



## Case Study 2 Sime Darby Goes to Liberia

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**Abstract:** This case study discusses the issues arising from Sime Darby Corporation being given a concession agreement to develop 220,000 hectares of land with palm and rubber plantations in Liberia for a period of 63 years. Sime Darby Bhd is a Malaysian multinational company with diverse interests. Its main focus is plantations with its major crops being oil palm and rubber. It has large plantations in Malaysia and Indonesia. With land becoming scarce in Southeast Asia, Sime Darby looked for opportunities in Africa. They found a partner in Liberia which needed foreign investment to revive its economy after two civil wars. While the opportunities looked great on papers, questions arose over the risks involved.

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### BACKGROUND

Sime Darby Berhad is a Malaysian-based multinational company operating in more than 20 countries worldwide. The company has diverse interests in plantations, property, motor vehicles, industrial equipment, and energy and utilities. Besides, Sime Darby had also diversified into healthcare, which is considered a growth sector in the group. Today the company is a merger of three large plantation entities, with the merger having taken place on November 2007; the entities are Kumpulan Guthrie Berhad, Golden Hope Plantations Berhad and Sime Darby Berhad.

Following the merger, Sime Darby Plantation, which is one of Sime Darby's business divisions, was established as one of the world's largest palm oil producer, producing about 2.4 million tons or 6% of the world's crude palm oil (CPO) annually.<sup>[1]</sup> The division mainly focuses on the plantation of palm oil and rubber, as well as manufacturing and distribution of food based and non-food based products. To date, Sime Darby Plantation owns approximately 314,154 hectares of palm oil plantations and 8,419 hectares of rubber estates in Malaysia, while another 208,049 hectares of oil palm plantations are located in Indonesia.<sup>[1]</sup>

Sime Darby Plantation was granted an amended and restated concession agreement (CA) by the Government of the Republic of Liberia in April 2009. Sime Darby plantation (Liberia) Inc. (SDPL) took over the ex-Guthrie plantation operations in Liberia on 1

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January 2010.<sup>[2]</sup> The CA allows SDPL to develop 220,000 hectares of land with palm and rubber plantations in Liberia for a period of 63 years. Sime Darby plantation officially commenced its large-scale plantation activities in the African republic on 19th May 2011 at the Matambo Estate in Grand Cape Mount.

The former Kumpulan Guthrie Berhad had operated rubber plantations in the Republic of Liberia between 1981 and 2002. The two civil wars that ruined Liberia, one in 1989 to 1996, and another in 2001 to 2003, had forced the company to withdraw from the country at that time.<sup>[3]</sup> Hence, following the merger of the plantation companies, the Liberia project involved two operations. One was the existing 7,782 hectares rubber plantation which was planted between 1956 and 1988, while the other is the new concession area located in four counties- Grand Cape Mount, Bomi, Bong and Gbarpolu. The new concession consisted of abandoned agricultural land and degraded forests that had been neglected during the civil wars.

To date, Sime Darby plantation had already invested RM50 million in Liberia for the purpose of establishing and rehabilitating the infrastructure required for the company to begin its operations in Grand Cape Mount and Bomi counties. A total of 187,000 germinated seeds were received and planted during 2010 and a nursery of 1 million seeds was established up by October 2010.<sup>[3]</sup>

## **WHY INVEST IN LIBERIA**

Liberia is an African republic located in the west of the African continent. The land of Liberia consists of flat terrain and dense tropical forests, with hot and tropical conditions conducive for palm tree growth and fruit production. At one time, the country was well-known for its iron-mining and rubber plantations. Despite having rich resources and potential for self-sufficiency in food production, Liberia's productive capacity remains limited because of high unemployment, low literacy, poor health, corruption, and the absence of basic infrastructure. Political disturbances that began in the 1980s, followed by a 14-year civil war from 1989 to 2003, have largely destroyed its economy and brought a sharp decline in the people's living standards. This has caused heavy damages to most major businesses, with most foreign investors and businesses leaving the country. Prior to the civil war, their economy relied heavily on the mining of iron ore and on the export of natural rubber.

On 4 May 2009, Sime Darby Berhad had signed a palm oil deal with the government of Republic of Liberia. The deal covered a concession of 220,000 hectares of land in the West African country, with an investment of USD800 million by Sime Darby in palm oil and rubber plantations. About 80% of the investment will be used for the development of Liberia's palm oil industry, while the balance will be spent on restoring Liberia's third largest rubber plantation.

The main reason for the expansion of Sime Darby plantation into Liberia was the abundance of land in the country itself. Indonesia is implementing a two-year ban on granting new concessions of land to plantation companies in forest areas.<sup>[4]</sup> The rationale for the ban is based on the Indonesian government's concerns relating to large-scale

deforestation that has an effect on global warming. In addition, Malaysia itself is facing a scarcity of land to develop into plantations. It is increasingly difficult to acquire plantation land in Asia and thus it is essential that new areas are explored to meet the increasing demand. Moreover as most of the concession land in Liberia has already been logged, issues related to deforestation restrictions are not likely to emerge.

As stated by the chairman of the Sime Darby group, the demand for palm oil is expected to increase in the future, as the global population grows and disposable income in developing countries rises.<sup>[1]</sup> This is because palm oil is widely used in food products, for industrial purposes, and in biodiesel. Considering the location of Liberia, a fully operational crude palm oil processing plant in the country would provide Sime Darby plantation with greater access to the lucrative market for biofuels on the Atlantic rim, Europe and Africa. The plantation could offer significant savings in logistics distribution.

