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The FELDA Quarrel and its National Ramifications

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EXECUTIVE SUMMARY

- The ferocity of the public quarrel that broke out during Ramadhan at Felda Global Ventures Holdings Berhad (FGV, a public-listed group associated with the Federal Land Development Authority or FELDA) suggests that Prime Minister Najib Razak is not in full control of UMNO and will not call for early general elections.
- CEO Zakaria Arshad (a son of settlers and a FELDA insider) garnered support amid general calls to oust UMNO strongman Isa Samad as FGV's non-executive Chairman.
- Social media exposés about dodgy corporate deals and illegitimate spending at FGV triggered an anti-corruption investigation.
- FELDA's Malay voters hold sway in almost a quarter of Malaysia's parliamentary constituencies. Survey data show sliding support for UMNO-BN in a majority of these seats.
- Chinks in the FELDA-FGV armour are keenly eyed by the wily ex-Prime Minister Mahathir Mohamed who opposes Najib and has been enjoying unprecedented access to FELDA areas.

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INTRODUCTION

This paper examines the nature of the quarrel at FGV (Felda Global Ventures Holdings Berhad); discusses the importance of FELDA (Federal Land Development Authority) votes in the coming general elections; related problems at FGV; FELDA's flagging performance; and recent opinion poll numbers.

The FELDA Quarrel at FGV went public on 6 Jun 2017 and the market wobbled as the FGV Board of Directors put its CEO, CFO and two senior managers on forced leave;¹ CEO Zakaria Arshad and CFO Ahmad Tifli Mohd Talha were served show-cause letters on 13 June 2017. "The Safitex-Delima Oil deal was cited as the main point of contention", as Safitex's debt of US\$8.3 million to FGV's Delima Oil was allowed to increase to US\$11.7 million.^{2,3,4} Isa Samad linked (alleged) travel bills and the have-to-do Eagle High Plantations deal featured in exposés.^{5,6,7}

Zakaria resisted being forced to quit over an issue of internal audit, alleging "ridiculous" deals, and calling for a Malaysian Anti-Corruption Commission (MACC) investigation (citing losses at Felda Cambridge Nanosystems Ltd and a proposal for a 30% stake in a creamer factory linked to Can-One Bhd, other examples of direct negotiations and direct contracts) which FGV denied.^{8,9} Zakaria was questioned by the MACC, whose officials

¹ New Straits Times (2017), FGV stock falls 4.05 per cent after Isa's move on CEO, New Straits Times, 6 Jun 2017, <https://www.nst.com.my/business/2017/06/246363/fgv-stock-falls-405-cent-after-isas-move-ceo>, accessed 26 Jun 2017.

² An outstanding debt from Afghan firm Safitex Trading owed Delima Oil Products Sdn Bhd, an FGV subsidiary; Moh, June, 'FGV grants Zakaria Arshad extension to reply to show cause letter', The New Straits Times, 22 Jun 2017, <https://www.nst.com.my/node/251369>, accessed 26 Jun 2017.

³ US\$ 1 = RM 4.29 on 27 Jun 2017.

⁴ The New Straits Times, 'FGV says debts owed to subsidiary have increased to US\$11.7 million', The New Straits Times, 7 Jun 2017, <https://www.nst.com.my/business/2017/06/246660/fgv-says-debts-owed-subsidiary-have-increased-us117-million>, accessed 26 Jun 2017.

⁵ Raja Petra Kamarudin (2017), 'The reason for FGV's RM11 billion loss in market capitalisation', Malaysia Today, 9 Jun 2017, <http://www.malaysia-today.net/the-reason-for-fgvs-rm11-billion-loss-in-market-capitalisation/>, accessed 26 Jun 2017.

⁶ International Palm Oil Monitor (2017), 'New Info From KPMG's Leaked 'Project Sunshine' Report Opens Up Cans Of Worms On Felda's Acquisition Of EHP', International Palm Oil Monitor, 20 Jun 2017, <http://ipom.global/2017/06/20/new-info-from-kpmgs-leaked-project-sunshine-report-opens-up-cans-of-worms-on-feldas-acquisition-of-ehp/>, accessed 27 Jun 2017.

⁷ International Palm Oil Monitor (2017), 'Leaked KPMG Due Dilligence Report on EHP Warns Against Purchase', International Palm Oil Monitor, 13 Jun 2017, <http://ipom.global/2017/06/20/new-info-from-kpmgs-leaked-project-sunshine-report-opens-up-cans-of-worms-on-feldas-acquisition-of-ehp/>, accessed 27 Jun 2017.

