

# **COMMENTS ON THE FINDINGS AND RECOMMENDATIONS BY THE GOVERNMENT IN THE FELDA WHITE PAPER**

By Kat W. Wong

The Minister of Economic Affairs had on 10 April tabled a White Paper on FELDA in Parliament following a long debate on the affairs and management of Lembaga Kemajuan Tanah Persekutuan or Federal Land Development Authority (FELDA) and its related business subsidiaries.

It was reported that FELDA has accrued losses about RM10 billion and RM12 billion of debts since the listing of Felda Global Ventures (FGV) in 2013. This plus the unfavourable returns from its Land Lease Agreement (LLA) with FGV had caused heavy operational losses and hence FELDA's inability to fulfil its debt obligation, and also its commitment to the assistance program for the settlers.

While the FELDA White Paper ("FWP") managed to identify the fundamental and structural problems in felda, it made only broad recommendations on changes to enhance corporate governance and accountability, introduced the New FELDA Model (new business model) and improving business revenue, but lack details on how it plans to use RM6.23 billion approved by the government as a rescue plan to achieve those goals. The FWP also did not specifically address other pertinent issues faced by FELDA settlers, and the status of FELDA Global Ventures (FGV).

## **Federal Land Development Authority (FELDA)**

FELDA was established on 1 July 1956 under the Land Development Ordinance 1956 as a government agency to handle the development of rural land and the resettlement of rural poor as smallholder farms growing cash crops. Early FELDA settlers were mainly involved in rubber plantations, and FELDA later encouraged the diversification to oil palm to mitigate the drop in rubber prices.

Under the FELDA scheme, settlers were given 10 acres of land each for planting crops and another 0.25 acres for residential area. FELDA would advance a sum as a loan to the settlers for the development of the land, planting of crops and also cost of living to the settlers while they wait for the crops to mature. Revenue from the sale of the crops to FELDA would then be used to offset the loan taken by the settlers. The cost of replanting would then again be covered via a loan by FELDA to the settlers with a

amount between RM88,000 (maximum for planting of rubber) to RM254,000 (maximum loan for oil palm plantation). The loan has to be repaid within 15 years.

