

CONFORMED COPY

LOAN NUMBER 3699-MA

(Second Rubber Industry Smallholders
Development Authority Project)

between

MALAYSIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated February 25, 1994

LOAN NUMBER 3699-MA

LOAN AGREEMENT

AGREEMENT, dated February 25, 1994, between MALAYSIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the Project except Part D will be carried out by the Rubber Industry Smallholders Development Authority (RISDA) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to RISDA the proceeds of the Loan as provided in this Agreement;

(C) the Borrower will cause the Rubber Research Institute of Malaysia (RRIM) to carry out Part D of the Project;

WHEREAS the Bank has agreed, on the basis, inter alia, of the

foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and RISDA; and

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Project Agreement" means the agreement between the Bank and RISDA of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and RISDA pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(c) "Subsidiary Loan" means the loan provided to RISDA under the Subsidiary Loan Agreement;

(d) "Act" means the Rubber Industry Smallholders Development Authority Act, 1972 (Act 85);

(e) "RISDA" means the Rubber Industry Smallholders Development Authority established and operating under the Act;

(f) "NARSCO" means the National Rubber Smallholders Cooperative established and operating under the Co-operative Societies Act, 1948 (Act 287)(Revised-1983);

(g) "ESPEK" means Estet Pekebun Kecil Sdn Bhd, a company incorporated in Malaysia which is a subsidiary of RISDA;

(h) "RRIM" means the Rubber Research Institute of Malaysia established and operating under the Rubber Research Institute of Malaysia Act, 1966 (Act 407)(Revised-1989); and

(i) "LITS" means low intensity tapping systems for rubber production.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement,

various currencies that shall have an aggregate value equivalent to the amount of seventy million dollars (\$70,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be December 31, 1997 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each

Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.08. The Director General of RISDA is designated as a representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement:

- (i) shall cause RISDA to perform in accordance with the provisions of the Project Agreement all the obligations of RISDA therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable RISDA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance; and
- (ii) shall cause RRIM to carry out Part D of the Project and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable RRIM to carry out Part D of the Project, and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of Part D of the Project.

(b) To assist RISDA to carry out the Project:

- (i) the Borrower shall relend the equivalent of the proceeds of the Loan allocated from time to time to Part E.1 of the Project under Category (1) of the Table set forth in paragraph 1 of Schedule 1 to this Agreement to RISDA under a subsidiary loan agreement to be entered into between the Borrower and RISDA, under terms and conditions satisfactory to the Bank for the Subsidiary Loan.
- (ii) the Borrower shall make available to RISDA by way of non-refundable and non-interest bearing grants the proceeds of the Loan allocated from time to time to the rest of Category (1) and to the other Categories of the Table set forth in paragraph 1 of Schedule 1 to this Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan

Agreement or any provision thereof.

Section 3.02. 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 the Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that 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) shall be carried out by RISDA pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall by September 30, 1994 and by September 30 of each year thereafter consult with the Bank on RISDA's annual work program and funding for the following year.

Section 3.05. The Borrower shall ensure that adequate funding is available to RISDA to enable RISDA to meet RISDA's operating budget for each year, commencing with RISDA's 1994 operating budget.

ARTICLE IV

Financial and Other Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;
 - (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and
 - (iii) enable the Bank's representatives to examine such records.
- (b) The Borrower shall:
- (i) have the records and accounts referred to in paragraph (a) (i) of this Section 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 the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
 - (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) RISDA shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that RISDA will be able to perform its obligations under the Project Agreement.

(c) The Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of RISDA to carry out the Project or to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of RISDA or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that:

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and RISDA; and

(b) the Project Agreement has been executed on behalf of RISDA.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that:

(a) the Project Agreement has been duly authorized or ratified by RISDA, and is legally binding upon RISDA in accordance with its terms; and

(b) the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and RISDA and is legally binding upon the Borrower and RISDA in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance or Deputy Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

The Treasury
Jalan Duta
50592 Kuala Lumpur
Malaysia

Cable address:

Treasury
Kuala Lumpur

Telex:

MA 30242
MA 32369

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)

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.

