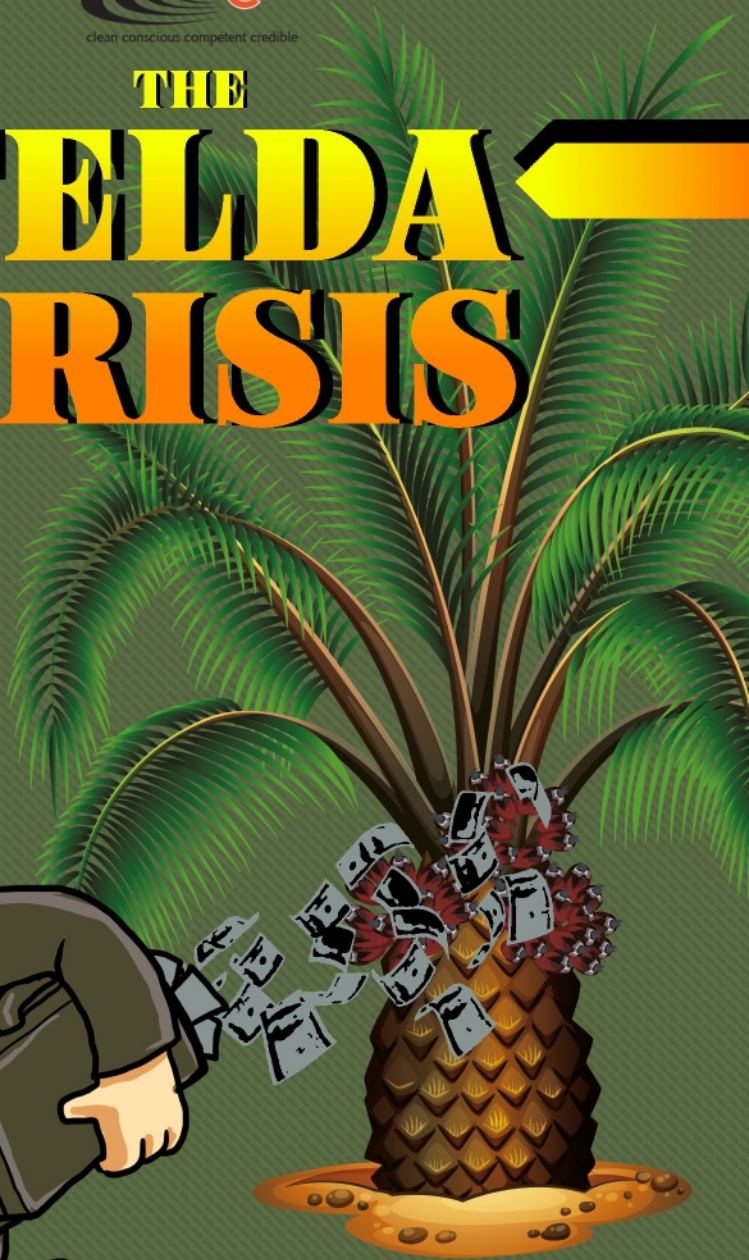


# THE FELDA CRISIS



English Edition



# THE FELDA CRISIS

When Felda was established in 1956 to eradicate rampant poverty through a land development and agricultural programme, no one expected this agency to be such a phenomenal success.

Felda has resettled 122,635 families and lifted approximately 1 million people out of poverty,<sup>1</sup> a feat applauded by the World Bank as one of the most successful land development programmes in the world.<sup>2</sup>

However, Felda is now mired in numerous corporate controversies. How did this institution come to be tangled in serious corruption? Who are the people responsible for Felda's crisis?