Figure 1: FELDA business model until 2011

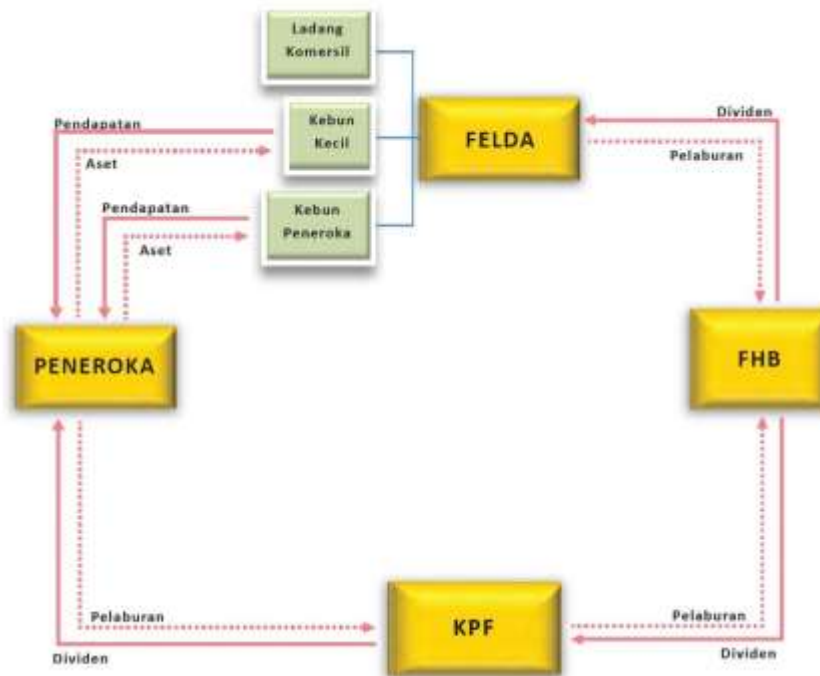
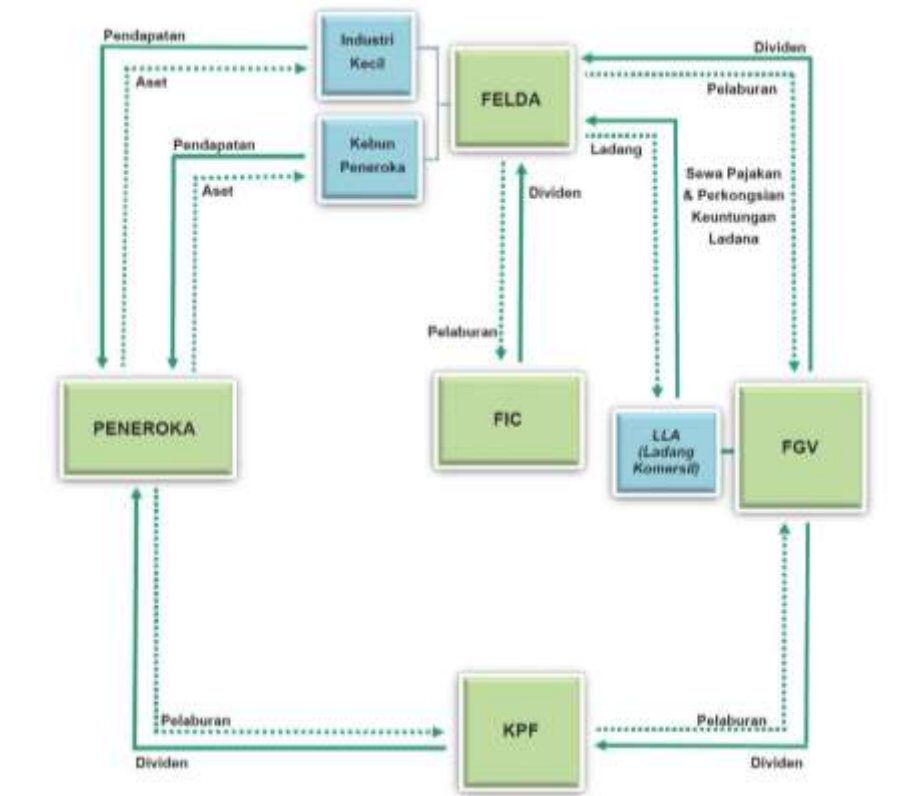


Figure 2: Felda Business Model since 2012



## Heavy Debt Burden

Recognising oil palm and rubber have long gestation period (between 4-5 years for oil palm; 6-7 years for rubber trees), the FELDA settlers were given loans to replant, operated and to cover costs of living while waiting for the trees to mature, and in addition, FELDA would advance payments for the oil palm fruit or rubber to the settlers from 4<sup>th</sup> year onwards.

Under these arrangements, settlers were able to tend to the plantation for a number of years but would be required to pay off the loans by deductions from the sale of crops / rubber to FELDA when the trees mature or ready to be tapped (Figure 3)

FELDA settlers were also given loans for home renovations, higher education, purchase of computers, and purchase of shares in FELDA Global Ventures (FGV). (Figure 4)

**Figure 3: Loans and Advance Payments to Settlers**

Bil.	Jenis Pinjaman	Tempoh	RM/Peneroka
1.	Kos penanaman semula sawit	3 tahun pertama	40,000
2.	Kos operasi ladang dalam tempoh pendahuluan hasil	Tahun ke-4 hingga tahun ke-8	84,800
3.	Sara hidup	3 tahun pertama	42,000
4.	Pendahuluan hasil	Tahun ke-4 hingga tahun ke-8	87,600
<b>Jumlah Maksimum</b>			<b>254,400</b>

Nota: Berdasarkan kepada pemilikan 10 ekar atau kira-kira 4 hektar tanah ladang bagi setiap peneroka.  
Sumber: FELDA