⁸ New Straits Times, 'Zakaria urges MACC to probe FGV dealings', New Straits Times, 6 Jun 2017, <https://www.nst.com.my/news/nation/2017/06/246276/zakaria-urges-macc-probe-fgv-dealings>, accessed 26 Jun 2017.

⁹ Malay Mail (2017), 'FGV board executive committee deny CEO's 'ridiculous deals' claims', Malay Mail, 10 Jun 2017, <http://www.themalaymailonline.com/malaysia/article/fgv-board-executive-committee-deny-ceos-ridiculous-deals-claims>, accessed 26 Jun 2017.)⁹

were at FGV for 8 hours collecting documents¹⁰ and it has plans to question 50 people (including Isa and his wife).^{11,12,13}

Najib pledged to quickly resolve the governance crisis at FGV within the month of June; but he has to manage perceptions arising from quick-fixing a nasty boardroom spat apparently started over a US\$3.4 million increase in debt. Just before the Hari Raya Aidifitri (Eid Mubarak) celebration weekend, Najib raised eyebrows by shifting Isa Samad (now described in state-aligned media as a fading and old-fashioned UMNO strong man) to the bigger public transport portfolio on 19 Jun 2017, whilst CEO Zakaria Arshad was given a (very tight) noon 23 June 2017 deadline to answer his show-cause letter dated 13 Jun 2017.^{14,15} This was perceived as a tilt in favour of Isa.

But a few days later, some efforts at rebalancing perceptions appeared as state-aligned media headlined that Isa's new position is a non-executive role (a theoretically contained role, that he also held at FGV)¹⁶ and wrote starkly of Isa's "spectacular fall from grace [as guardian] of rural Malay landholding in the country... [amid] complaints about poorly managed replanting schemes... [and] stories about lavish spending and questionable property investments overseas."¹⁷ How CEO Zakaria Arshad, the son of a FELDA settler and a FELDA corporate insider, is further taken to task—he was given extra time to prepare a response by 30 July 2017—and MACC's investigation will be eyed by all.¹⁸ Political watchers are also asking for a study of the role of the FGV Board of Directors in this fracas.¹⁹

¹⁰ Bernama (2017), MACC spends 8 hours at FGV HQ, Berita Daily, 9 Jun 2017, <http://www.beritadaily.com/macc-spends-8-hours-at-fgv-hq/>, accessed 26 Jun 2017.

¹¹ Mazwin Nik Anis et al (2017), MACC starts probe on FGV, The Star, 8 Jun 2017, <http://www.thestar.com.my/news/nation/2017/06/08/macc-starts-probe-on-fgv-antigraft-officers-to-dig-out-documents-from-companys-hq/>, accessed 26 Jun 2017.

¹² The Malaysian Insight (2017), 'MACC to question 50 individuals as part of FGV probe', The Malaysian Insight, 13 Jun 2017, <https://www.themalaysianinsight.com/s/4941/>, accessed 26 Jun 2017.

¹³ Haikal Jalil (2017), 'Tight-lipped Isa Samad leaves after 4 hours with MACC', The Sun Daily, 21 Jun 2017, <http://www.thesundaily.my/news/2017/06/21/tight-lipped-isa-samad-leaves-after-4-hours-macc-updated?>, accessed 26 Jun 2017.

¹⁴ Tan, Joceline (2017), 'The rise and spectacular fall of Isa', The Star, 25 Jun 2017, <http://www.thestar.com.my/opinion/columnists/analysis/2017/06/25/the-rise-and-spectacular-fall-of-isa-tan-sri-mohd-isa-samads-old-school-style-of-politics-helped-him/>, accessed 26 Jun 2017.

¹⁵ Mazwin Nik Anis (2017), 'Sulaiman appointed FGV acting chairman, Isa to be SPAD acting chairman', The Star, 19 Jun 2017, <http://www.thestar.com.my/news/nation/2017/06/19/sulaiman-appointed-fgv-acting-chairman-isa-to-be-spad-acting-chairman/#sh4feOLUZgK4hcy6.99>, accessed 26 Jun 2017.

¹⁶ New Straits Times (2017), 'Isa to play non-executive role in SPAD', New Straits Times, 23 Jun 2017, <https://www.nst.com.my/news/nation/2017/06/251578/isa-play-non-executive-role-spad>, accessed 26 Jun 2017.

¹⁷ Tan, Joceline (2017), Ibid.

¹⁸ Moh, June, 'FGV grants Zakaria Arshad extension to reply to show cause letter', The New Straits Times, 22 Jun 2017, <https://www.nst.com.my/node/251369>, accessed 26 Jun 2017.

