REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

MALAYSIA

FOR A

COCONUT SMALLHOLDERS' DEVELOPMENT PROJECT

August 21, 1978
CURRENCY EQUIVALENTS

US$1.00 = M$2.40
M$1.00 = US$0.42

WEIGHTS AND MEASURES

1 pound = 0.453 kg
1 pikul = 133.3 lb
1 long ton = 16.8 pikuls
1 gallon = 4.546 liters
1 liter = 0.22 gal
1 acre = 0.404 hectare (ha)
1 hectare = 2.47 acres

ABBREVIATIONS

CCPC - Coconut Collection and Processing Center
CSDS - Coconut Smallholder Development Scheme
DOA - Federal Department of Agriculture
DVS - Federal Department of Veterinary Services
ICA - Industrial Coordination Act
MOA - Ministry of Agriculture
MT - Malaysian Tall (coconut)
SMP - Second Malaysia Plan (1971-75)
TMP - Third Malaysia Plan (1976-80)
## MALAYSIA

### COCONUT SMALLHOLDERS’ DEVELOPMENT PROJECT

#### Loan and Project Summary

<table>
<thead>
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<th><strong>Borrower:</strong></th>
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<tr>
<td><strong>Beneficiaries:</strong></td>
<td>Smallholder coconut farmers</td>
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<tr>
<td><strong>Amount:</strong></td>
<td>US$19.5 million</td>
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<td><strong>Terms:</strong></td>
<td>17 years, including 4 years’ grace, at 7.9% p.a.</td>
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#### Project Description:

The project would consist of on-farm development for coconut smallholders, and strengthening of supporting services and facilities. About 19,200 coconut smallholders would benefit from the project and receive development assistance in the form of training, planting materials, fertilizers, chemicals, livestock and livestock production facilities. The project area of 61,200 acres would consist of rehabilitation of 44,200 acres and replanting of 17,000 acres of coconut; the rehabilitated coconut would be intercropped with about 22,000 acres of cocoa, 8,500 acres of coffee, 3,700 acres of pasture, and other crops. The project would also provide 6,400 cross-bred dairy heifers and 280 feeder animals for the establishment of about 3,340 integrated dairy and beef operations under coconut.

In order to achieve the major objective of on-farm development and alleviation of poverty among coconut smallholders, the project would also strengthen supporting services and facilities and would include:

1. Training of farmers in modern techniques for processing of copra, cocoa, and coffee;
2. Animal husbandry and animal health training for farmers;
3. Coconut seed gardens and nurseries for the production of planting materials;
4. Milk collection centers for collection and marketing of fresh milk;
(e) fellowships to upgrade Agriculture and Veterinary Department staff; and

(f) consultants to advise and assist project staff.

Project risks would be related to farmer acceptance of coconut replanting and rehabilitation, effective integration of agriculture supporting services, and prices of farm produce. In general, risks would be acceptable, given the Department of Agriculture's 14 years of experience in coconut replanting and rehabilitation.

<table>
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<th>Estimated Cost:</th>
<th>Local</th>
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<td></td>
<td>US$</td>
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<td>Vehicles and equipment</td>
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<td>Price contingencies</td>
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<td><strong>Total Project Cost</strong></td>
<td>24.62</td>
<td>19.55</td>
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Financing Plan:
- Government: US$24.5 million (56%)
- Bank: US$19.5 million (44%)


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Rate of Return: 18%

Appraisal Report No: 1906-MA
REPORT AND RECOMMENDATION OF THE PRESIDENT
OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS
ON A PROPOSED LOAN TO MALAYSIA
FOR A COCONUT SMALLHOLDERS’ DEVELOPMENT PROJECT

1. I submit the following report and recommendation on a proposed loan to Malaysia for the equivalent of $19.5 million to help finance a coconut smallholders' development project. The loan would have a term of 17 years including 4 years grace, with interest at 7.9% per year.

PART I - THE ECONOMY /1

2. The latest economic report, "Malaysia: New Perspectives on the Third Malaysia Plan" (No. 1594-MA), is dated October 14, 1977. Detailed data on Malaysia's economy are shown in Annex I.

3. By most economic indicators, Malaysia has done well in the past and, in particular, during the Second Malaysia Plan (SMP, 1971-75). The per capita income of $860 (in 1976) is among the highest in Southeast Asia. Public and private investment activity was stepped up and, as a result, GNP growth, which during the 1960s averaged 6% a year, increased during the SMP to 7%. Moreover, the declining trend in the terms of trade during the 1960s was reversed during the 1970s, and as a result there was an acceleration in per capita income growth on a trend basis from 2% during the 1960s to about 5% during the Second Malaysia Plan period. Progress has also been made in reducing the economy's dependence on rubber, and the manufacturing sector has performed well in terms of output, employment, and exports. With a high export component in GNP, the country is very vulnerable to external fluctuations, which were significant during the SMP. In spite of the increased investment activity and resulting current account deficits in the balance of payments, Malaysia managed to maintain a strong external position during the SMP with relatively low debt service payments and growing international reserves.

4. Notwithstanding this good performance, existing racial inequalities in income and employment, and considerable poverty, especially in the countryside, persist. The inferior income position of the Malays is related to the concentration of Malays in traditional smallholder agriculture and their meager ownership of corporate assets; furthermore, Malays are poorly represented in the modern industrial sector, especially in managerial, professional, supervisory, and clerical occupations. The inequalities threatened the stability of the country and, in 1971, prompted the Government to introduce a New Economic Policy, which is designed to achieve national unity through the two-pronged objective of eradicating poverty and restructuring society to eliminate the identification of race with economic function.

/1 Parts I and II are essentially the same as those contained in the President's Report (No. P-2356-MA, dated June 15, 1978) for the Second Population and Family Health Project which was approved on July 6, 1978.
5. More specifically, the policy proposes to reduce in a 20-year period (1970-90) the sharp income differences between Malays and non-Malays by reducing disparities in the ownership and control of wealth in the corporate sector, and by reducing the concentration of Malay employment in traditional low-income rural activities, while increasing Malay presence in the relatively high-income urban sectors. Since poverty is largely concentrated among Malays, a redressal of poverty would contribute significantly to a reduction of the racial inequalities of income.

6. The principal means proposed to achieve these objectives is rapid growth of the industrial and service sectors. This growth will not only increase average incomes but will also serve the objective of racial restructuring of the labor force. In addition to pursuing a rapid growth strategy, the Government also proposes to achieve its goals through more direct means: on the poverty side, mainly through public investment programs directed towards the poor and, on the racial restructuring side, through controls and quotas.