**Table 1: Felda Controversies**

Year	Controversy	Amount Involved
2013	FIC purchase of Grand Plaza Serviced Apartment in London	RM500 million
2014	FIC purchase of Grand Plaza Kensington Hotel in London	RM330 million
2014	FIC purchase of Merdeka Palace in Kuching	RM160 million
2016	Felda IFFCO's (FGV subsidiary) registers losses due to fraud in Turkey	RM57 million
2017	FIC Properties purchase of 37% stake in PT Eagle High Plantations	RM2.26 billion
2017	Safitex Trading's outstanding debt to Delima Oil Product (FGV subsidiary)	RM50 million
2017	FGV's investment in Felda Cambridge Nanosystem	RM117 million
2017	Transfer of land for KLVC project at Jalan Semarak	RM1 billion

## THE CONTROVERSIES

Table 1 provides, in brief, a list of the major corporate controversies involving Felda.

### KLVC Controversies Exposes the Rot

In December 2017, it was disclosed that Felda's ownership of several plots of land on which the Kuala Lumpur Vertical City (KLVC) project was being developed had been transferred in 2015 to Synergy Promenade Sdn. Bhd. This land, worth in excess of RM1 billion,<sup>3</sup> was transferred to Synergy Promenade using a power-of-attorney issued by Felda's wholly-owned company, Felda Investment Corporation (FIC).<sup>4</sup>

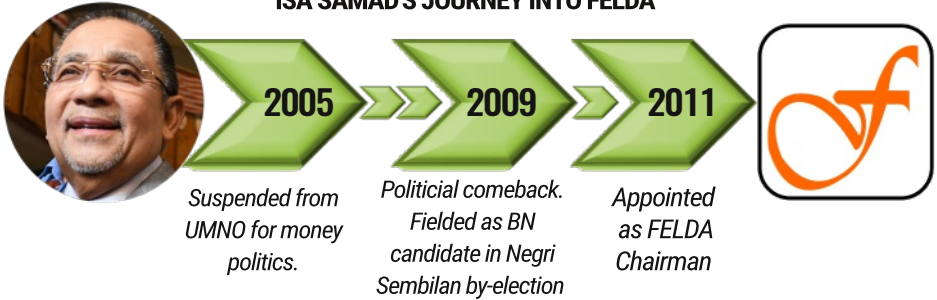
Synergy Promenade, an interior design company,<sup>5</sup> was appointed to develop the KLVC Project. One of the two shareholders and directors of this company, Abdul Rahman bin Soltan,<sup>6</sup> was once reported to have distributed 'zakat money' at an event in Pekan attended by Prime Minister Najib Razak.<sup>7</sup> The members of Felda's Board of Directors were

not fully informed of the background of this developer.<sup>8</sup>

This power-of-attorney was signed by Isa Samad and Faizoull Ahmad, then Felda's Chairman and Director General respectively.<sup>9</sup> Isa was then also the Chairman of FIC. Felda regained ownership of the land in March 2018,<sup>10</sup> but it is troubling how this blatant abuse of power by Isa, to conclude a transaction so disadvantageous to Felda, had escaped the attention of the Board and had remained undetected for years.

The KLVC land controversy drew attention to decision-making processes in Felda and its companies. Decision-making power was concentrated in the hands of an UMNO politician, Isa, who sat as the Chairman of Felda, to the exclusion of other Board members. Isa was also the Chairman of Felda companies that were embroiled in other controversies—Felda Global Venture Holding Berhad (FGV), FIC and FIC Properties Sdn. Bhd.

## ISA SAMAD'S JOURNEY INTO FELDA



## Politics in the Board

These controversies occurred during Isa's tenure as Felda's Chairman. Isa was appointed in January 2011 to lead Felda by Najib, the Minister in-charge of Felda. There were numerous objections to Isa's appointment because of his previous involvement in a corruption-related matter.<sup>11</sup> Isa had been suspended for three years as an UMNO member after he was found guilty for five charges of money politics.<sup>12</sup> Isa, reputedly a close ally of Najib, made his political comeback when he was fielded as Barisan Nasional's candidate in a by-election in 2009 in Negeri Sembilan. Najib had by then become the Prime Minister as well as the President of UMNO and Barisan Nasional.<sup>13</sup>