MALAYSIA

/s/ Dato' Abdul Majid Mohamed
By Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Works, goods and services under Parts A, B, C and E of the Project	67,800,000	27%
(2) Computers and training equipment under Part G of the Project	1,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services and overseas training under Parts A, B, C, E, F and G of the Project	1,000,000	90%
TOTAL	»»»»»»»»»» 70,000,000 èèèèèèèèèèèè	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of expenditures on account of the development, planting or maintenance of cocoa.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for such expenditures and under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to increase the productivity and efficiency of the rubber smallholder subsector, to improve the institutional effectiveness of RISDA, and to help develop human resources and the private sector in rural areas.

The Project consists of the following parts, subject to such modifications as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Crop Development

1. Replanting with rubber, oil palm and other crops of about 90,000 hectares of areas previously under rubber.
2. Improving the quality of rubber planting materials, by consolidation of the nursery sites and training RISDA, ESPEK and cooperatives nursery staff in planting material production and management.
3. Maintaining during immaturity the areas to be replanted under the Project and about 200,000 hectares previously replanted (excluding cocoa).
4. Rehabilitating failed replantings, and replantings with unsatisfactory field conditions, due to events beyond the control of smallholders, on about 5,000 hectares.

Part B: Infrastructure Development

Upgrading and maintaining about 1,000 kilometers of agricultural access roads, including bridges and drainage works, to support the replanting program.

Part C: Extension and Smallholder Training

1. Providing equipment and materials for RISDA's extension program to improve RISDA's capacity to provide extension services directed towards increasing productivity of mature rubber to smallholders and hired tappers.
2. Providing agricultural training for smallholders with particular emphasis on women smallholders and workers.

Part D: Applied Research

Completion of the following studies:

- (a) study of the responsiveness of various rubber clones to stimulation with LITS;
- (b) study for the development of physiological/biochemical parameters as early warning indicators of stress in rubber trees under stimulation;
- (c) study of the nutritional aspect in relation to LITS;
- (d) survey of the performance of Class II clones on progressive smallholdings; and
- (e) research on mixed cropping systems using rubber with fruit trees.

Part E: Mini-Estates Development and Improvement

1. Providing loans to meet supplementary development costs of replanting on mini-estates established prior to the Project and not yet in production (to cover items such as terracing, drainage, development of vacant pocket areas, internal roads and perimeter fencing).
2. Establishing a pilot program for the introduction of LITS, introducing LITS to mini-estates which face tapper shortages, and providing training related to LITS for tappers and for RISDA staff.
3. Improving the mini-estates database and the monitoring system for mini-estate performance.
4. Assisting the transfer of management of mini-estates to cooperatives through management and business administration training of RISDA, NARSCO and cooperatives staff.

Part F: Strengthening and Rationalization of Cooperatives

1. Developing and implementing a plan for the rationalization and restructuring of cooperatives.

2. Strengthening management and business administration capacities of cooperatives through training for RISDA, NARSCO and cooperatives staff and Board members and through the provision of technical assistance.

Part G: Institutional Development

1. Providing computer equipment and software and training and technical assistance to further develop RISDA's computerized management information systems.

2. Providing overseas training to RISDA staff.

3. Providing equipment and materials and technical assistance to develop and implement a human resource management system in RISDA and to strengthen the graphics capability of RISDA's communication unit.

4. Establishing a training management course for RISDA's training unit staff and directors of RISDA's training institutes.

5. Studying the agricultural performance of RISDA's replanting and extension programs in immature rubber areas.

* * * * *

The Project is expected to be completed by December 31, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each March 1 and September 1 beginning September 1, 1999 through September 1, 2008	3,500,000
and	
On March 1, 2009	3,500,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepay-

ment multiplied by:

Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