**Figure 4: Other loans available and number of settlers who qualify**

### Bilangan Peminjam dan Kelayakan Pinjaman

Bil.	Jenis Pembiayaan	Bil. Peminjam (Peneroka)	Kelayakan Pinjaman (RM/ Peneroka)
1.	Pembesaran Rumah	35,800	10,000 - 40,000
2.	Saham FGV	44,965	3,640
3.	Skim Insentif Usahawan	2,167	10,000 - 150,000
4.	Institusi Pengajian Tinggi	1,003	4,500 - 6,000
5.	Komputer	453	2,500
<b>Jumlah</b>		<b>84,388</b>	-

Nota: Seorang peneroka boleh mengambil beberapa jenis pembiayaan pada sesuatu masa mengikut kelayakan.  
Sumber: FELDA

The total debt burden on the settlers were not publicly available, and but it is clear that settlers could not repay FELDA for the loans or advance payments when prices of palm oil drops drastically. The issue is compounded by the fact that these loans were given without consideration on the settlers ability to repay given sale prices for oil palm (fruit bunches) and rubber was subjected to market prices. Having no other income, the settlers have to sustain on the advance payments and loans which had not been paid to them due to FELDA's financial losses and cash flow problems.

While the New Felda Model (Figure 5) addresses part of the debt problem by giving multiple and direct income sources for the settlers, and the create the economy of scale needed for the introduction of technology and "smart farming" techniques, the FWP did not state the approach which FELDA would take to lift settlers' existing debt burden or how settlers would be given a bigger say in the corporate decisions by Felda.

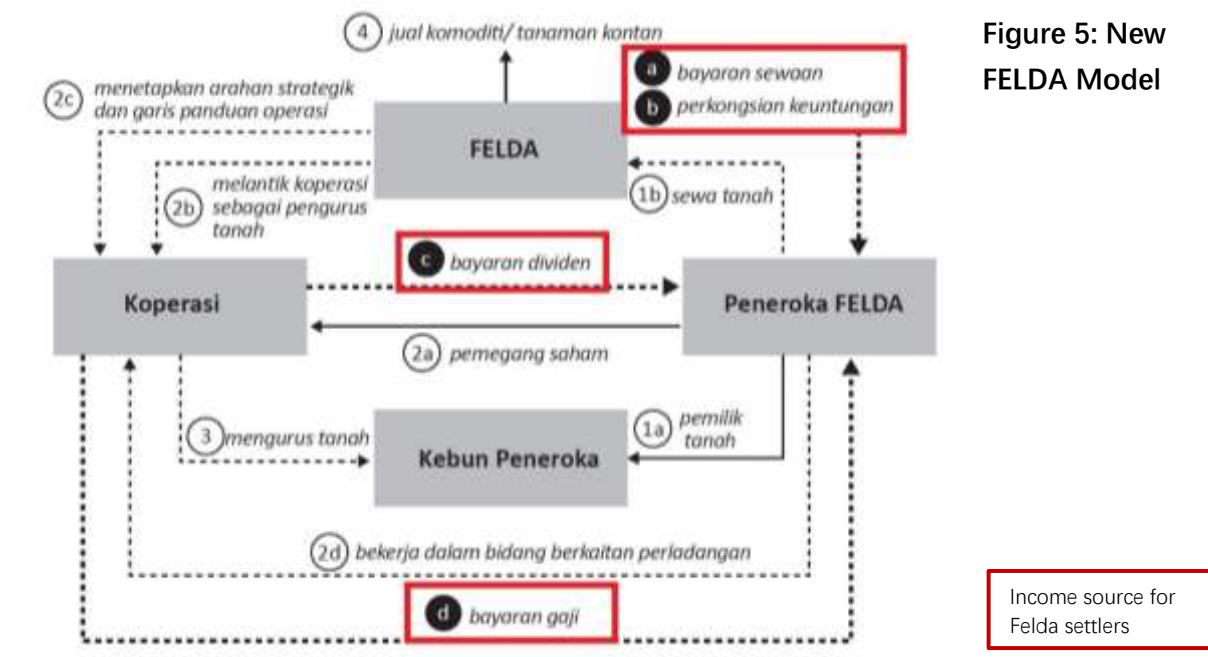


Figure 5: New FELDA Model

### Report on Forensic Audit by Ernst & Young (EY)

The report found irregularities in eight key business transactions by FELDA and its subsidiary, Felda Investment Corporation (FIC) between January 2010 to December 2018. These investments or business transactions were related to:

- a) PT Eagle High Plantations
- b) Dataran Aras Sdn Bhd (purchase of land in Limbang, Sarawak with plans to plant oil palm)

- c) Grand Borneo Hotel Sdn Bhd
- d) Grand Plaza Service Apartments (London)
- e) Development and land transfer relating to Kuala Lumpur Vertical City
- f) Felda Wellness Corporation Sdn Bhd
- g) Park City Grand Plaza Kensington (London)
- h) Felda House and Grand Felda House (London)

In all the eight investment projects, EY found irregular transactions, payments made relating to the purchases which were not made known to the Felda board or approved by the board, unauthorised formation of related companies and appointment of legal counsel, and most significantly, the determination of investment or purchase price above market valuation.

EY has recommended measures to enhance the governance procedures in Felda and its subsidiaries including the formation of an Investment Committee and a review of Felda's risk assessment benchmark. EY also recommended the review of the Land Development Act 1956 to include best practices from the Malaysian Code of Corporate Governance (MCCG) and the appointment of board members who have the relevant business expertise (read: non-politician).

### **Recommendations by Ministry of Economic Affairs (MEA)**

*(refer to Figure 6 in appendix)*

1. **Debt restructuring** – FELDA would restructure its debt which has to be repaid in 2019 at RM1.98 billion and RM9.3 billion over the years between 2020 to 2028. (the bulk of the debts were related to the under-performing investments and loans taken for the purchase of companies or non-core assets). Felda needs to ease cash flow to fulfil its commitment to the settlers (“bayaran sara hidup”) which settlers rely during the plantation gestation period.
2. **Fresh funds from the government to ease cash flow** – Parliament approved a sum of RM 6.xx billion for the purpose of rescuing FELDA.
3. **Restructuring of debts by settlers** and cancel off the interest on loan accumulated by settlers – easing the debt burden on settlers.

4. **Improve loan repayment collection mechanism**, and incentives for settlers to sell fruit bunches and rubber to FELDA (instead of to third party millers).
5. **Corporate restructuring of Felda, rationalisation** and review of selection process for the appointment of members to the Felda Board of Directors, and its subsidiary companies.
6. **Disposal of non-core assets, inactive companies and non-strategic businesses**, and wind-up dormant companies.
7. **Long term land lease by settlers to FELDA** – to solve the problem of aging settlers who could no longer manage the plantation, and also to facilitate introduction of integrated “smart farming” methods and agriculture technology.
8. Improve plantation management by enhancing the role and functions of “**Koperasi FELDA**”.
9. **Improve socio-economic environment** and modern infrastructure in Felda settlements, introduce downstream economic activities and support industries, and encouraging new generation of settlers.
10. Provide better **access and quality education** to children of Felda settlers, and introduction of vocational and technical training.
11. Complete the construction of abandoned projects under “**Perumahan Generasi Baru Felda (PGBF)**” to provide houses for the younger generation of Felda settlers and to encourage continuity of the plantation operations. Priorities would be given to projects that are at least 70% complete. This is expected to benefit 4,794 younger generation of FELDA families.

Following the findings and recommendations of this White Paper, Felda would develop and comprehensive action plan to address the systematic weaknesses and proactive measures to take FELDA forward. The MEA would also be reviewing the relevant legislation to ensure governance and best practices in the management of FELDA and its future business decisions and reduce leakages. The Ministry would conduct further studies and research before recommending the legislative changes.