Not long after he became Felda Chairman, Isa announced the proposal to list on the stock exchange its plantation investment arm, FGV.<sup>14</sup> This idea to list a Felda company was

not new. When it was first announced in 2003 by then Prime Minister, Mahathir Mohamad,<sup>15</sup> the proposal was strongly criticised by Felda settlers. The settlers felt that Felda was neglecting their welfare in its pursuit of a commercial venture.<sup>16</sup> This resistance prompted the next Prime Minister, Abdullah Ahmad Badawi, to abort the listing.<sup>17</sup>

Thus, it was of no surprise that the settlers again objected to the proposed listing of FGV in 2011. Apart from the settlers' unease of the implications of FGV's listing on their livelihood and welfare, their lack of trust in Isa's leadership of Felda was another issue. Anak, a body established by a group of settlers' children, launched a series of court actions to block FGV's listing. Anak successfully derailed the listing exercise by two months.<sup>18</sup>

Felda's management was also said to have opposed the listing. Dzulkifli Wahab,

Felda's then Director General, was instructed to go on study leave in November 2011. In August 2012, Dzulkifli was transferred out of Felda, to a foreign posting. The instruction to transfer Dzulkifli out of Felda was apparently due his resistance to FGV's listing exercise.<sup>19</sup> Under the Land Development Act, the Chairman has the power to approve leave and determine the movement of Felda's officers.<sup>20</sup> Dzulkifli's transfer exemplified how an UMNO-appointed Chairman had the power to remove what was seen as an obstacle to his implementation of FGV's listing.

## **The Listing Caused Public Losses**

FGV was eventually listed in June 2012. There were individual settlers who took a loan from Felda to finance the acquisition of FGV shares allotted to them. Thus, when FGV's share price, initially traded at RM4.45, dropped to RM1.71 in March 2018, it was not only Felda, Koperasi Permodalan Felda Berhad (KPF)<sup>21</sup> and other major shareholders that were badly affected. A number of settlers found themselves laden with a loan amount in excess of the market value of their FGV shares. What was expected to be a lucrative investment turned out to be a major liability.

A series of losses suffered by FGV because of its controversial business ventures was said to have contributed to the decline of its share price. These controversial ventures involved a stock manipulation and forgery allegation in a joint-venture project in Turkey that had resulted in an RM57 million loss to FGV's subsidiary, Felda IFFCO Sdn. Bhd.,<sup>22</sup> an RM50 million loss suffered by Delima Oil Products (FGV's subsidiary) because of a long outstanding bad debt owed by Safitex Trading LLC,<sup>23</sup> as well as an RM117

million investment in FGV Cambridge Nanosystems Ltd.<sup>24</sup>

This series of bad investments that had resulted in losses by FGV, as well as disagreements over the administration and the direction of the company, precipitated a boardroom tussle between Isa, the Chairman, and Zakaria Arshad, FGV's Group President and CEO. This conflict between these two men led to the suspension of Zakaria and three senior FGV officials.<sup>25</sup> Their arbitrary suspension resembled the problem between Isa and Dzulkifli, the Felda official who had disagreed with FGV's listing exercise, again demonstrating the power in the hands of an UMNO-appointed Chairman.

## **Problematic Acquisitions**

Another form of abuse suffered by Felda was the acquisition of assets that had contributed to losses by its companies. One example was the purchase of luxury properties through FIC. FIC allegedly acquired, at an inflated price, the Grand Plaza Serviced Apartment,<sup>26</sup> the Grand Plaza Kensington Hotel in London,<sup>27</sup> and the Merdeka Palace in Kuching.<sup>28</sup> There is a pending investigation by the Malaysian Anti-Corruption Commission (MACC) of FIC's acquisition of these luxury hotels. FIC had reputedly paid RM110 million and RM50 million above the market value for the London and Kuching hotels respectively. FIC's purchase of assets in London failed to bring Felda any significant increase in revenue, contributing instead to serious financial problems. In 2017, Felda announced that it was in the process of selling these properties, a move to strengthen its financial position.<sup>29</sup>