Given the economic condition of the Liberian republic, Sime Darby was also seeing an economic opportunity for developing a commercial palm oil industry. Most of Liberia's annual production of palm oil goes toward domestic consumption. Given that the unemployment rate in the country is high, Sime Darby plantation will not face problems in relation to labor shortages.

## **BENEFITS FROM INVESTMENT**

Liberia's vice president Joseph N. Boakai had stated that the Sime Darby investment would help to boost Liberia's peace and security, and enhance stability in post-war Liberia. The reason being that it will create employment and social opportunities that will keep the active population of Liberia positively engaged and hence divert their attention from trouble.<sup>[5]</sup> Through its investment, Sime Darby plantation would directly employ 35,000 people, which will have a significant indirect impact on renewed economic activity in the surrounding areas.<sup>[6]</sup>

By expanding its palm oil plantation into the Republic of Liberia, Sime Darby plantation has the first mover advantage over future entrants into Liberia in terms of securing choice land. According to Richard Tolbert, chairman of Liberia's National Investment Commission (NIC), after concluding a USD800 million deal with Sime Darby Plantation last year, Liberia was approached by Sime Darby's biggest competitor.<sup>[6]</sup> In fact, the country is now in the negotiation phase with their competitor for USD1.6 billion investment in establishing a palm oil plantation in its Southeast region.

In addition, by entering the market in Liberia, Sime Darby plantation is bringing along with it the technology and expertise that they have in the palm oil industry. This is highly beneficial for the Liberians as their government intends to revive the agriculture sector which has been hindered by a lack of access to credit. Besides, most farms in Liberia are small and lack mechanization.

For these reasons, Sime Darby plantation will apply its best practices in its Liberian plantation, just as it does in Malaysia and Indonesia. It will continue to ensure the land

under its care is constantly developed. For this purpose, Sime Darby Plantation had built centralized housing complexes for its estate workers in Liberia. These villages will be similar to the company's facilities in Malaysia and Indonesia and will feature facilities which include worker's quarters to community halls, fully equipped schools and day-care centers, dispensaries and clinics.<sup>[7]</sup> Furthermore, Liberia will be receiving huge benefits in terms of infrastructure building as Sime Darby Plantation will be undertaking the construction of roads, schools and recreation centers. From the company's point of view, it is giving back something in return to the residents of the areas under their operation.

Sime Darby investment would trigger other development activities in the company's operational areas. Some of the development activities that had already started, involved rehabilitation of 15 school buildings including D8 Camp Junior School, Factory Camp Junior School, Malema Camp School and Mambo Camp School.<sup>[8]</sup> Despite all these development activities, the company will adhere to strict conservation rules and according to this policy, the company will retain any area of high conservation value forest and will employ agricultural practices that are designed to minimize negative impact on the environment.

## **DISADVANTAGES OF INVESTMENT**

Investing in the Republic of Liberia involves high risk because the country itself has a relatively risky business environment.<sup>[9]</sup> First, the country had just recently emerged from a period of civil war and this scenario brings with it some political and economic risks that Sime Darby Plantation will have to face. In addition, the regional instability caused by political disputes in neighboring countries, particularly the Republic of Ivory Coast, has made the situation in Liberia increasingly unstable. As a country that has gone through the ravages of two civil wars, Liberia lacks infrastructure, as much infrastructure was destroyed during the civil wars. The transport sector in the country is very poor, the capacity of the water supply is very low, and the energy sources are insufficient. However, currently the infrastructure is being slowly rebuilt, with the help of foreign investors.

Compounding these problems is Liberia's less developed banking and financial system. As a result of the two civil wars mentioned previously, the banking system of Liberia collapsed. Currently, the banking system is undercapitalized and is unable to meet the credit demands of the business sector. Not only is the financial system underdeveloped, it is exposed to political and economic instability. The banking and financial system in Liberia lacks deregulation and faces constant government intervention, which reduces the bank's ability to implement policies, leading to financial system failure. Therefore, Sime Darby Plantation will probably face transactional risks, income risks from operation and financing, as well as accounting risks due to fluctuations in the exchange rate of the local currency. Financial system stability in Liberia requires political and social collaboration in establishing and maintaining stability

in the Liberian economy. A strong financial system is less vulnerable to risks caused by political and social disruption and should become stronger with time.

## CONCLUSION

Sime Darby Berhad had considered the scarcity of land at home and prohibitions against granting new concession land by the Indonesian government, as a threat to further development of its plantations business and had made a decision to seek opportunities in Liberia. The initiative by Sime Darby Plantation to develop oil palm plantations in Liberia is an optimistic step aimed at being closer to the European market. Although the political and economic stability in Liberia does offer some risks, Sime Darby places high trust in the Liberian government and its people. Moreover, the company believes that it will benefit both parties, as Malaysia and Liberia are developing countries, albeit at different levels, and this investment is considered as helping each other to progress further.

## DISCUSSION QUESTIONS

1. What factors should Sime Darby have considered before starting operations in Liberia? Why?
2. What conditions are prevailing in Liberia that are not conducive to business for Sime Darby ?
3. What are the possible risks of investing in Liberia?
4. What plans should be drawn up to mitigate the risks?

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