiam, “FELDA Constituency Voting Patterns”. Paper presented at Malaysia’s GE-14 Elections: Missed Signs or Late Surge?, ISEAS – Yusof Ishak Institute, Singapore, 28 September 2018.

That being said, popular claims that Felda voters account for a quarter of Malaysia’s parliamentary seats exaggerate Felda’s political importance. They ignore the demographic complexity of these wards. Parliamentary constituencies vary tremendously by their overall ethnic composition and the number of Felda schemes hosted. Felda settlers voting in a seat like Tebrau in Johor, with its relatively high proportion of Chinese voters and only two Felda settler schemes, have had a much smaller influence on overall ward voting outcomes compared to a ward like Kuala Krau in Pahang, home to 15 settler schemes and nearly 90 per cent Malay voters.³ Such disparities help partly explain why pro-Barisan votes in two-thirds of Felda-occupied seats across the Peninsula had been withering away since 2008,⁴ while wards in Malay-dominated eastern Pahang and Johor – bristling with large numbers of Felda schemes – continued supporting Barisan strongly during GE14.⁵

Yet, even within this diminished Barisan-friendly ‘vote bank’ in Peninsular Malaysia’s southeastern region, support for Barisan fell. Many settlers had lost patience with the extravagance of Najib Razak, his wife, and his retinue while Najib was still prime minister, and wanted him out.⁶ Underpinning widespread disillusionment with Najib was frustration rooted in ongoing economic woes: diminished livelihoods, stagnant incomes, mounting debt burdens, and rising living costs, the last seemingly exacerbated by Najib’s 2016 goods and services tax. Younger-generation Felda settlers were especially bitter about their lot, having had to bear the brunt of responsibility for raising young families, amidst curtailed aspirations for better lives. “I think it’s safe to say that people my age...want good governance”, said

34-year-old Ahmad Ishak Naqib, a Felda settler from Najib Razak's very own Pekan constituency, in the tumult following GE14.⁷

A CYCLICAL PROBLEM?

Despite these harrowing realities on the ground, in some fundamental ways there is nothing novel about current day-to-day struggles for Felda settlers. Rural household incomes, including those of Felda communities, have long been heavily influenced by international commodity price cycles. By one estimate, three-fifths of net settler earnings come from tree crop sales (usually oil palm fruit), with the remainder derived from other farm work, small businesses, and cash transfers from Felda. With prices for crude palm oil having dropped by 60 per cent between 2011 and the end of 2018, the real surprise is the possibility that real settler incomes have actually managed to inch upwards in the years between GE13 and GE14, by less than two per cent per year.⁸ There have been similar lean periods in the early-1980s, mid-1980s, early-1990s, and early-2000s, when palm oil prices dipped significantly before bouncing back.⁹

Similarly, the problem of settler indebtedness is hardly new. From its inception as a land development agency in the early 1960s, Felda as a statutory body was tasked with reconciling the heavy outlays incurred by land development with long-term cost recovery from settlers once tree crops came into production. Settlers were indebted to Felda as soon as they entered a scheme because of sunk costs associated with housing, infrastructure and field preparation. They were also credited monthly subsistence allowances while waiting several years for their crops to mature. But many of these loans were heavily subsidised by the federal authorities, who also revised repayment schedules when commodity prices were periodically low. Under pressure from settlers themselves, Felda even wrote off bad debts worth over RM311 million by the mid-1980s so that settlers could finally claim land titles from their respective states.¹⁰

Even as Felda shifted its strategic emphasis from land settlement to agribusiness expansion during the 1980s and 1990s, settlers continued to weather commodity busts and the lumpy costs of farm renewal by engaging in subsidiary work, and drawing upon a multi-layered pool of institutional resources. Federal government outlays for Felda averaged RM200 million per year between 1990 and 2004. The hefty expenses associated with replanting ageing oil palms were offset through a Felda-administered oil palm replanting fund. Each settler contributed RM40 per month per 10-acre lot to the fund. By 2006, the fund was worth RM759 million. Settlers were also guaranteed a generous share of profits from Felda's increasingly diverse and lucrative stable of commodity businesses through a controlling investment stake via co-operative holding Koperasi Permodalan Felda, whose membership was restricted to settlers and staff. For 30 consecutive years following KPF's inception in 1980, settlers, children and Felda Group employees were awarded an average of 14 per cent dividend yields per annum.¹¹