¹⁹ Pua, Tony (2017), 'Idris Jala must also check role of FGV board', Free Malaysia Today, 8 Jun 2017, <http://www.freemalaysiatoday.com/category/opinion/2017/06/08/idris-jala-must-also-check-role-of-fgv-board/>, accessed 26 Jun 2017.

BACKGROUND

Prime Minister Najib has been pushing an anti-corruption drive within Malaysia, while facing the dissonance of multiple international investigations and asset seizures relating to 1Malaysia Development Berhad (1MDB). Allegations against the federal fund have been consistently rejected and with domestic legal procedures finding that no crime had been committed. The embattled premier has been addressing FELDA's flagging internal performance (often headlined by the collapsed share price and dwindling profits at its associated FGV unit) with various anti-corruption investigations.^{20,21,22,23} He also recruited the help of UMNO stalwart Shahrir Samad (no direct relative of Isa) in January 2017.²⁴ Within a few months of losing his position helming FELDA (since 2010), Isa Samad's position at FGV (since 2011) turned out to be shaky.

FGV is associated with FELDA, and had a much trumpeted Initial Public Offering (IPO) of shares raising US\$3.1 billion on 28 Jun 2012. The RM15,000 cash payout to each FELDA settler family boosted FELDA voter sentiment in the run-up to the general elections held on 5 May 2013. But the plantation giant has lost about 60% of its market value (against IPO price) since. Some even wonder if this is in fact the second biggest scandal after debt-laden 1MDB.²⁵ News about possible deals to boost FGV's finances and its share price have been circulating for months. Interested parties are said to include China state corporations and Malaysia's Syed Mokhtar; and now two Indonesian tycoons are reportedly eyeing big stakes in FGV, Martua Sitorus (a co-founder of Kuok's Wilmar) and Peter Sondakh²⁶. Deal talks likely also await FGV board changes, where FELDA is said to seek more representation²⁷.

²⁰ The FELDA stable was put under the control of the Prime Minister's Office in 2004.

²¹ Malay Mail (2015), MACC hauls up Felda unit CEO over multi-million-ringgit Port Dickson hotel, Malaysia Mail, 9 Mar 2015, <http://www.themalaymailonline.com/malaysia/article/macc-hauls-up-felda-unit-ceo-over-multi-million-ringgit-port-dickson-hotel>, accessed 26 Jun 2017.

²² Malaysiakini (2015), MACC clears Felda over London hotel buy, Malaysiakini, 27 May 2015, <http://www.malaysiakini.com/news/299764>, accessed 26 Jun 2017.

²³ Bernama (2017), Felda's sturgeon fish project: MACC detains 5, Free Malaysia Today, 25 Jan 2017, <http://www.freemalaysiatoday.com/category/nation/2017/01/24/feldas-sturgeon-fish-project-macc-detains-5/>, accessed 26 Jun 2017.

²⁴ Afiq Isa, 'Changes in Felda', The Star, 18 Jan 2017, <http://www.thestar.com.my/business/business-news/2017/01/18/changes-in-felda/>, accessed 26 Jun 2017.

²⁵ The Malaysian Insight (2017), 'Can Idris drive FGV out of trouble?' The Malaysian Insight, 8 Jun 2017, <https://www.themalaysianinsight.com/s/4567/>, accessed 26 Jun 2017.

²⁶ Chow, Emily and Praveen Menon (2017), Malaysia palm firm FGV's stake sale plan to Indonesia tycoons on hold: sources, Reuters, 5 July 2017, <https://www.reuters.com/article/us-fgv-management-sale-idUSKBN19Q1AL>, accessed 10 Jul 2017.

²⁷ Barrock, Jose (2017), 'More changes to FGV board?' The Edge Malaysia, 3 Jul 2017.

Figure 1: FGV's share price chart, 2012 to present²⁸



Note: IPO price was RM4.45-4.55 per share.

Why is fixing FELDA and FGV important? By 1989, FELDA was dubbed “one of the most successful land settlement organisations in the world”.²⁹ FELDA settler families (first and second generation) are a key interest group, numbering over 1.2 million and representing 9% of registered voters in the May 2013 general elections. They hold sway in almost a quarter of the parliamentary constituencies (54 out of 222) in a heavily rural-biased electoral system,³⁰ and have been voting overwhelmingly for the United Malays National Organization (UMNO) -Barisan Nasional (BN); and were an important force in countering the effect of the ruling coalition losing urban support (along with winning less than 50% of the national popular vote) in GE13. However, a recent Invoke Malaysia poll reports a dip in support, even before the FGV boardroom tussle. Chinks in the FELDA Group’s armour are keenly eyed by the wily ex-Prime Minister Mahathir Mohamed. He leads Parti Pribumi Bersatu Malaysia (Bersatu) in competing for the Malay vote; and he has gained unprecedented access and attention in FELDA areas with his *ceramahs* (political gatherings).^{31,32}

²⁸ Reuters (2017), Felda Global Ventures Holdings share price chart,

<http://www.reuters.com/finance/stocks/chart?symbol=FGVH.KL>, accessed 10 July 2017.