7. In mid-1976, the Government initiated the Third Malaysia Plan (TMP, 1976-80) reconfirming the goals of the New Economic Policy. The major objectives of the TMP are: (a) to reduce the overall incidence of poverty (from 44% in 1975 to 34% by 1980, which would mean reducing poverty in the agricultural sector from 63% to 49%); (b) to increase Malay employment in the modern sectors of the economy (from the 1975 Malay share of 32% towards the 1990 goal of 50%); and (c) to increase the share of Malays in the equity ownership of the corporate sector (from the 1975 Malay share of 8% to 16% in 1980).

8. The TMP goals are set out in a framework of substantial economic growth. The target growth rate for GDP is set at 8.5% per annum. Private investment is targeted to grow about 10% a year and public investment about 6%, resulting in an investment of M$44 billion in current prices over the TMP period. Public development expenditures were set at M$18.6 billion, with a higher level of M$20 billion targeted if additional resources became available.

9. In addition to following a rapid growth strategy, the Government proposes to reduce poverty through direct programs that will raise agricultural productivity and production. In the Third Plan, one quarter (M$4.7 billion) of total public development expenditures is allocated to this sector (compared with 22% or M$2.1 billion in the SMP). Of this, more than one third will be spent on increasing productivity in existing agricultural areas. In addition, one million acres of new land are scheduled for development. As a means of reducing poverty, the TMP also provides for improved housing and other essential services for the poor in both rural and urban areas. The TMP also stresses that greater attention will be given to improving the less developed states.

10. Improved economic information for 1975 and 1976, however, has significantly altered the macro framework of the Third Plan. First, there was a larger recovery than expected in traditional exports and in the terms of trade in 1976, as well as higher present and prospective levels of oil production. Second, it now appears that the rate of private investment fell considerably in 1975 and declined further in 1976.
11. During 1976, significant increases in exports, both in prices and volumes, particularly of oil exports, combined with moderate import increases, resulted in a current account surplus equivalent to 6.2% of GDP. Despite a reduction in market borrowing by the Government, reserves increased by US$900 million. At the end of 1976, gross official reserves were the equivalent of about seven months of imports.

12. Current projections of oil exports and of export prices in general are higher than those used as a basis for the TMP. Therefore, the resource outlook for Malaysia is now brighter than was forecast in the Third Plan. Overall export earnings during the Plan period should be about US$5 billion more than was forecast in the TMP. Largely as a result of this increase, public sector revenues are also expected to be higher by about US$3 billion. The likelihood of these additional resources has prompted the Government to choose the higher TMP target for development expenditures of M$20 billion (see para. 8 above) and, if implementation constraints are overcome, an even higher target could be set.

13. While the availability of resources is thus expected to be considerably improved, there is some uncertainty about achieving the Plan's private investment targets. As a result of the decline in the rate of private investment in 1975 and 1976, private investment would now have to grow substantially faster than the projected 10% rate during the remaining years of the Plan in order to achieve the Plan targets. While there are a number of possible factors involved in this downturn in the rate of private investment, and particularly manufacturing investment, it is difficult to determine with any certainty their relative importance. First, there was the world recession in 1974-75 which, no doubt, had some negative impact on investment activity in Malaysia. Second, 1974 was a peak period for private investment in Malaysia so that some cyclical decline in the rate of private investment in 1975 would probably have been experienced in any event. Third, there was considerable uncertainty in the private sector regarding the impact of the Industrial Co-ordination Act (ICA), passed by Parliament in 1975, which enforces racial restructuring targets for equity and employment through a system of licensing of existing and new firms above a certain minimum size. The Government acknowledged the uneasiness in the business community and amended the Act in 1976. An important change approved was the establishment of an appeals procedure. It is still too early, however, to judge the reaction of the private sector to the amendments.

14. Assuming a moderate long-term recovery in private investment, Malaysia's balance of payments should be in substantial surplus. During the next five years, the cumulative current account surplus could amount to over 5% of GDP compared to a negligible current surplus in the previous five years. Since such a current account surplus would be sufficient to provide for an adequate level of reserves, capital inflows may moderate in the future. At present, about 19% of public debt outstanding and disbursed is from the Bank; this percentage may increase somewhat by the early 1980s. Reserves are also expected to continue to increase slowly, while the debt service on public obligations is likely to remain at its present level of 4-5% of export earnings. The Bank's share of debt service is currently about 11% and may increase to 12-14% by the early 1980s.
15. In general, over the next few years, it is likely that the Government will need less external capital than previously forecast, largely because of strong commodity prices and oil earnings. At the same time, Malaysia has a serious income distribution and poverty problem. The country needs technical assistance and expertise to help develop poverty alleviation programs and to assist in designing and packaging projects that reach out directly to low income families. The Malaysians believe strongly that project borrowing, particularly from development institutions such as the World Bank, is necessary to assist them to mount an effective attack on poverty. Bank lending is therefore focused on strengthening Government efforts to reduce poverty directly.

PART II – BANK GROUP OPERATIONS IN MALAYSIA

16. The Bank has made 42 loans to Malaysia for projects in education, population, agriculture, forestry, industrial finance, power, water supply, sewerage, telecommunications, ports, railways, roads, and urban transport.

17. Although in many cases disbursements have been slower than expected, the execution of Bank projects in Malaysia has generally been satisfactory. As of July 31, 1978, the loans to Malaysia held by the Bank amounted to $788.9 million. Seventeen loans have been fully disbursed. Annex II contains a summary statement of Bank loans as well as notes on the execution of ongoing projects as of July 31, 1978.

18. While currently Malaysia is a resource surplus country, the openness of the economy (exports are 45% of the GDP) and the volatility of the prices of Malaysia’s main exports (rubber, palm oil, and tin) make the continuance of large surpluses uncertain. To cushion against fluctuation in exports, large reserves are needed. With regard to Bank lending, however, the primary consideration is not resource transfer; rather, it is institution-building and helping Malaysia to expand its capacity to implement programs to combat the deep-rooted problems of poverty and unemployment, particularly in the rural areas.

19. Malaysia’s commitment to assist its low-income groups has strengthened significantly in the past few years. The Bank can justifiably take some measure of credit for its efforts to help Malaysia identify and prepare projects geared toward the rural poor. In view of Malaysia’s otherwise weak preparation capability, the number of rural development projects recently financed and in the current pipeline is impressive. The bulk of these projects has been financed by the Bank. Recently, in order to reach a greater number of low-income households, the Government and the Bank have been emphasizing in situ agriculture projects, such as those for small-scale irrigation, integrated rural area development, and agricultural support services.