This ultimately political strategy of keeping Felda profits within the Felda family, devised by former Felda Chairman Raja Muhammad Alias, has driven outsiders to label the settlers as ‘golden children’ (*anak emas*). Behind this backhanded compliment is the implication that settlers have been showered with so much institutional largesse that they are unable to look beyond Felda for alternative livelihoods. The characterisation, however, risks being overblown: a high proportion of children from first-generation settler households left their farmsteads between the 1970s and 2000s, most taking up work in the manufacturing and services industries, others becoming university-educated middle-class professionals. The second and third-generation descendants of original settlers (including those who have moved away from the farm) may still draw revenue from an inherited smallholding, now mostly worked by migrant labourers, and overseen on a daily basis by a Felda subsidiary, Felda Technoplant Sdn Bhd. The farm proceeds, however, are divided among remaining leading family members, making it increasingly difficult for each of them to depend on tree crop smallholdings for income.¹²

It is nevertheless clear that many settlers and their descendants have retained significant stakes in Felda and its perceived economic benefits. They are ready to challenge the authorities when they see that stake being eroded further. Following Pakatan’s ascent in May 2018, the litany of settler complaints to Felda and the federal government has resumed. Concerns have been raised regarding lengthy delays to living allowance payments.¹³ Settlers have also petitioned for the Felda’s parent ministry, the Ministry of Economic Affairs, to introduce a floor price for palm oil, and for crop payments to be restored from a monthly to fortnightly basis.¹⁴ Other settlers have called on Felda’s top leadership to close down Felda Technoplant because of allegedly high operational costs and bloated management structures, claiming they were opposed to Technoplant’s introduction from the beginning.¹⁵ Settler indebtedness has also continued to be a heated issue, ranging from complaints that settlers lack information regarding their Felda-sponsored debts, to outright demands that their debts be written off.¹⁶

BLAMING THE VICTIM

What makes the situation in early 2019 particularly disturbing for settlers is that they now face the prospect of being saddled with additional debts that are not theirs, at a time when their capacity to repay existing arrears is already stretched by circumstances beyond their control. It is clear that Felda’s finances and operational effectiveness are a shadow of its pre-2012 days, when Felda Global Ventures was its subsidiary rather than a publicly-listed enterprise. But Felda no longer publishes annual reports, and the lack of transparency surrounding the agency’s financial situation hinders attempts to fact-check claims by senior management. To start with, Felda’s debt load is an open question. Both Economic Affairs Minister Azmin Ali and Felda’s Director-General Othman Omar have claimed that Felda’s institutional debt was RM8 billion as of 30 June 2018.¹⁷ But recent financial statements seen in private by *Straits Times* reporters suggest that Felda had already amassed RM12 billion

in debts at the end of 2017: a sum rivalling that lost in the infamous Port Klang Free Zone scandal a decade ago.¹⁸ More worryingly, in late February 2019, Felda's new Director-General Othman Omar came out squarely blaming settlers themselves and an excessively generous loan system for the Felda's current debt woes. Contending that settlers owe Felda at least RM7.5 billion in arrears, Othman blamed these settler debts for constricting Felda's cash flow and the agency's ability to pay off its own loans to financial institutions.¹⁹ There are still no publicly available accounts books to substantiate these controversial claims.

Within a week of Othman Omar's interview, Felda settler NGO Persatuan Anak Peneroka Felda Kebangsaan (Anak)'s Chief Secretary Rauzan Esa responded with a list of potent counterarguments. Besides noting the lack of transparency in how Othman derived his figures, Rauzan noted that settler debt was being aggravated by poor farm performance, contending that Felda's own managers needed to start re-prioritising field operational efficiency, not least by allowing more settlers to carry out subsidiary farming activities in smallholdings undergoing tree replanting. He reminded readers that settlers' debt forgiveness was still part of Pakatan Harapan's campaign manifesto, and that settlers have already been paying debts back to Felda where possible. The real cause of Felda's debt and cash flow problems, Rauzan contended, had to do with the floating of Felda Global Ventures on the stock exchange and the downsizing of a major revenue stream for Felda settlers. Assets formerly controlled by settlers' cooperative Koperasi Permodalan Felda, including Felda plantation lands, were now being leased to Felda Global Holdings for a fraction of previous returns.²⁰