²⁹ Sutton, Keith (1989), ‘Malaysia’s FELDA land settlement model in time and space’, *Geoforum* 20 (3). p. 339-354.

³⁰ The UMNO Information Chief Ahmad Maslan revealed that out of approximately two million people that are settlers or work in FELDA, 1.2 million are voters. He also said if PAS has Anak to help champion its cause, UMNO has several non-governmental organizations, such as Gabungan Wawasan Generasi FELDA (GWGF) and Majlis Belia FELDA Malaysia (MBFM), on its side. MBFM has been very active in all 54 parliamentary constituencies covering FELDA settlements since the last general elections. It boasts about 100,000 members and organizes mostly social and sports programmes. In Zubaidah Abu Bakar (2010), ‘PAS, PKR out to win FELDA settlers’ votes. *The New Straits Times*, 23 July 2010.

³¹ Chan, Kok Leong (2017), ‘Can Dr Mahathir turn the Felda vote?’ *The Malaysian Insight*, 3 Apr 2017, <https://www.themalaysianinsight.com/s/1192/>, accessed 27 Jun 2017.

³² Various videos of Mahathir’s speeches in FELDA areas are available via Youtube, https://www.youtube.com/results?search_query=mahathir%2C+felda.

ANALYSIS

Such was the gloom about FGV's financial performance and deal-making trends, that by 22 Dec 2016 the Employees Provident Fund (EPF, Malaysia's most respected public pension fund) reported that it had no more shares in FGV, while confirming that its RM6.5 billion loan taken by Felda Holdings Bhd was not in default.³³ EPF took a RM204.18 million loss by August 2016 while gaining dividend income of RM105.77 million on its FGV shares.³⁴

Just over three months after the EPF sell down, Zakaria Arshad was appointed CEO on 1 April 2016 (replacing Mohd Emir Mavani Abdullah, also being investigated by the MACC³⁵). Zakaria was selected by Isa Samad and introduced to Najib who approved of him to be CEO.³⁶ Zakaria is credited with organizational improvements,³⁷ and others also laud him for cutting back on corporate deals. One deal avoided was a US\$680 million stake in Peter Sondakh's Eagle High Plantations.³⁸ That deal was openly criticized by the EPF as being too costly. Two days after the EPF cut out, the controversial Indonesian deal was shunted to another FELDA unit, FIC Properties Sdn Bhd.³⁹ Within two weeks, Isa was supplanted at FELDA by another senior UMNO politician; Shahrir Samad, the Barisan Nasional Backbenchers' Chairman (akin to a chief whip) and Member of Parliament for Johor Bahru.⁴⁰ He was tasked with turning around the poor performance of the FELDA stable of companies (with the apparent exception of FGV, which Isa continued to helm). The talk among corporate observers was that while the two men had offices on the same floor, they did not talk to each other; and Isa's reach may have slowed down reforms.⁴¹

³³ Amir Hisyam (2016), 'EPF has sold all its shares in FGV', The New Straits Times, 22 Dec 2016, <https://www.nst.com.my/news/2016/12/198772/epf-has-sold-all-its-shares-fgv>, 26 Jun 2017.

³⁴ Rahmah Ghazali (2017), 'EPF records RM203.18mil realised loss from Felda Global Ventures stake', The Star, 3 Apr 2017, <http://www.thestar.com.my/news/nation/2017/04/03/epf-records-rm203mil-realised-loss-from-felda-global-ventures-stake/>, accessed 26 Jun 2017.

³⁵ Malaysiakini (2017), 'The Star employee charged with receiving bribes from FGVH CEO', Malaysiakini, 5 Jun 2017, <https://www.malaysiakini.com/news/384588>, accessed 26 Jun 2017.

³⁶ The Edge Malaysia (2017), 'Isa says', The Edge Malaysia, 12 Jun 2017.

³⁷ Amir Hisyam, Quick facts: FGV president/CEO Zakaria Arshad, The New Straits Times, 6 Jun 2017, <https://www.nst.com.my/news/nation/2017/06/246301/quick-facts-fgv-presidentceo-zakaria-arshad>, accessed 26 Jun 2017.

³⁸ Timmerman, Antonia (2016), 'Malaysia's FGV drops Eagle High \$680m takeover plans', Deal Street Asia, 27 Jul 2016, <https://www.dealstreetasia.com/stories/fgv-drops-eagle-high-680m-takeover-plans-48679/>, accessed 26 Jun 2017.