20. While these recent projects are by themselves impressive, they are not truly representative of the Government’s general capacity to develop projects; this capacity remains very weak, largely because of a shortage of trained staff. With the help of the UNDP-financed and Bank-executed State
and Rural Development Project, which provides technical assistance in selected federal agencies (departments) and states, the Bank is helping the Government to develop further its programs and projects for reducing poverty.

21. The country needs assistance to help develop future poverty programs and projects that would reach out directly to low-income families in the rural and urban areas. Bank loans are assisting those in absolute poverty by strengthening research and extension, by providing on-farm development including irrigation and drainage facilities, and other facilities such as farm-to-market roads. At the same time, the Bank will continue to assist landless laborers by helping in the development of larger areas of new land for agriculture. The proposed project would assist one of the poorest groups of farmers, the coconut smallholders, by rehabilitating and replanting coconut areas in order to raise farmers' incomes. The proposed project would also provide on-farm drainage which would build on drainage facilities started under other Bank-financed projects (Loan Nos. 973-MA, 1974, and 1522-MA, 1978) and would thus permit realization of the full production potential of coconut lands. The Bank lending program will also help improve support services by expanding extension services, by increasing agricultural and small-scale industrial credit, and by producing higher quality seeds. The Bank plans to mount a concentrated effort to help such institutions as RISDA (Rubber Industry Smallholders Development Authority), FELCRA (Federal Land Consolidation and Rehabilitation Authority), and the Agricultural Credit Bank. It also plans to help the Government expand social services, particularly for low-income groups, through assistance for formal and informal skill training and to the expansion of family planning services. Assistance to infrastructure development would be very selective, concentrating on secondary rural road links and extending electricity into the rural areas.

22. IFC has been active in Malaysia since 1963 and has made six investments totaling $8.69 million. The total commitments under the investments held by IFC as of July 31, 1978, amounted to $1.34 million (Annex II).

PART III - THE AGRICULTURAL SECTOR

23. The agricultural sector holds a preeminent position in Malaysia's economy, contributing about one third of GDP, and more than half of the employment and foreign exchange earnings. Agricultural production has grown at about 6% p.a. since 1970, and this trend is expected to continue in the near future. Over one half of agricultural and forestry production is exported; about 60% of these exports are based on rubber and oil palm products in which Malaysia occupies a predominant position in the world market. In addition, the scope for economically justified import-substitution in grains, dairy products, and meats, which represent the bulk of agricultural imports, is relatively limited. Therefore, continued agricultural growth will depend heavily on increased exports. Based upon Malaysia's physical advantages, the high degree of competitiveness in traditional exports developed over many years, and satisfactory market conditions, prospects for such growth appear favorable.

24. Of the 8 million cultivated acres in Peninsular Malaysia, rubber occupies 4.3 million, oil palms 1.3 million, and coconuts 0.5 million,
accounting for a total of more than 6 million acres under permanent tree crops, of which almost two thirds are in smallholdings. The only other major crop is padi, with one million acres. Other crops (all below 100,000 acres each) are pineapple, cocoa, tapioca, sugarcane, tobacco, coffee, and groundnuts. Smallholdings and rural poverty are largely concentrated in rubber, padi, and coconut areas.

25. **Objectives.** Over a quarter of the TMP development expenditures will go to agriculture, more than to any other sector. The main objectives of the agricultural development policy are:

(a) redressal of rural poverty and regional income disparities;
(b) creation of new employment opportunities;
(c) increased stability in rural incomes and foreign exchange earnings through promotion of new export crops and import substitution; and
(d) maintenance of growth of export earnings.

26. **Strategy.** The Government is making an all-out effort to pursue these objectives through a variety of programs which have two major elements:

(a) increasing emphasis on raising productivity in existing smallholder agricultures in order to reduce poverty and regional inequalities; and
(b) new land development in order to generate employment at adequate income levels.

27. **Field operations.** Field operations of agricultural programs in existing smallholder areas are vested in the State Departments of Agriculture and a number of Federal agencies, e.g. FELDA, RISDA, FELCRA, Livestock Development Authority (Majuternak), and the Fisheries Development Authority (Majuikan). The major emphasis is being placed on improving coordination among these various entities and increasing their individual capacity for effective implementation.

28. **Land Development.** In Peninsular Malaysia alone, during the last 20 years, about 1 million acres of virgin land have been opened up to agricultural settlement and a further 3 million acres suitable for agricultural production remain undeveloped. The current annual rate of land development by all agencies in Peninsular Malaysia is about 160,000 acres, adequate to settle 18,000-20,000 families, while maintaining an adequate standard of living. This represents approximately 20% of the annual growth of the national labor force. Almost two thirds of this development are being undertaken by the Federal Land Development Authority (FELDA) assisted to date by six Bank loans.

29. **In-Situ Development.** The TMP's emphasis on existing agriculture is fundamental to achieving the social objective of alleviating poverty throughout Malaysia. Development targets include a 20% increase in double cropping of padi from 590,000 to 690,000 acres; providing new and improved drainage to 559,000 acres in the west coast (a high percentage in the coconut areas that would facilitate coffee and cocoa intercropping with coconut); replanting
and new planting of 500,000 acres of rubber; replanting and rehabilitation of 100,000 acres of coconut, including 22,800 acres to be intercropped; and the introduction of livestock under coconut, crop diversification of rainfed agriculture, and general strengthening of agricultural services, particularly extension, for all farmers.

The Coconut Subsector

30. In Peninsular Malaysia, coconut production is predominantly a smallholder activity and an important rural occupation. The crop supplies many of the basic food requirements of the rural population and, traditionally, is closely associated with the smallholders' way of life. It is estimated that 13% of the coconut acreage is in scattered plantings around the home, and along drainageways and roadways. The nuts harvested from these palms are utilized for domestic subsistence requirements and the surplus sold locally as fresh nuts.

31. In the estate sector, the economic status and importance of coconuts have declined gradually over the years, mainly as a result of replanting of coconut areas with oil palm, which, with estate management and resources, has been a higher-income crop than coconut. However, in the smallholder sector, the acreage has increased from 470,300 acres in 1971 to 533,200 acres in 1973. Of the 576,000 acres existing in 1975, 90% is smallholdings, with about 450,000 persons (80,000 households) being wholly or partly dependent on coconut as their primary source of livelihood, while only 4,000 persons were employed on the 40 coconut estates. About two thirds of Peninsular Malaysia's coconut smallholdings are concentrated in the west coast states of Johore, Selangor, Perak, and Penang. Most of the smallholdings are planted according to tradition, rather than sound agronomic practices, with a tendency to overplant resulting in high density of poorly managed palms.