It is now widely believed that although both Felda and Felda Global Ventures raised billions of ringgit each from the latter's RM10 billion initial public offering, their respective cash piles were frittered away on commercially dubious asset purchases and payouts to Barisan loyalists. For Felda, these included 'management expenses', transfers to the Sabah and Pahang state governments, payments to Felda Technoplant, an infamous 37 per cent stake in Eagle High Plantations, overpriced purchases of real estate in Sarawak, Sabah, England, and RM15,000 windfall payouts to each settler household to secure their initial acquiescence to the initial public offering (the latter somewhat offset by RM3,500 loans taken out by settlers to purchase Felda Global Venture shares that performed poorly in subsequent years).²¹ While allowing staff costs to spiral upwards, Felda Global Ventures made similarly poor business deals with Asian Plantations Ltd, graphene firm Cambridge Nanosystems, Pontian UP Bhd, Golden Land Berhad and other entities.²² Felda Global Ventures' poor commercial performance also affected Felda directly through declining profits, low dividends and falling share prices. According to former Felda chairman Shahrir Samad, Felda's post-2012 replanting efforts were financed not through cash on hand, but through taking on RM3.4 billion in new debt.²³ For both Felda and Felda Global Ventures, persistently low commodity prices simply helped expose years of shoddy and venal business practices, whose costs were largely borne by present-day settlers and their families.

Anak representatives have recently tried to shift Putrajaya's stance on the upcoming Felda White Paper, asking the authorities to consider enabling Felda to buy back estate lands and palm oil processing factories from Felda Global Ventures (now renamed FGV Holdings Berhad), for a possible sum of about RM2.5 billion.²⁴ There are also strong grounds to question the legality of Felda's 99-year plantation land lease arrangement with FGV, since it appears to violate the Group Settlement Act of 1960's stipulations that Felda land can only be owned either by settlers or a settlers' cooperative managed by Felda.²⁵ Azmin Ali thus far has responded to Anak's proposal cautiously, only commenting that much would depend on projected purchase costs, the presence of renegotiation/termination clauses in the agreements, and the willingness of FGV's leadership and shareholders to undertake the asset transfer.²⁶ As noted earlier, put together, Felda and Koperasi Permodalan Felda are currently FGV's largest shareholders (38.8 per cent), while FGV's other major institutional investors hold significant but smaller shares (roughly 26 per cent in total). Even if members of the latter group were amenable, the prospect of a government-funded transfer seems unlikely. Recent rumours that FGV would be taken private (and presumably stripped of assets for Felda's benefit) have dissipated; instead, FGV's new management team appears bent on restoring the group's commercial credibility as a leading palm oil producer, arguing that FGV's return to profitability would also benefit Felda through existing institutional arrangements.²⁷

FINAL REMARKS

The imminent tabling of the Felda White Paper is likely to be a key moment in a much longer history of jockeying for political influence within Malaysia. The previous four decades saw Felda gradually shift from its focus on providing comfortable rural livelihoods for (mostly Malay) villagers to enabling the corporate enrichment of politically-favoured elites. As a public institution tasked with protecting the welfare of a valuable Malay interest group, Felda held out for longer than many other state agencies, but eventually succumbed to similar political forces during the Najib Razak period.

The White Paper will provide a strong indication of the extent to which Pakatan under Mahathir is willing and able to do two things: (1) arrest the state-backed transfer of accumulated assets from Malaysian working/middle-classes to favoured elites; and (2) reverse the gradual impoverishment of one of Malaysia's previously most-favoured rural social groupings. How Pakatan tries to resolve the tension between helping settlers become more financially independent in the longer term while securing their political support is difficult to foresee. But some form of livelihood diversification, agricultural or otherwise, is an obvious way to go. With massive overhanging federal public debt and other political constituencies jockeying for favour, the PH-led government will be hard pressed to find a solution that will please many Felda settlers without raising unreasonably high expectations amongst other debt-burdened constituencies in Malaysia.

- ¹ I would like to thank Ooi Kee Beng, Francis E. Hutchinson, Lee Hwok Aun and members of the Perspective editorial committee for their feedback on an earlier draft. The usual caveats apply.
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