Another acquisition that resulted in losses





### **Grand Plaza Serviced Apartments**

*in Bayswater, London*

*Purchased in 2013  
£98 million (RM 500 million)*



### **Grand Plaza Kensington Hotel**

*in London*

*Purchased in 2014  
£60 million (RM 330 million)*



### **Merdeka Palace Hotel**

*in Kuching*

*Purchased in 2014  
RM 160 million*

was FIC Properties' purchase of a 37% non-controlling stake in PT Eagle High Plantations for RM2.26 billion.<sup>30</sup> Eagle High was part of the Rajawali group, owned by Indonesian tycoon Peter Sondakh who reputedly has a close tie with Prime Minister Najib.<sup>31</sup> Sondakh's company has several investments in Malaysia, in partnership with the Ministry of Finance.<sup>32</sup> Prime Minister Najib also serves as the Minister of Finance. Prior to the FIC Properties-Eagle High deal, Sondakh's company was rumoured to be the 'white knight' to bail out 1Malaysia Development Berhad (1MDB), through an asset purchase. The 1MDB scandal, another controversy closely associated with Najib, was described by a major British-based newspaper, *The Guardian*,<sup>34</sup> as 'the world's biggest financial scandal'.<sup>35</sup>

The Eagle High equity purchase was the same deal avoided by FGV in 2016, albeit at a higher price of RM2.39 billion. FGV's plan to purchase the Eagle High stake was objected to by the Employees Provident Fund (EPF),<sup>36</sup> then a major shareholder of FGV.<sup>37</sup> Market observers were critical of this deal as they felt that the proposed sale price was too high for a company with a loss-making record. FGV had scrapped the Eagle High acquisition

proposal after studying the due diligence report prepared by a professional advisory firm, KPMG Deal Advisory Sdn. Bhd. (KPMG).<sup>39</sup>

A copy of KPMG's report was leaked on the internet in June 2017. This report disclosed that Eagle High was indeed in poor financial health.<sup>40</sup> Thus, it was baffling how Isa, as the Chairman of Felda, FGV and FIC Properties, who must have had access to this report, could continue to negotiate with the Rajawali group using FIC Properties as the acquiring vehicle. It was equally troubling how the new Chairman of Felda, Shahrir Samad, who should also have been privy to the due diligence report, had allowed FIC Properties to proceed with the purchase of Eagle High shares in April 2017. The purchase of Eagle High clearly proved to be disadvantageous to Felda. Eagle High's share price has since dropped by nearly 50%, contributing to a paper loss of RM1.13 billion for Felda.<sup>41</sup>

**Chart: Eagle High's Share Value**



## POWER SHIFTS AND THEIR IMPLICATIONS

A small pool of UMNO politicians who have dominated the decision-making process in Felda and its companies are clearly behind the abuse that this agency has suffered. The concentration of power in Isa's hand, between 2011 and 2016, was a result of several decision-making power shifts in Felda, from bureaucrats and professionals to UMNO politicians.

### From Bureaucrats to Politicians

This shift began in 2001, after UMNO experienced a decline in the support of Malay voters during the 1999 General Elections. This decline in support, an outcome of a fallout between then top leaders in UMNO, was evident when Barisan Nasional lost the Jengka state seat in Pahang, a Felda settlement area, to PAS. This loss was of much concern to UMNO. Felda voters had, until then, almost always voted in favour of UMNO.<sup>42</sup>

To regain Malay-voter support and to tighten UMNO's grip over the settlers, Yusof Noor, a member of UMNO's Supreme Council, was appointed as the Chairman of Felda in 2001. Prior to 2001, Felda had almost always been led by a civil servant. After 2001, Felda Chairmen were all appointed from amongst UMNO leaders (see Table 2).

UMNO's domination of Felda's decision-making process was further strengthened when Felda's Chairman also became the Chairman of its subsidiaries, a change that occurred during Isa's time in Felda. Isa, in turn, is answerable only to the Minister in charge of Felda, Najib.

With this power shift, UMNO politicians dominated decision-making in Felda at three different levels: through Ministerial control, the Felda Board and the Boards of Felda's companies. This concentration of power, ultimately in the hands of the Minister, is facilitated by existing legislation that does not allow for sufficient checks and balances in the administration of Felda.