32. With low levels of management, labor and other production inputs, smallholdings are often overgrown with weeds, especially lallang (Imperata cylindrica). Young palms are stunted with yellow fronds, and old palms grow with pencil tops due to lack of fertilizer and/or inadequate on-farm drainage in low-lying areas. These poorly maintained and neglected holdings are susceptible to damage by pests and diseases and give low yields.

Coconut Production

33. There are great variations in coconut yields not only between estates and smallholdings, but also between states and even districts. Yields of smallholdings average less than 650 lbs of copra per acre as compared with average estate yields of 1,200 lbs. The highest smallholder yields of 1,300 lbs of copra were recorded in the Sabak Bernam district of Selangor, while in Kelantan the average is less than 300 lbs. Although over 70% of the smallholder palms in Peninsular Malaysia are in the bearing stage, yields are low for the following reasons:

(a) flooding or persistent waterlogging because of poor drainage or breakdown of drainage system in some of the west coast areas;
(b) high percentage of old palms;
(c) low fertility, especially of the bris soils in Kelantan and Trengganu; and
(d) pests.

34. Considering the average low yields, there is ample opportunity for improvement through better husbandry, increased inputs, drainage, and replanting. Intercrops such as coffee, cocoa, fruits, and pastures for livestock also offer good potential for raising coconut smallholder incomes above the poverty level. Rehabilitation could increase by 50% the income from existing coconut lands. Replanting with new MAWA hybrid varieties could raise income from coconut by more than 300%. Intercropping could further increase income by an amount at least equivalent to the income derived from coconuts, thus reducing or eliminating the need for off-farm employment.

35. The opportunity for off-farm employment by coconut smallholders is good in the industrialized areas, such as Selangor and adjacent urban centers. However, most coconut growers are located in the coastal fringe area where opportunities for off-farm employment are scarce and consist of low-paying, casual labor jobs such as padi transplanting, padi harvesting and rubber tapping. On the east coast, where coconut yields are lower than the average, off-farm employment is especially limited, and fishing is often the only means of supplementing income. National average off-farm income of coconut producers ranges from about $300 p.a. on the smallest farms to $150 p.a. on the 10-12 acre farms. Larger farm units generally have little excess family labor.

Coconut Smallholder Development Strategy and Objectives

36. The need to assist the smallholder sector of the coconut industry has been recognized by the Government for many years and, in 1963, the Coconut Replanting and Rehabilitation Scheme began as a pilot 4,000-acre operation in southwest Johore. This operation became an important part of the Government's smallholder development programs under the First and Second Malaysia Plans and has been expanded under the TMP. The program has now been renamed the Coconut Smallholders' Development Scheme (CSDS) and established as a subunit within the Department of Agriculture (DOA) with the basic objective of increasing the real income of coconut smallholders through:

(a) rehabilitation or replanting of coconut palms;
(b) cash cropping and intercropping;
(c) integrated livestock development; and
(d) training.

Since 1963, the program has assisted in replanting and/or rehabilitating about 120,000 acres, benefiting about 25,000 smallholders. Program management requires considerable strengthening. Many of its officers are fairly young and inexperienced. In addition, the absence of long-term budgetary
commitment has meant that most positions are temporary and thus do not attract staff of the highest possible caliber. An additional difficulty with the program has been that, because there have been no restrictions on participation in the past, in some instances participants have included farmers with substantial landholdings (up to 100 acres) or with substantial noncoconut income. The proposed project would address both of these circumstances.

Rehabilitation and Replanting

37. Existing stands of Malaysian Talls (MTs) are either being rehabilitated or, if in very poor condition, replanted with the new higher-yielding dwarf hybrid varieties (MAWAs). In addition, substantial scope exists for increasing farmers' incomes with appropriate intercropping, although at present less is known about intercropping with MAWA stands. For this reason, under the proposed project intercropping and livestock development would be limited to MT holdings, pending more experience and knowledge about intercropping with MAWA.

38. Coconut would be rehabilitated by removing uneconomic palms, replacing them with new Malaysian tall planting materials, and establishing the stand of coconut palms at recommended levels. Farmers would improve on-farm drains, follow recommended weeding practices, and use fertilizer to increase the yield and income from coconuts as well as the intercrops.

Cash Cropping and Intercropping

39. Encouraged by high world market prices of cocoa and coffee and the opportunity afforded to increase substantially the income of coconut smallholders, the DOA is promoting intercropping of rehabilitated coconuts with cocoa, coffee, and fruits. Cocoa is the most important intercrop and the area planted to cocoa has more than doubled between 1971 (40,000 acres) and 1976 (more than 90,000 acres), and is expected to exceed 150,000 acres by the end of the TMP. About 70% of this cocoa is in Peninsular Malaysia and is equally divided between smallholders and estates: most smallholder cocoa is grown as a coconut intercrop. Cocoa production was 22,000 tons in 1976 and should exceed 30,000 tons by 1980. Adequate technical knowledge and management ability are available and, thus, should not be constraints to achieving the projected domestic cocoa acreage and production increases. Research and extension services are adequate to support this development. A major problem for the cocoa industry is the high acidity of the beans, which reduces Malaysian cocoa quality, price, and demand. Research on this problem is making some progress.

40. With new plantings of coconut, smallholders would produce subsistence crops such as vegetables, bananas, tapioca, maize, and groundnuts. Under new coconut stands, these crops would only supplement incomes for three to four years in the immature stage. These food crops would need to be replaced with permanent intercrops of cocoa, coffee, and fruits, when shading of palms makes feed and food crops unproductive. On the less productive sandy soils of the east coast, the intercrops that can be grown under shade are tobacco, chili peppers, mangoes, bananas, and cashew nuts, or cultivated pasture for beef production which would yield a lower return than cocoa and coffee.
Integrated Livestock Development

41. Small-scale livestock production, particularly dairy farming, is a relatively new enterprise for coconut smallholders. Dairying is particularly attractive for smaller farmers as it provides the best opportunity to raise total farm income above the poverty level; provides regular cash income; and could productively use family labor that otherwise would be unemployed. Some farmers could provide adequate roughage from drainageway and roadside cuttings to maintain two or three dairy animal units. If necessary, this roughage could be supplemented with concentrates to obtain satisfactory levels of milk production. The opportunity for dairying is, however, limited to more affluent, densely populated areas of the west coast states where a market exists for dairy products. Smallholder production of pasture and beef is considered to be adaptable to the remote areas and to poor soils of the east coast, where the market for fresh milk is limited.