³⁹ The Star (2016), Felda unit to buy PT Eagle High stake for US\$505.4mil, The Star, 24 Dec 2016, <http://www.thestar.com.my/business/business-news/2016/12/24/felda-unit-to-buy-pt-eagle-high-stake-for-us5054mil/>, accessed 26 Jun 2017.

⁴⁰ The Star (2017), 'Shahrir Samad appointed new Felda chairman', The Star, 6 Jan 2017, <http://www.thestar.com.my/news/nation/2017/01/06/shahrir-samad-takes-over-as-felda-chairman/>, accessed 26 Jun 2017.

⁴¹ Interview with a corporate banker familiar with FELDA, May 2017.

With Shahrir appointed, it now seems clear that Najib saw Isa's role at FGV as untenable. Shahrir signals that reform and efforts are needed to prepare the FELDA voting base for GE14. Najib likely knew what opinion poll numbers by Invoke Malaysia now report: that voter support for UMNO-BN in parliamentary seats with FELDA influence was trending down. Thus, Najib's attempt to clean up FELDA and sideline Isa was to revive slippage in support. Rafizi Ramli (a senior Parti Keadilan Rakyat politician, Member of Parliament for Pandan, and the founder of Invoke Malaysia) said "the Felda crisis since 2016 was among the factors leading to increased opposition support. It was exacerbated by the troubles in FGV which affected Felda settlers... Payments were late, houses not ready, bonuses not paid".⁴² Invoke Malaysia's⁴³ survey found that UMNO-BN support was on a downward trend, with a majority of FELDA-linked parliamentary seats showing a drop in support of even as high as 24%, for example at Pekan, Pahang (Najib's parliamentary seat). In a handful of seats, UMNO-BN had increased support, but only to the order of 2-10% (and notably where there was a non-Malay and/or the Democratic Action Party or DAP incumbent).⁴⁴ This data do not mean UMNO will lose FELDA seats, but it is a trending narrative that UMNO should worry about.

FGV has a close commercial relationship with FELDA settlers: (i) it may have exclusive right to buy their oil palm fresh fruit bunches (FFB) for processing in its mills; (ii) it can handle the operations of the smallholdings (supplying labour to harvest hefty 20kg FFBs from oil palm trees over 10 meters high and transport the collected produce; a "dirty, dangerous and difficult" job for younger people much less FELDA's ageing settlers; and provide agro-chemicals and fertilizer); and (iii) each settler likely still holds 800 shares in FGV (their IPO right-to-buy allocation or more) with estimated paper losses of RM2,400 (about one month of FELDA settler income; Appendix 1 quantifies this loss). The total direct allocation to eligible FELDA settlers was 91.2 million shares or 2.5% of the enlarged share capital of FGV. The RM2,400 loss is notable, but relatively small when compared to loans of RM100,000 or more that many FELDA smallholdings will incur largely for

⁴² Aedi Asir (2017), 'Only 6 Felda seats see bigger shift in support for BN, says Invoke', Free Malaysia Today, 20 Jun 2017, <http://www.freemalaysiatoday.com/category/nation/2017/06/20/only-6-felda-seats-see-higher-voter-support-for-bn-says-invoke/>, accessed 27 Jun 2017.

⁴³ Invoke Malaysia is a new polling outfit run by Rafizi Ramli. In the last few months, Invoke has introduced big data analytics with large surveys (with respondents numbering in the tens of thousands and more) with the same methodology from Obama's reelection campaign team. Invoke Malaysia has published some controversial surveys including one on the low level of Malay public support for the RUU355 "Hudud" Bill, in support of some MPs who had taken a stance against it.

⁴⁴ This is not surprising given the findings on rural campaigning by UMNO that used anti-DAP messaging in GE13 (Khor, 2014), and that this has now been enhanced by messaging to Malay voters about a DAP or Chinese Christianisation agenda by spokesmen including university lecturers and other non-politicians. Refer to: The Malaysian Insight (2017), 'Kamarul takes another swipe at DAP', The Malaysian Insight, 30 May 2017, <https://www.themalaysianinsight.com/s/4008/>, accessed 27 Jun 2017 and Fann, Thomas (2017) 'What in God's name is happening to Malaysia?' Malaysiakini, 10 Jun 2017, <http://www.malaysiakini.com/news/385171>, accessed 27 Jun 2017.

replanting (akin to a mortgage loan, to pay the cost of replacing aged oil palm trees with new ones that will have a productive life of about 20 years).⁴⁵

What do FELDA voters think about the FGV boardroom ruckus? Media reports report some settlers in Johor being blasé about it, while some in Pahang seem more incensed. A series of news articles reports various view points and issues in June 2017:

- *A 71-year-old settler from Sg Sibol in Johor said politicians should never be allowed to helm either Felda or FGV.*⁴⁶
- *A 2nd generation settler of Felda Jengka 10 (Pahang) said settlers were only paid once a month instead of twice, and is suspicious that there may be lack of cash to run the plantations.*⁴⁷
- *A second generation 35-year-old settler from Felda Jengka 10 Pahang complained that his parents were pressured into buying FGV shares and lamented its poor performance “When FGV was launched, they said it would make our lives better.”*⁴⁸

The complaints above do not seem insurmountable for a reform-minded and focused FELDA. Its settlers are well-known to be savvy and opportunistic in highlighting their gripes, but at the end of the day, “the glass is half full” for many FELDA voters, and their overall satisfaction translates into strong votes for UMNO-BN. The GE13 vote for UMNO-BN was 59-97% in FELDA districts, depending on age-group and region. Focusing on Johor, Negeri Sembilan and Pahang (accounting for 80% of FELDA smallholding areas):⁴⁹ the highest was from elderly voters in Johor at 86% and it was lower among younger voters in Pahang at 63%, and Negeri Sembilan FELDA voters were in between. As Maznah Mohamad⁵⁰ points out, “The dependency-patronage relations between UMNO and FELDA voters played the biggest role in sustaining the Malay vote bank. The transformation of FELDA from a land scheme for landless peasants to an agricultural cooperative to

⁴⁵ Sheridan Mahavera (2017), 'The Felda that helped their parents now shackling their children', 14 Jun 2017, <https://www.themalaysianinsight.com/s/5027/>, accessed 26 Jun 2017.

⁴⁶ Amin Iskandar and Muzliza Mustafa (2017), 'Problems still plaguing Felda settlers despite changes at the top of FGV', The Malaysian Insight, 22 Jun 2017, <https://www.themalaysianinsight.com/s/5744/>, accessed 26 Jun 2017.

⁴⁷ Sheridan Mahavera (2017), 'The Felda that helped their parents now shackling their children', 14 Jun 2017, <https://www.themalaysianinsight.com/s/5027/>, accessed 26 Jun 2017.

⁴⁸ Sheridan Mahavera (2017), 'As the Felda conflict brews, settlers in Pahang stew in anger', The Malaysian Insight, 12 Jun 2017, <https://www.themalaysianinsight.com/s/4852/>, accessed 26 Jun 2017.

⁴⁹ Khor, Yu Leng (2014), 'The political tussle for FELDA land schemes - UMNO strengthens its Malay rural fortress in 13th General Election', *Kajian Malaysia*, Vol. 32, Supp. 2, 2014, p.89–121.

⁵⁰ Maznah Mohamad (2015), 'Fragmented but captured: Malay voters and the FELDA factor in GE13', in Saravanamuttu et al., editors (2015), 'Coalitions in Collision: Malaysia's 13th General Elections', Institute of Southeast Asian Studies/Strategic Information and Research Development Centre.

commercial plantation to global corporation quite perfectly encapsulates the notion of a vote bank, bound by loyalty, dependency and indebtedness, to a patron, in more ways than one.”

While negative comments from the FELDA second generation are periodically reported by the press, this contrasts with their stolid support for UMNO-BN. Table 1 shows little to differentiate young and older FELDA voters, especially in Johor and with at most a 5%-age differential in Selangor. Cultural and family factors may be sought to explain "why the younger generation work in urban areas but vote in FELDA, the same way as their parents."⁵¹ Invoke Malaysia’s regular polling may also offer some new insights. There is lack of sufficient reported data to make strong judgments on FELDA intergenerational social mobility. While most will have secondary education and there is strong aspiration for tertiary education, the reported 13,061 professionals among FELDA children by 2006 (about 2.5% of the total) seem a muted figure (Refer to Appendix 2 for a synthesis of some findings from key sources, from Khor et al., 2015).