### Concentration of Power Leads to Abuse

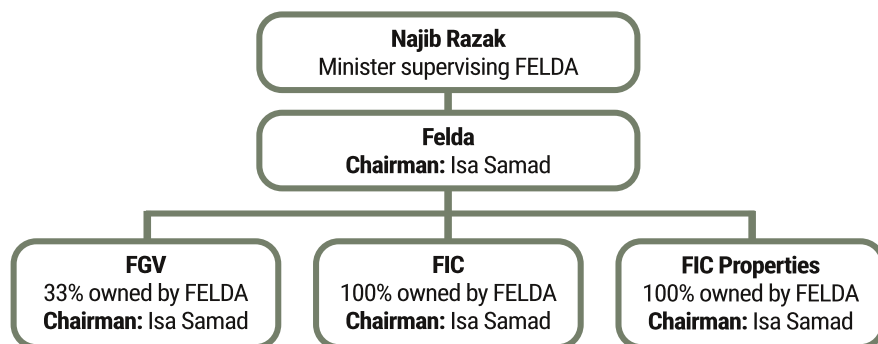
As a result of this concentration of decision-making power in the hands of a small pool of UMNO politicians, the voices of the settlers and Felda's management have increasingly been ignored. This problem not only gave rise to the series of controversies Felda has encountered, but also contributed also to a decline in its reputation and financial standing. While Felda had successfully repaid its loans in full in the year 2000 (20 years ahead of schedule!),<sup>46</sup> in 2016 it found itself

**Table 2: UMNO control and controversies**

<b>Year</b>	<b>Event</b>
<b>2001</b>	Yusof Noor, an UMNO Supreme Council member, appointed as Felda Chairman.
<b>2003</b>	Mahathir Mohamad announced the plan to list Felda. The plan was scrapped not long later by Abdullah Ahmad Badawi.
<b>2004</b>	Ministerial supervision over Felda was transferred to the Prime Minister's Department. Najib Razak, as the Deputy Prime Minister, was tasked to monitor Felda.
<b>2009</b>	Najib Razak became the Prime Minister and retained ministerial supervision over Felda.
<b>2009</b>	Felda's cash reserve plunged from RM4.08 billion in 2004 to RM1.35 billion. <sup>43</sup>
<b>January 2011</b>	Isa Samad, an UMNO member, became Felda Chairman.
<b>May 2011</b>	Felda took RM6.5 billion loan from EPF. <sup>44</sup>
<b>October 2011</b>	Felda announced its plan to list FGV.
<b>November 2011</b>	Dzulkifli Wahab, Felda Director General at that time, was asked to go on study leave, allegedly for resisting the listing exercise.
<b>June 2012</b>	Listing of FGV on the stock exchange. It was derailed from April 2012 due to resistance from the settlers.
<b>August 2012</b>	Dzulkifli Wahab was transferred out of Felda.
<b>October 2013</b>	FIC purchased a luxury service apartment in London, allegedly at an inflated price.
<b>2014</b>	FIC purchased luxury hotels in London and in Kuching, allegedly at an inflated price.
<b>June 2015</b>	FGV entered into an agreement with the Rajawali Group to purchase 37% shares in Eagle High Plantations for RM2.39 billion.
<b>July 2016</b>	EPF objected to FGV's plan to purchase Eagle High's shares and later sold all its shares in FGV. <sup>45</sup>
<b>December 2016</b>	FGV aborted the proposal to purchase Eagle High shares. Isa Samad continued negotiation with the Rajawali Group, using FIC Properties.
<b>January 2017</b>	Shahrir Samad, an UMNO member, became Felda's new Chairman.
<b>April 2017</b>	FIC Properties acquired 37% non-controlling stake in Eagle High for RM2.26 billion.
<b>June 2017</b>	Disagreement over the running and management of FGV precipitated a feud between Zakaria Arshad (FGV Group President and CEO) and Isa Samad (FGV Chairman). This led to Zakaria's suspension for four months and Isa's exit from FGV. MACC commenced investigation into irregularities in FGV.
<b>July 2017</b>	MACC commenced investigation into FIC's acquisition of hotels in London and Kuching that allegedly were purchased at an inflated price.
<b>December 2017</b>	Felda disclosed that it was at risk of losing its ownership of land at Jalan Semarak worth RM1 billion. The ownership was transferred to Synergy Promenade in 2015 using a power-of-attorney signed by Isa Samad and a former Director General Felda in September 2014. Police commenced investigation into the land transfer issue.