Training

42. Training and education of farmers through regular extension services as well as assistance provided under the project would be essential to achieving the production goals for coconut as well as the intercrops. The increasing tendency for farmers to process their own produce is resulting in low quality copra, cocoa, and coffee. The farmers' lack of knowledge about processing cocoa produces low quality beans and adversely affects the reputation of Malaysian products, since the traditional processing method now being used results in moldy and tainted beans that give an off-taste chocolate product. These problems could be overcome in two ways: (a) establishing standards and licensing processors; and (b) farmer training in processing.

PART IV - THE PROJECT

43. The project would assist the Malaysian Government in the implementation of a five-year time slice of one of its existing programs, designed for improvement of coconut smallholding to alleviate rural poverty. This project would strengthen the CSDS organization and the DOA supporting services (extension, training, and crop production), and supporting services of the Federal Department of Veterinary Services (DVS) (extension, training, animal health, animal husbandry, and milk marketing). The project would also provide for training of staff and training of farmers in all on-farm aspects of crop and dairy production, and processing. The project would focus on the smallest and poorest coconut growers by limiting the size of farm holdings eligible for participation to 10 acres, establishing an income ceiling of $1,500, and limiting the total development grant per beneficiary to about $2,750. This project would assist in strengthening and accelerating the program and would help to achieve a 50% increase in acreage developed in a five-year period; increase the rate of replanting by 100%; and significantly increase the number of beneficiaries during the project period. Net farm incomes of beneficiaries would be increased from an average of $800 per unit from coconut to $1,700 per unit from coconut with intercrops.
The project would finance, over five years (1979-83), the cost of replanting and rehabilitation of 61,200 acres of coconut, benefiting 19,200 smallholders in Peninsular Malaysia. This would represent a 50% increase in the acreage of coconut land which has been developed by the program and a 75% increase in the number of smallholders who have been assisted reflecting the application of criteria which would restrict participation to the poorest coconut smallholders. The project would also finance the strengthening of supporting services for crop, dairy, and beef production; the establishment of milk collection and cattle raising facilities; and the coconut seed garden and planting materials for nursery facilities. Training of farmers and agricultural service staff would be an important feature of the project. Although training of farmers and in-service training of staff would be a regular feature of the project, 23 man-years of fellowships would also provide for intensive specialized training of selected key staff. The project would provide four man-years of technical assistance to advise and assist DOA staff.

Project Objectives

The project would adopt an integrated agricultural development approach with the following specific objectives:

(a) replanting of part of the area with high-yielding MAWA hybrids in association with temporary cash cropping, followed by permanent intercropping;

(b) rehabilitation of existing traditional Malaysian Talls (MTs) coconut areas, including permanent intercropping and/or pasture development, to diversify into integrated dairy/beef production; and

(c) technical assistance for improved processing of copra, cocoa, and coffee in order to derive the highest quality and price for the project beneficiaries.

Project Components

The project would consist of the following components:

I. Crop Production Component

(a) Smallholder On-farm Development

(i) the replanting of 17,000 acres with high-yielding MAWA hybrids on about 16,700 smallholdings;

(ii) the rehabilitation of 40,500 acres (plus 3,700 acres indicated below under Integrated Dairy and Beef) of MTs on about 18,000 smallholdings and their diversification into various permanent intercrops, such as cocoa, coffee, fruits, and cashews;

(b) Government Facilities Development

(i) the improvement and extension of regional infrastructure and the establishment of two additional nurseries;
(ii) the establishment of 150 acres of coconut seed gardens to supply the long-term replanting program with MAWA hybrid seednuts.

II. Integrated Dairy and Beef Component

(a) Smallholder On-farm Development

(i) the provision of 2,150 crossbred pregnant heifers to 1,075 coconut smallholders, and the establishment of 3,500 acres of pasture and forage under rehabilitated traditional MT coconuts;

(ii) the provision of 4,250 pregnant heifers to 2,125 smallholders who have benefited from the crop component, and have sufficient grass in their area to raise livestock without regular pasture and forage development;

(iii) the distribution of 280 feeder animals to 140 smallholders (average 3 acres with 1.5 acres of coconut), and the development of 210 acres of pasture and forage for beef production under coconut (rehabilitated MTs);

(b) Government Facilities Development

(i) provision of facilities and pastures for the importation and maintenance of 6,600 head of crossbred heifers to be raised and inseminated in government cattle raising centers. The borrower would ensure that adequate holding capacity is available prior to the procurement of the animals (see Loan Agreement, Section 3.11);

(ii) the establishment of 3,000 additional acres of pasture on two cattle raising centers;

(iii) the establishment of nine additional milk collection centers to ensure efficient milk collection, adequate animal husbandry services, and equitable return to the participants.

III. Technical Assistance and Fellowships Component

(a) the provision of 4 man-years of technical assistance of which 3 man-years would be for copra, cocoa and coffee processing, and 1 man-year for development of seed gardens; and

(b) the provision of 23 man-years of short-term and long-term fellowships for all components.

Criteria and Conditions for Participation in the Project

47. Participation in the replanting and rehabilitation program under the project would be on a voluntary basis in all 11 peninsular states. In order to meet the Government's objective of alleviating poverty, assurances were
provided (see Loan Agreement, Section 3.06 and Schedule 5) that the following criteria would be used to select participants:

The Holding:

(a) would be classified as coconut land by the borrower and would exclude areas already classified as nonagricultural in existing town plans;

(b) would be less than 10 acres in aggregate;

(c) would qualify for replanting grants only if it had less than 10 productive palms per acre.

The Smallholder:

(a) would have to have a net income below the country's official prevailing poverty level;

(b) could not receive a total grant exceeding $2,750 (or such other amount as may be agreed between the Government and the Bank);

(c) when taking part in replanting and/or rehabilitation, shall also carry out recommended cash cropping and/or permanent intercropping; and

(d) when taking part in rehabilitation shall also carry out recommended permanent intercropping and/or livestock rearing.

