

CONFORMED COPY

LOAN NUMBER 3699-MA

(Second Rubber Industry Smallholders  
Development Authority Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

RUBBER INDUSTRY SMALLHOLDERS DEVELOPMENT AUTHORITY

Dated February 25, 1994

LOAN NUMBER 3699-MA

PROJECT AGREEMENT

AGREEMENT, dated February 25, 1994 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and RUBBER INDUSTRY SMALLHOLDERS DEVELOPMENT AUTHORITY (RISDA).

WHEREAS: (A) by the Loan Agreement of even date herewith between MALAYSIA (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to seventy million dollars (\$70,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that RISDA agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and RISDA, part of the proceeds of the loan provided for under the Loan Agreement will be made available to RISDA on the terms and conditions set forth in said subsidiary loan agreement;

WHEREAS RISDA, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement; and

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) RISDA declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Parts A, B, C, E, F and G of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and agricultural practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for those Parts of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and RISDA shall otherwise agree, RISDA shall carry out Parts A, B, C, E, F and G of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. RISDA shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

Section 2.04. RISDA shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, RISDA shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) RISDA shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) RISDA shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan, or the performance by RISDA of its obligations under this Agreement and under the Subsidiary Loan Agreement.

## ARTICLE III

### Management and Operations of RISDA

Section 3.01. RISDA shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering, agricultural and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. RISDA shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to

time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and agricultural practices.

Section 3.03. RISDA shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) RISDA shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) RISDA shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested;
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request; and
- (iv) furnish to the Bank by June 30, 1994, the statements and reports referred to in Section 4.01 (b) (ii) above covering RISDA's 1992 fiscal year.

#### ARTICLE V

##### Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of RISDA thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify RISDA thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE VI

##### Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex

or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

For RISDA:

Rubber Industry Smallholders  
Development Authority  
P. O. Box 11067  
Jalan Ampang  
50734 Kuala Lumpur  
Malaysia

Cable address:

RISKUL  
Kuala Lumpur

Telex:

MA31211

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of RISDA may be taken or executed by its Director General or such other person or persons as the Director General shall designate in writing, and RISDA shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

/s/ Marianne Haug  
By Acting Regional Vice President  
East Asia and Pacific

RUBBER INDUSTRY SMALLHOLDERS  
DEVELOPMENT AUTHORITY

/s/ Dato' Abdul Majid Mohamed  
By  
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, RISDA shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, RISDA shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Malaysia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Works under paragraphs 1, 3 and 4 of Part A of the Project may be carried out by smallholders in accordance with established commercial practices.

2. (a) Contract for works under Part B of the Project (up to an aggregate amount not exceeding \$2,000,000) may be awarded on the basis of competitive bidding, advertised locally, in accordance with procedures acceptable to the Bank.

(b) Contracts for minor works estimated to cost less than \$20,000 per contract (up to an aggregate amount equivalent to \$3,900,000) may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least five contractors eligible under the Guidelines in accordance with procedures acceptable to the Bank.

3. Contracts for works under Part E of the Project (up to an aggregate amount equivalent to \$3,500,000) may be procured under contracts awarded on the basis of comparison of price quotations

obtained from at least five contractors eligible under the Guidelines in accordance with procedures acceptable to the Bank.

4. Planting materials (up to an aggregate amount equivalent to \$17,000,000) may be acquired by RISDA from ESPEK where ESPEK has acquired the planting materials after direct negotiations from cooperative nurseries.

5. Items or groups of items for goods estimated to cost less than the equivalent of \$20,000 per item or group of items up to an aggregate amount equivalent to \$1,000,000 may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least five suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

#### Part D: Review by the Bank of Procurement Decisions

Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract awarded in accordance with procedures described in Part A of this Schedule, with respect to each contract estimated to cost the equivalent of \$2,000,000 or more, and with respect to all overseas training proposals, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

(d) The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

#### Section II: Employment of Consultants

1. In order to assist RISDA in carrying out the Project, RISDA shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, RISDA shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, RISDA shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budget, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts or to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank or to amendments of contracts raising the contract value to \$100,000 equivalent or above.

#### SCHEDULE 2

##### Implementation Program

1. Crop choice will continue to be the prerogative of replanters (except in cases where such choices are agro-climatically unsuitable,

in which cases RISDA will recommend alternative choices).