**Chart: UMNO Control Over Felda**



laden with debts totalling RM6.82 billion, despite earning RM6 billion from FGV's listing in 2012.<sup>47</sup>

The votes of Felda settlers are regarded as 'an important force' to counter Barisan Nasional's diminishing support in urban areas. Felda schemes span over 54 out of 222 parliamentary constituencies. In the 2013 General Elections, there were approximately 1.2 million registered voters in these Felda schemes, amounting to 9% of the total registered voters.<sup>48</sup> These settlers must be pacified amidst mounting corruption controversies that have plagued Felda and its companies.

In Barisan Nasional's attempt to secure their vote, the disease of money politics in UMNO has now seeped into Felda. This trend emerged in 2003, when Felda started giving out cash payments in conjunction with the Hari Raya celebration (*Duit Raya Bonus*) and as a 'productivity incentive' (Productivity Incentive Bonus) (see Table 3). These payments cost Felda millions of ringgit and were paid using the funds of this agency. However, not all settlers benefit from such payments. In some years, only settlers who sold their produce to Felda, or undertook their

replanting process through Felda, and had never taken up a case against Felda in court were eligible to receive the bonus.

Another noticeable trend is that whenever Felda was embroiled in a controversy, various incentives or cash payments for the settlers were announced. For instance, in May 2012, to gain the settlers' support for the FGV listing exercise and with a general election then impending, Najib announced that the settlers would receive 'a windfall' of RM15,000 for each household as a 'reward' from the listing.<sup>49</sup>

In 2017, the year that FGV was entangled in a boardroom tussle and when MACC heightened its corruption probe into FIC's dealings, Najib announced six incentives totalling RM1.3 billion. The incentives included a provision to write off the loans that settlers had taken to finance their purchase of FGV shares.<sup>50</sup> This RM1.3 billion incentives were derived from Felda's funds and from the federal government.<sup>51</sup>

**Table 3: Cash Payment to Settlers**

<b>Year</b>	<b>Cash reward as reported on the news</b>
<b>2003</b>	Payment of <i>Duit Raya</i> Bonus to the settlers was introduced. <sup>52</sup>
<b>2004</b>	Productivity Incentive Bonus payment totalling RM141.06 million. <sup>53</sup>
<b>2005</b>	<i>Duit Raya</i> Bonus payment totalling RM39.4 million. <sup>54</sup> Productivity Incentive Bonus payment totalling RM97 million. <sup>55</sup>
<b>2007</b>	<i>Duit Raya</i> Bonus payment totalling RM39.4 million. <sup>56</sup> Productivity Incentive Bonus payment totalling RM146 million. <sup>57</sup>
<b>2008</b>	<i>Duit Raya</i> Bonus payment totalling RM41.84 million. <sup>58</sup> Productivity Incentive Bonus payment totalling RM144.44 million. <sup>59</sup>
<b>2009</b>	<i>Duit Raya</i> Bonus payment totalling RM37.23 million. <sup>60</sup>
<b>2010</b>	<i>Duit Raya</i> Bonus payment totalling RM37.14 million. <sup>61</sup> Productivity Incentive Bonus payment totalling RM100.9 million. <sup>62</sup>
<b>2011</b>	<i>Duit Raya</i> Bonus payment totalling RM42.6 million. <sup>63</sup> Productivity Incentive Bonus payment totalling RM102.6 million. <sup>64</sup>
<b>2012</b>	<i>Duit Raya</i> Bonus payment totalling RM43.2 million. <sup>65</sup> Distribution of RM15,000 cash to each settler household from the proceeds of the FGV listing. Productivity Incentive Bonus payment totalling RM102.12 million. <sup>66</sup>
<b>2013</b>	<i>Duit Raya</i> Bonus payment totalling RM32 million. <sup>67</sup>
<b>2014</b>	<i>Duit Raya</i> Bonus payment totalling RM30.5 million. Payment of FGV's dividend from Felda's trust fund amounting to RM72.9 million. <sup>68</sup>
<b>2015</b>	<i>Duit Raya</i> Bonus and FGV's dividend payment totalling RM88.8 million. <sup>69</sup>
<b>2016</b>	<i>Duit Raya</i> Bonus payment totalling RM49.52 million. <sup>70</sup>
<b>2017</b>	<i>Duit Raya</i> Bonus payment totalling RM47.2 million and FGV dividend payment of RM26.4 million. <sup>71</sup> RM5,000 cash incentive payment to the settlers in conjunction with Felda 61 <sup>st</sup> anniversary. <sup>72</sup>