Given the voluntary nature of participation and the new focus on very poor farmers, the program may begin to encounter some difficulties in the later years of the project in recruiting adequate numbers of new participants. Very poor farmers, with little or no noncoconut income, may be reluctant to remove their existing palms, thus decreasing their income during the relatively long period while the new coconuts mature. Subsistence crops such as vegetables, bananas, tapioca, maize and groundnuts could supplement incomes for the first three to four years, to be replaced by permanent intercrops such as cocoa, coffee, and fruits when the palms' shading makes cultivation of food and feed crops uneconomical. Nevertheless, farmers' incomes would be reduced during the gestation period and an effective cadre of extension officers would be required to convince the farmer of the long-term benefits of participating in the program.

Marketing and Markets

48. Marketing of incremental production would present no problems. The private sector is active in the area of coconut, cocoa and coffee marketing, and the Federal Agriculture Marketing Authority has also started marketing these products. Milk would be marketed largely through government-supported milk production centers. In addition, Malaysia is expected to continue to export cocoa. Domestic consumption of coconut products is expected to
increase at a rate that would substantially reduce exports in the 1980s; and domestic consumption of Liberica coffee is expected to increase, while Singapore is a potential export market. The demand for fresh milk is difficult to predict given the traditional emphasis on canned and powdered milk. However, as personal incomes increase and tastes change, as children become accustomed to fresh milk through school programs and as the price of fresh milk falls, demand is expected to increase.

Project Implementation

49. The project would be managed by the Department of Agriculture (DOA), assisted by the Department of Veterinary Services (DVS). The DOA, through its relevant subunit which is presently charged with implementing the CSDS, would be the primary implementing agency. In view of the present weakness in the program's management, a new organizational structure is proposed. A national Smallholder Coconut Development Project Coordinator, under policy guidance from the Ministry of Agriculture, would be responsible for coordinating and administering the two component activities of the project. The Project Coordinator would be assisted on the technical side by two project component leaders for crops and livestock, respectively, and by a Project Implementation Secretariat with appropriate supporting staff, to be responsible for routine project administration. Appointments to these key posts and the establishment of the Secretariat would be conditions of effectiveness (see Loan Agreement, Sections 3.03 and 5.01).

50. DOA would be directly responsible for the development and operation of the coconut seed garden and nurseries. During the project period a consultant would provide advice on modern techniques for design and operation of the coconut seed garden. Due to the long gestation period of coconuts, consultants' services for the seed garden would be required beyond the project period. Satisfactory assurances to this effect have been obtained (see Loan Agreement, Section 4.04). The DVS would continue to expand the integrated smallholder dairy development program which it has successfully operated since 1973. DVS would provide technical services including extension, training, animal husbandry, animal health, and artificial insemination. Assurances were provided (see Loan Agreement, Section 3.05) that extension services to be provided under the project would be coordinated with the State's normal extension activities. In addition, the DVS would operate milk collection centers to provide a ready outlet for milk produced by project beneficiaries. By January 1981, midway through the construction period of the milk collection centers, plans for locating and constructing the remaining milk collection centers would be reviewed and submitted to the Bank for comment (see Loan Agreement, Section 3.07). The Federal Agricultural Marketing Authority, through its existing system of Coconut Collection and Processing Centers (CCPCs), provides marketing services to coconut producers. The technical assistance under the project for training farmers in modern techniques of processing copra, cocoa, and coffee would be provided through the CCPCs.

51. The present system of on-farm development grants provides fertilizer for three years for coconut rehabilitation and, for four years, for coconut replanting. In order to encourage the continued use of fertilizer, it is
essential that fertilizer grants be extended for an additional four years at a progressively decreasing rate until such time that farmers begin receiving a return from coconut development and are sufficiently convinced that an increased level of inputs would produce a satisfactory return. The Government had taken the necessary steps prior to negotiations to ensure that such subsidies would be continued.

52. The DOA and DVS would continue to regularize and strengthen their monitoring and evaluation system to be developed under the National Extension Project, Loan 1493-MA, assisted by the consultants of the UNDP/IBRD State Rural Development Project. In particular, this would include monitoring of development subsidies and grants to assess their benefits and ensure that they are properly used. In addition, the DVS would strengthen its monitoring of the artificial insemination program and would submit to the Bank for comment by December 1981 a study of the feasibility of converting cattle raising centers into cattle breeding centers (see Loan Agreement, Section 4.03).

Project Costs and Financing

53. Total project costs in 1978 dollars are estimated at $44.2 million (inclusive of taxes and duties), of which $19.5 million would be foreign exchange. The crop component accounts for about 65% and the integrated dairy/beef component accounts for 35% of the total project cost. Physical contingencies, set at 15% for civil works and 10% for vehicles and equipment, are included and amount to 2% of project costs. Price contingencies, totaling 24% of project costs, are based on a projected annual inflation rate of 7-3/4% between 1977 and mid-1980 and a 7% rate from mid-1980 through 1983.

54. The proposed Bank loan of $19.5 million would finance the full foreign exchange cost of the project (44% of total costs), exclusive of taxes and duties. The cost of the crop component ($19.4 million, excluding contingencies) would be met 33% from the Bank loan and 67% by the Government. The cost of the livestock component ($12.5 million, excluding contingencies) would be met 58% from the Bank loan and 42% from Government sources, and technical assistance 92% from the Bank loan and 8% from Government funds. All operational expenditures, except chemicals, fertilizers and similar consumable farm development supplies, would be financed by the Federal Government budget. The loan amount includes $100,000 of retroactive financing for civil works associated with the coconut seed garden for expenditures incurred after January 1, 1978. These works were initiated in January 1978, to permit the first seeds production to be included in the project period. The loan would finance 48 man-months of consultants' services at an average cost of about $4,000 per man-month.

Cost Recovery

55. The project would focus on the poorest of the coconut smallholders and would not seek to recover on-farm development grants. This is consistent with the 14-year history of Malaysian coconut replanting and rehabilitation schemes and the Government's policy, which provides grants for food and cash crop production to smallholders in poverty groups. This procedure would also be consistent with Bank practice in view of the extreme poverty level of
project beneficiaries. Coconut and the primary intercrops of cocoa and coffee have a long maturation period and, generally, would not provide a net return until year 7; new coconut plantings would not reach full production potential for at least 12 years. Considering the poverty of the beneficiaries and the long maturation period, coconut development would not take place without a system of on-farm development grants. A coconut oil export levy was considered as a means of cost recovery. However, an evaluation of coconut oil export data indicates a declining trend, which would reach or approach zero in the 1980s. Therefore, an export levy could generate only very minimal revenue.