2. RISDA shall initiate and carry out a program for rubber nursery improvement satisfactory to the Bank, which shall include provision for training seed inspectors and for refresher training courses in planting material production and management to be conducted by RRIM for ESPEK, RISDA and cooperatives nursery staff. RISDA also agrees:

(a) that RISDA and ESPEK shall confine rubber planting material production to about 15 sites from the commencement of the 1995 replanting season and thereafter to the number of sites which shall be agreed with the Bank;

(b) that RISDA shall enter into and maintain with RRIM (or another institution acceptable to the Bank) contractual arrangements which are acceptable to the Bank and under which RRIM (or such other institution):

(i) carries out an assessment of performance at each stage of planting material preparation for each of these sites; and

(ii) agrees to prepare and furnish to RISDA a report which sets forth its assessment of performance of planting material preparation immediately following each nursery visit which it makes to assess performance and provides copies of each of these reports to ESPEK, the Borrower's Ministry of Rural Development and the Bank;

(c) to ensure that ESPEK obtains (by written contract with concerned cooperatives or by other appropriate legal means) adequate rights to require concerned cooperatives to comply with ESPEK's standards for nursery management and adequate rights to enforce such compliance (including ensuring that ESPEK is free to exercise such rights);

(d) to ensure that ESPEK is able to finance its costs of better supervising nursery management by cooperatives by increasing ESPEK's own share of planting material production (to about 20% of the total);

(e) to ensure that a regular review is carried out with the Borrower's governmental authorities into whether the prices paid for planting materials adequately reflect any increases in the costs of producing such materials caused by improvements in nursery management under the Project (including more vigorous culling of low-quality materials); and

(f) to take all measures necessary on RISDA's part to implement any price adjustments required as a result of such price reviews within a reasonable period after each review.

3. RISDA shall:

(a) ensure that its regular replanting program for rubber shall be with Class I and Class II clones only, and with not more than the percentage of Class II clones from time to time published by RRIM as its recommended percentage for such replantings;

(b) ensure that Class III clones are used by smallholders only under the supervision and control of RRIM and RISDA, as such clones are still in the experimental and observation stage;

(c) recommend that, beginning with the 1996 replantings, smallholders should use only clones which are known to be responsive to stimulation with LITS, as determined by RRIM and satisfactory to the Bank, with a view to substantially reducing the use of clones which are not known to be responsive to stimulation with LITS.

4. RISDA shall maintain at least the present proportion (30%) overall of women trainees.
  5. RISDA shall reorient its extension services towards increases in productivity of mature rubber.
  6. RISDA shall adopt and implement an action plan satisfactory to the Bank for the introduction of LITS which shall identify the mini-estates to be included in the pilot program to be carried out under Part E of the Project in the first year, and which shall include coordination and monitoring requirements. RISDA shall also ensure:
    - (a) that the coordinator for LITS at RISDA headquarters shall be engaged on a full-time basis with full authority over the technical aspects of the program for introducing LITS;
    - (b) that the coordinator for LITS shall be assisted in every State by a full-time field officer who is responsible for coordinating and monitoring the program for introducing LITS in the State;
    - (c) that the program for introducing LITS shall be carried out in phases satisfactory to the Bank; and
    - (d) that sufficient operating funds would be allocated by RISDA for the expenses of the LITS program (including LITS training).
  7. By December 31, 1994, RISDA shall develop a consistent, reliable set of data on mini-estates and implement a system satisfactory to the Bank for monitoring the production and financial performance of mini-estates.
  8. RISDA shall continue to develop and assist in implementing a plan for the rationalization and restructuring of cooperatives in consultation with the Bank, NARSCO and the cooperatives so that an action plan satisfactory to the Bank is agreed between RISDA, NARSCO and the cooperatives and its implementation commenced by July 31, 1994. RISDA shall also engage a consultant under terms of reference satisfactory to the Bank to advise the relevant NARSCO and cooperatives staff and Board members in management and business administration matters relevant to the efficient operation of cooperatives and to train counterpart staff to continue the consultant's responsibilities.
  9. RISDA shall ensure that all training and technical assistance under Part G of the Project is carried out under programs and terms of reference satisfactory to the Bank.
  10. RISDA shall, by September 30, 1994 and by September 30 in each year thereafter consult with the Bank on RISDA's proposed annual work program for the following year and shall, by December 31 in each year adopt an annual work program for the following year which, so far as it affects matters relating to the Project, shall be satisfactory to the Bank.
  11. RISDA shall prepare terms of reference satisfactory to the Bank for a study of the agricultural performance of RISDA's programs in immature rubber areas under the Project by September 30, 1994 and shall have the study completed by July 31, 1995.
  12. RISDA shall prepare and furnish to the Bank by March 1 and September 1 in each year a progress report on the implementation of the Project for the six months ending on the preceding December 31 or June 30 in such detail and containing such information as the Bank requires.
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