# LINGERING QUESTIONS AND MOVING FORWARD

Several important lingering questions remain about these controversies, requiring us to demand an answer of this government:

Why is it that the investigations by the police and MACC into these Felda scandals have not been completed?

Why has the Minister in-charge of Felda failed to prevent these controversies? Was the Minister complicit in it? Why is he not held accountable for his inaction?

With Felda embroiled in controversies for more than a decade, this institution is in dire need of a holistic reform. **The settlers** should demand for greater participation in Felda's decision-making process. **Their representation on the Felda Board and that of the agency's companies should be increased**, thus allowing them to co-manage these businesses. Felda companies can be better managed if led by professionals, but with feedback from the settlers.

**The Duit Raya Bonus and the Productivity Incentive Bonus payments must be stopped.** Such payments only provide temporary cash relief to selected groups of settlers and offer no long-term solution to the settlers' woes. The conditions imposed before a settler can be considered eligible to receive these bonuses are politically motivated. The settlers ought to be encouraged to sell their produce

to Felda or to replant through Felda because of the competitiveness Felda offers, not because Felda is holding them to ransom.

**The settlers must be empowered by involving them in decision-making**, and through this process their dependence on the government can be reduced.

The settlers must demand that **no politician be appointed to Felda's board and that of its companies**. The running and management of these enterprises should be left to bureaucrats and professionals. The Minister's absolute power to remove and to appoint Felda's Chairman and Board members must also be circumscribed. The Land Development Act must be amended to clearly provide for this change.

To prevent abuse of power in the administration of this agency, the Minister and Felda Board members must be **made accountable to a select committee in Parliament**. Felda companies should also be monitored by a Parliamentary select committee, tasked to evaluate their financial and non-financial performance. Opposition law-makers should lead these select committees. Select committees should be given the power to conduct an inquiry, to compel attendance to its hearings, and to demand production and inspection of documents. These inquiries should be made public with the settlers given a chance to participate in them. To provide for these check and balance mechanics, relevant laws must be amended or enacted. Accountable and transparent governance of Felda is imperative to ensure that this institution suffer no more abuse.

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    - part of the settler's equity loan to acquire shares in FGV would be disposed of and settlers that had paid their loans would receive a cash reward of RM1,820 (totalling RM128.1 million);
    - incentive of RM5,000 for every settler to settle their replanting debt (totalling RM519 million);
    - setting up of a special replanting overdraft debt disposal fund to dispose of the operating cost debt exceeding RM40,000 (totalling RM300 million for 5-year period from 2017 to 2021);
    - establishment of a special replanting grant at the rate of RM7,500 per hectare beginning 2017 to 2020 (totalling RM166.6 million over 4-year period for 24,280.31 hectares area); and
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## The Center to Combat Corruption and Cronyism

(C4 Center) is a policy advocacy, non-profit center, dedicated to fighting corruption, cronyism and its related problems at all levels of government.

We seek to open up governments and change the culture of governance by placing accountability, transparency and integrity at the heart of public policy and administration.

C4 Center works with public institutions, governments, political parties, and civil society organisations to build our vision of a corruption-free and open society.