Table 1: Percentages of votes for Barisan Nasional in 258 FELDA voting districts in the GE13 parliamentary elections; by age cohort and by state:⁵²

State	21-30	31-40	41-50	51-60	> 60	Total
Sabah	90%	90%	93%	97%	n.a.	92%
Johor	87%	84%	85%	91%	89%	86%
Perlis	74%	77%	n.a.	85%	86%	78%
N. Sembilan	74%	74%	77%	82%	81%	77%
Perak	71%	72%	76%	78%	79%	75%
Melaka	74%	70%	77%	81%	79%	74%
Kedah	71%	69%	73%	80%	80%	74%
Selangor	68%	72%	71%	76%	80%	73%
Terengganu	66%	61%	64%	73%	73%	67%
Pahang	63%	64%	69%	70%	70%	67%
Kelantan	59%	60%	60%	62%	71%	61%

On these numbers (Table 1), even a large 10%-age point swing hardly dents UMNO-BN’s overall prospects within FELDA districts. But, “when (these) are re-aggregated into the 54 constituencies, which include semi-urban and urban pockets of mixed voters, they may not seem so monolithic in terms of BN support.”⁵³ If the trend noted by Invoke Malaysia’s persists, some even larger swings (over 10% to a very high 25% at the parliamentary seat level) could come to have a major impact. Those eyeing potential swings for non-urban seats may also consider states with lower UMNO-BN vote majorities (Kedah, Selangor, Terengganu, Pahang and Kelantan), the need for a more unified opposition (which seems problematic given the stance of Parti Islam Se-Malaysia or PAS⁵⁴) and/or targeting of mixed

⁵¹ Interview with senior political analyst, 28 Jun 2017.

⁵² Khor, Yu Leng (2014), Ibid.

⁵³ Saravanamuttu, Johan (2017), 'The Felda Factor: Why Umno cannot take its ‘vote bank’ for granted', Aliran, 14 Feb 2017, <https://aliran.com/aliran-csi/aliran-csi-2017/felda-factor-next-election/>, accessed 27 Jun 2017.

⁵⁴ KiniTV (2017), 'Mahathir: PAS supports Najib and 1MDB if they don't work with us' (video), KiniTV, 12 Oct 2016, <http://www.kinitv.com/video/3984408>, accessed 27 Jun 2017.

(multi-ethnic) seats. Bucking the numbers, Bersatu is concentrating on Johor, the staunchest UMNO-BN FELDA state of all (after Sabah which has a very small number of voters).

CONCLUSION

The nastiness of the FELDA Quarrel reveals that the problems may be more deep seated than meets the eye. In particular, Zakaria (a son of settlers) was able to garner sufficient support to lead to public calls to oust Isa Samad.^{55,56} Add to this Isa presiding over the large drop in the valuation at FGV. The question on everyone's mind is whether the loss of confidence in Isa Samad is a loss in confidence for UMNO-BN. Although being investigated by MACC, his quick appointment as Chairman at SPAD⁵⁷ cannot be seen by many as anything other than a surprise promotion⁵⁸. The talk is that Isa Samad remains precious to UMNO and that the party cannot afford an open war with him at this juncture. However, if Zakaria becomes a sacrificial lamb in this process, it could have a negative impact on already diminished FELDA voter sentiments.

Whatever evolves from the FGV tussle, the thinking is that the FELDA problems will need at least six months to repair, which means that the GE14 will more likely be held next year. Political watchers have their eyes peeled for more asset sales or deals that signal FELDA-FGV's need of cash. FGV halting twice monthly payments to FELDA settlers is not a good sign. First, the new FGV management will need to work with Shahrir at FELDA to quickly turn the group and its fortunes around. Second, eyes will be on Najib's treatment of Zakaria and the FGV board. Lastly, what will Mahathir and Bersatu do with this opportunity? The bottom line is this: the FELDA "fixed deposit" (vote guarantee) for UMNO-BN is now downgraded, and UMNO-BN needs to tread with greater care and take FELDA settlers less for granted.

⁵⁵ Amin Iskandar (2017), 'Group urges Najib to sack Isa from FGV', The Malaysian Insight, 8 Jun 2017, <https://www.themalaysianinsight.com/s/4602/>, accessed 26 Jun 2017.

⁵⁶ Amin Iskandar (2017), '2 groups join calls urging FGV's Isa to resign', The Malaysian Insight, 13 Jun 2017, <https://www.themalaysianinsight.com/s/4982/>, accessed 26 Jun 2017.

⁵⁷ Suruhanjaya Pengangkutan Awam Darat (SPAD) plans, regulates and enforces all matters relating to land public transport in Peninsular Malaysia.

⁵⁸ Tan, Joceline (2017), Ibid.

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Khor, Yu Leng (2014), “The political tussle for FELDA land schemes - UMNO strengthens its Malay rural fortress in 13th General Election”, *Kajian Malaysia*, Vol. 32, Supp. 2, 2014, p.89–121, [http://web.usm.my/km/32\(Supp.2\)2014/KM%2032%20Supp.%202014-Art.%204%20\(89-121\).pdf](http://web.usm.my/km/32(Supp.2)2014/KM%2032%20Supp.%202014-Art.%204%20(89-121).pdf).