56. On-farm development grants per acre would be allocated on the basis of $280 for replanting of coconut palms plus $90 for intercropping, and $125 for coconut rehabilitation plus $125 for intercropping. Farmers participating in coconut rehabilitation and livestock production would be eligible for the rehabilitation grants plus $100 per acre for pasture development, $230 for livestock housing, water supply and feed storage, and up to 40% of the purchase cost of two foundation animals; the remaining cost of the animals would be provided on credit. The maximum grant available to any single beneficiary would be $2,750. These grants would be provided under the project only during the development period.

Procurement

57. The Project Coordinator would have overall responsibility for procurement of goods and services, to be initiated by the two project component leaders. The Project Coordinator would utilize the Project Implementation Secretariat to administer, monitor, and control all aspects of procurement. Procurement requirements would normally be scheduled and budgeted on an annual basis in accordance with a plan coordinated and approved by the Project Coordinator.

58. Contracts for construction of civil works (including site development) would be small (averaging less than $100,000), dispersed in time and place, and could not be grouped for simultaneous tendering. Thus, all civil works contracts would be awarded following local procedures which are satisfactory to the Bank. All other contracts estimated to cost the equivalent of $100,000 or more would be carried out under international competitive bidding in accordance with Bank guidelines. Small, off-the-shelf items, such as farm supplies and equipment, consumable laboratory and office supplies, up to an aggregate of $1.25 million, could be procured through normal government procedures, satisfactory to the Bank (see Loan Agreement, Schedule 4, paragraph B2).

59. Livestock imports (about $3.7 million including contingencies), for animal health reasons, would be purchased from countries approved by the Malaysian Veterinary Department whose procedures are satisfactory to the Bank (see Loan Agreement, Schedule 4, paragraph A3).

Disbursements

60. Disbursements would be made at the rate of 100% against the foreign expenditures on all directly imported equipment, vehicles, office and laboratory supplies, fertilizers, chemicals and animals; 100% of ex-factory cost of items
manufactured locally, and 90% of the total cost of imported but locally procured items. Disbursements for all civil works (including site preparation and architectural services) would be at 40% of the total cost. For fellowships, reimbursement would be on the basis of 100% of foreign cost and 85% of the total cost of technical assistance including architectural and engineering services. It is expected that the proposed loan would be disbursed by March 31, 1984.

Accounts and Audits

61. The Project Coordinator and DOA would maintain a joint project account for the three participating agencies. The agencies involved in the project are all subject to normal government control and audit procedures, which are acceptable to the Bank.

Justification and Benefits

62. The project would provide the agricultural services and inputs for the development of coconut, coconut intercropping and integrated dairy/beef production to increase the average income of project beneficiaries from about $800 to over $1,700 at full development. The absolute poverty threshold in Malaysia is estimated by the Government to be $1,500 per average family. Thus, the increase in income would bring the average coconut smallholder family's income above the poverty line.

63. The project would promote basic national development objectives by improving the productivity and incomes of one of the poorest segments of Malaysian society. The project's rate of return is estimated at 18%.

64. At full development, the project would result in an increase of foreign exchange availability of $35.0 million through the export of $7.9 million of incremental cocoa production, the export and/or reduced import of $10.8 million of coffee and coconut products, and the reduced import of $16.7 million of dairy products.

Risks

65. Implementation of the project would require a high level of organizational effectiveness and coordination among the DOA, FAMA, and DVS, as well as coordination between the federal and state agricultural service agencies and public institutions in Malaysia. The risks of inadequate farmer acceptance of replanting and rehabilitation of coconuts have already been discussed (see para. 47); it is anticipated that this would begin to pose a constraint in the later years of the project, but could pose a more serious problem after the completion of the proposed project. Other risks associated with the project are insufficient farmers' response to the dairying component; failure of farmers to use regularly and continuously higher levels of inputs; changes in the world market for cocoa and coffee; and delays in implementation (including availability of qualified staff, funds, equipment, planting materials, and dairy animals).
66. The Ministry of Agriculture and the implementing agencies are well aware of the organizational and administrative requirements of the project, and are confident that adequate coordination and cooperation can be achieved to overcome these potential constraints. The Bank believes this confidence to be justified.

Environmental Effects

67. The project would not adversely affect the environment as it would only complete the on-farm portion of drainage projects already completed or under implementation, and intensify water control. The lands now subject to periodic flooding would be made more productive for agriculture. On-farm drainage would also reduce the habitat for mosquitoes and other insect pests. The project would result in a more intensive use of fertilizers and chemicals, but the amount of run-off would not be significant.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

68. The draft Loan Agreement between Malaysia and the Bank and the Report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement, are being distributed to the Executive Directors separately.

69. Features of special interest in the Loan Agreement are described in Section III, Annex III. Additional conditions of effectiveness are the establishment of the Project Implementation Secretariat with adequate supporting staff, the appointment of a Project Coordinator and two project component leaders.

70. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATIONS

71. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President
By Ernest Stern

August 21, 1978
Washington, D.C.
### Population and Vital Statistics

#### GNP per Capita (US$)

<table>
<thead>
<tr>
<th>Land Area (thou km²)</th>
<th>Malaysia</th>
<th>Most Recent</th>
<th>Reference Countries (1970)</th>
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<tbody>
<tr>
<td>Total</td>
<td>329.7</td>
<td>329.7</td>
<td>780.0</td>
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<tr>
<td>Agricultural</td>
<td>60.4</td>
<td>60.4</td>
<td>Portugal</td>
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#### Income Distribution

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<tr>
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<th>Malaysia</th>
<th>Most Recent</th>
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<tbody>
<tr>
<td>Rural Dwelling Connected</td>
<td>22.2%</td>
<td>22.2%</td>
<td>59.0%</td>
</tr>
<tr>
<td>Access to Electricity</td>
<td>4.4%</td>
<td>4.4%</td>
<td>27.9%</td>
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#### Family Planning

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<th>Most Recent</th>
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<tbody>
<tr>
<td>Acceptors (cumulative, thou)</td>
<td>222.2%</td>
<td>222.2%</td>
<td>59.0%</td>
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<tr>
<td>Users (% of married women)</td>
<td>8.0%</td>
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#### Employment

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<th>Most Recent</th>
<th>Reference Countries (1970)</th>
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</thead>
<tbody>
<tr>
<td>Total Labor Force (thousand)</td>
<td>2300.0%</td>
<td>2300.0%</td>
<td>299.0%</td>
</tr>
<tr>
<td>Labor Force in Agriculture (%)</td>
<td>36.0%</td>
<td>36.0%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Unemployment (% of labor force)</td>
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<td>2.0%</td>
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#### Income Distribution