## COMMENTS

1. There are 52 Felda settlements in Peninsular Malaysia involving 112,635 settlers in 317 land development area totalling 490,000 hectares. Out of the 52 settlements, seven are located within the Parliamentary areas contested by MCA – Tanjong Malim (Perak), Alor Gajah (Melaka), Raub and Bentong (Pahang), and Labis, Tebrau, and Kulai (Johor).
2. The issues related to FELDA may affect mainly the Malay community, however it is still a national problem that requires a rescue plan that involve billions of public funds and the MEA is accountable to disclose how the funds would be used or disbursed. It also presents MCA with the opportunity to engage and seek the views of the settlers and stakeholders (regardless of race) in the seven Parliamentary constituencies.
3. While there New Felda Model presented a ecosystem that could potentially generate more income for the settlers, it did not explain the status of the current debts owed to Felda by the settlers and the effectiveness of the new model in reducing the debt burden of settlers in the near term.
4. We are assuming that the RM 6.23 billion rescue package would likely be used to pay settlers as “bantuan sara hidup” or living expenses and advance payments, but unless specifically stated, it would still be deemed as loan to the settlers. A more comprehensive and sustainable model to address the debt issue is needed.
5. We support Minister of Economic Affairs Azmin Ali’s commitment to lodge police reports on the irregularities and abuse of power based on the evidence in the forensic audit report, and let the law takes it course. However, the management and key decision makers involved in the investment decisions should not be tried by the media, and hence the Minister should influencing the public by revealing partial information via the media.
6. The MEA must quickly explain the status of FGV and its land lease agreement (LLA) with FELDA in the restructuring plans as the publicly listed FGV is missing from the proposed New FELDA Model. We anticipate this is a sticky situation for FELDA but quite strange for the White Paper to have omitted details on FGV. FELDA owns only 33.67% of FGV, and should the government decide to take FGV private, it would have to pay for 67% of shares it does not already own.

7. In March 2019, the Deputy Minister of Economic Affairs, Dr Radzi Jidin, had in his reply to a query by Member of Parliament for Air Itam and MCA President, YB Datuk Seri Wee Ka Siong, said that the Ministry would detail how FELDA would solve the settlers' debt issue and minimise losses incurred due to their investment in FGV in the Felda White Paper. However, this has not been the case, as the FWP failed to allay fears among settlers, investors and Malaysians as a whole given such huge amount of public funds were pumped into FELDA since 1956.
8. The proposed disposal of non-core assets and non-strategic businesses must be done in a transparent manner, preferably with the appointment of a special bipartisan oversight committee to look into the open tender process to maximise returns for FELDA and ensure accountability to the people of Malaysia.
9. The proceeds from the disposal of assets and non-core businesses, as well as the additional funds from the federal government should be reinvested into restructuring the debts of settlers, enhance the value of the settlers' cooperative, and also provide better crop yield.
10. The White Paper also did not address the pertinent issue of inheritance. Thousands of cases were brought to courts over dispute on inheritance as there are no specific system in place to facilitate the distribution of a deceased settler's estate nor awareness program to help the families plan ahead.
11. It is commendable that the government recognised the need to look into the welfare of settlers and the need to create a holistic development plan for FELDA settlements, including the development of townships and secondary economic activities. However, we would also suggest the introduction of renewable energy generation within Felda settlements and environmentally friendly source of water and energy could be harvested within these settlements. This would not only enable the settlements to be self-sufficient in meeting their energy and water needs, but possibly also allowing settler to participate in the feed-in-tariff (FiT) system under Sustainable Energy Development Authority (SEDA) Malaysia.
12. The business and operational model for FELDA may not be sustainable in the long run given its nature as a government-run scheme (with objective of maximising value for the government investment) and the restrictions that does not allow settlers to make business decisions that maximises returns and value for the land, even if they have the chance to.



13. The New FELDA Model will still be a government-assisted business program without much participation in business decision making by settlers, and hence its lack of appeal to the younger generation who are more entrepreneurial.

14. Considering the volatility of oil palm and rubber prices, FELDA needs to review its planting strategy and introduce the planting of cash crops in between seasons to provide alternative income for settlers.

In conclusion, we look forward to town hall sessions by MEA and FELDA with settlers in the near future and the action plan which will be prepared by FELDA following the tabling of this White Paper. We hope that the government would view the affairs FELDA merely as government's business, but instead keeping to the spirit and intention of the formation of FELDA to uplift the socio-economic status of rural folks and develop rural land.

INSAP

26 April 2019

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## **Appendix**

Figure 6: FELDA Rehabilitation Strategy

## APPENDIX

Figure 6: FELDA Rehabilitation Strategy