Khor, Yu Leng (2015), “The Political Economy of FELDA Seats: UMNO's Malay Rural Fortress in GE13” in Saravanamuttu et al. (2015), *Coalitions in Collision: Malaysia's 13th General Elections*, Institute of Southeast Asian Studies/Strategic Information and Research Development Centre.

Khor et al. (2015), *The Felda case study*, Khor Yu Leng, Johan Saravanamuttu and Deborah Augustin, LMC International Ltd, The High Carbon Stock Science Study 2015, http://www.simedarby.com/sustainability/clients/simedarby_sustainability/assets/content/MS/img/template/editor/HCSReports/Consulting%20Report%2012_The%20Felda%20case%20study.pdf.

Appendix 1: RM18/month interest cost and one month of earnings loss from FGV shares?

Commentators have been wont to worry about FGV shareholdings held by FELDA settlers, given the near 60% drop in price versus IPO cost. Here, I seek to quantify and contextualise the problem. I provide below an estimate of the financial impact of a FELDA settler family holding the shares with a full loan since inception. The estimated loss from holding 800 share of FGV per FELDA settler family is equivalent to one month's of earnings from 4 hectare of oil palm, and the share loan interest cost is an estimated RM18 per month.

1) IPO cost of shares versus the current share price
800 shares @RM4.45 at IPO in 2012 = RM3,560
800 shares @.RM1.75, 23 Jun 2017 = RM1,400
Thus, a paper loss of RM2,160.

2) Interest payment⁵⁹ on RM3,560 loan for shares
Estimate interest on RM3,560 @6% per year for 5 years = RM1,068
But there was in interest-free arrangement made for FELDA settlers. If this was for 2 years, then, estimated interest on RM3,560 @6% per year for 3 years = RM641
Thus, paper loss plus 3 years interest cost = RM2,800 per FELDA settler family

3) Dividends earned on 800 FGV shares
FGV dividends and payout ratio:
2012 RM0.14 per share, 63% of net profit
2013 RM0.16, 59%
2014 RM0.10, 112%
2015 RM0.05, 80%
2016 RM0.01, 116%

Note: Pre-IPO dividend payout ratio, was 11% in 2009, 2.7% in 2010 and 1.9% in 2011. Despite very high dividend payout ratios, obviously dwindling net profits after 2013 drove down dividends per share.

Thus, adding dividends earned, pares estimated net loss to RM2,401 per FELDA settler family with 800 shares. FGV shares have not provided added earnings to their earnings as hoped, but its negative impact seems contained to the loss of one month's of earnings. The quantified loss may be smaller than what FELDA sceptics expect, and it does not seem to worry some FELDA settlers,⁶⁰ but it has been and may well remain a bugbear in the political discourse about FELDA.

⁵⁹ Using indicators from here, Muzliza Mustafa, Felda Sayong settlers still with Umno, FGV mess or not, The Malaysian Insight, 11 Jun 2017, <https://www.themalaysianinsight.com/bahasa/s/4773/>, accessed 26 Jun 2017.

⁶⁰ Ibid.

Appendix 2: Indicators of intergenerational social mobility at FELDA

The following are key indicators from various studies of FELDA referred to by Khor et al. (2015; please refer to this report for sources). There is lack of published aggregated and comparative data on FELDA's second generation social mobility, so we do not know when or where it trended more or less in line with national and sub-national outcomes.

- In 1983 FELDA settlers had backgrounds as follows: 18.9% of been paddy planters, 13.6% rubber smallholders, 2.2% coconut smallholders, 7.4% fishermen, 4.5% estate workers, 23.2% agricultural workers, and 30.2% other professions (the majority of whom were ex-servicemen).
- Settler family size was 6-7 persons by 1979, and in 2001 a settlement in Pahang had 4-5 children per family.
- By 1980 about half of FELDA settler children completed secondary school. But data for a Melaka settlement found exam results lagging non-FELDA peers; and a lack of entrepreneurial skills to open workshops sorely needed on the schemes).
- The second generation largely migrated out of the schemes. By 1987, from Johor Barat, 73% of migrants went to urban areas (the men worked in manufacturing and services) and 27% went to other rural areas to work in agriculture, often joining FELDA schemes as settlers themselves. These migrants all had secondary schooling, with women having slightly higher academic achievements.
- Second generation high achievers were selected to stay in several FELDA urban hostels to attend selected secondary schools. They numbered 7,847 by 2006 (about 1.5% of the total number of settler children); by then there were over 13,061 professionals among the FELDA children (nearly twice the number going to selected schools, almost 2.5% of the total).
- The number caught up in social ills (including drug addiction) were likely similar in ratio as the top achievers (once under-reporting is considered).
- By 2011 87% of settlers aspired for tertiary education for their children.

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