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<th>Malaysia</th>
<th>Most Recent</th>
<th>Reference Countries (1970)</th>
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</thead>
<tbody>
<tr>
<td>% of Private Income Rec’d by:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Highest 5% of Households</td>
<td>28.3%</td>
<td>28.3%</td>
<td>27.9%</td>
</tr>
<tr>
<td>Highest 20% of Households</td>
<td>56.3%</td>
<td>56.3%</td>
<td>58.3%</td>
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<tr>
<td>Lowest 20% of Households</td>
<td>3.6%</td>
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<tr>
<td>Lowest 40% of Households</td>
<td>11.2%</td>
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#### Distribution of Land Ownership

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<th>Malaysia</th>
<th>Most Recent</th>
<th>Reference Countries (1970)</th>
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</thead>
<tbody>
<tr>
<td>% owned by top 10% of owners</td>
<td>37.1%</td>
<td>37.1%</td>
<td>37.1%</td>
</tr>
<tr>
<td>% owned by smallest 10% owners</td>
<td>0.3%</td>
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#### Health and Nutrition

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<th>Malaysia</th>
<th>Most Recent</th>
<th>Reference Countries (1970)</th>
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</thead>
<tbody>
<tr>
<td>Population per Physician</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Population per Nursing Person</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Population per Hospital Bed</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
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</tbody>
</table>

#### Education

<table>
<thead>
<tr>
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<th>Malaysia</th>
<th>Most Recent</th>
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</thead>
<tbody>
<tr>
<td>Adjusted Enrollment Ratio</td>
<td>96.0%</td>
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<td>96.0%</td>
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<tr>
<td>Primary School</td>
<td>96.0%</td>
<td>96.0%</td>
<td>96.0%</td>
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<tr>
<td>Secondary School</td>
<td>96.0%</td>
<td>96.0%</td>
<td>96.0%</td>
</tr>
<tr>
<td>Years of schooling provided</td>
<td>96.0%</td>
<td>96.0%</td>
<td>96.0%</td>
</tr>
<tr>
<td>Vocational Enrollment (% of Secondary)</td>
<td>96.0%</td>
<td>96.0%</td>
<td>96.0%</td>
</tr>
<tr>
<td>Adult Literacy Rate (%)</td>
<td>96.0%</td>
<td>96.0%</td>
<td>96.0%</td>
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#### Housing

<table>
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<th></th>
<th>Malaysia</th>
<th>Most Recent</th>
<th>Reference Countries (1970)</th>
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</thead>
<tbody>
<tr>
<td>Persons per Room (Urban)</td>
<td>2.3%</td>
<td>2.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Occupied Dwellings without Piped Water (%)</td>
<td>65.0%</td>
<td>65.0%</td>
<td>65.0%</td>
</tr>
<tr>
<td>Access to Electricity (% of all dwellings)</td>
<td>43.0%</td>
<td>43.0%</td>
<td>43.0%</td>
</tr>
<tr>
<td>Rural Dwellings Connected to Electricity (%)</td>
<td>30.0%</td>
<td>30.0%</td>
<td>30.0%</td>
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#### Consumption

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<th></th>
<th>Malaysia</th>
<th>Most Recent</th>
<th>Reference Countries (1970)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio Receivers (per thou pop)</td>
<td>37.0%</td>
<td>37.0%</td>
<td>37.0%</td>
</tr>
<tr>
<td>Passenger Cars (per thou pop)</td>
<td>13.0%</td>
<td>13.0%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Electricity (kwh/yr per cap)</td>
<td>200.0%</td>
<td>200.0%</td>
<td>200.0%</td>
</tr>
<tr>
<td>Newsprint (kg/yr per cap)</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

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See Notes and Definitions on Reverse
Unless otherwise noted (e.g., GNP per capita and population), data for 1960 refer to any year between 1959 and 1961, for 1970 between 1969 and 1971, and for most recent estimate between 1973 and 1977.

Portugal

- Unemployed
- Total labor force

Population

- Population density
- Rural population
- Urban population
- Population per square kilometer

GDP

- GDP per capita

Health and Nutrition

- Infant mortality rate
- Life expectancy at birth

Population

- Total population

- Population density

Urbanization

- Urban population
- Urban-rural population ratio

NOTES

ANNEX I Page 2 of 4

DEFINITIONS OF SOCIAL INDICATORS

Land area (Square Miles)

Population

- Median age
- Urban population
- Rural population
- Urban-rural population ratio

GDP

- GDP per capita (US$)

Health and Nutrition

- Infant mortality rate
- Life expectancy at birth

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita

Urbanization

- Urban population
- Urban-rural population ratio

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Urbanization

- Urban population
- Urban-rural population ratio

Population

- Population density

GDP

- GDP per capita
## COUNTRY DATA - MALAYSIA

### AREA
- 330 thousand sq km

### POPULATION (1976)
- 12.7 million

### DENSITY
- 37 per sq km

### POPULATION CHARACTERISTICS (1970-75 average)

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>1970-75 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birth rate</td>
<td>31.5</td>
</tr>
<tr>
<td>Death rate</td>
<td>6.3</td>
</tr>
<tr>
<td>Population growth rate</td>
<td>2.7</td>
</tr>
</tbody>
</table>

### HEALTH

- Population per physician (1973) = 4,040 /a
- Population per hospital bed (1973) = 270 /a

### EDUCATION (1972)

- Adult literacy rate = 66%
- Primary school enrollment = 91% /a

### ACCESS TO ELECTRICITY (1970)

- All dwellings = 43% /a
- Rural dwellings = 30% /a

### GNP PER CAPITA IN 1976: US$860 /b

### ANNUAL RATE OF GROWTH (% in constant prices and M$)

<table>
<thead>
<tr>
<th>Year</th>
<th>US$ Mln</th>
<th>%</th>
<th>1960-65</th>
<th>1965-70</th>
<th>1970-75</th>
<th>1976</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP at Market Prices</td>
<td>10,561</td>
<td>100.0</td>
<td>6.9</td>
<td>5.6</td>
<td>7.0</td>
<td>11.3</td>
</tr>
<tr>
<td>Gross Domestic Investment</td>
<td>2,111</td>
<td>20.0</td>
<td>9.4</td>
<td>7.7</td>
<td>6.2</td>
<td>6.6</td>
</tr>
<tr>
<td>Gross National Saving</td>
<td>2,786</td>
<td>26.5</td>
<td>11.6</td>
<td>7.9</td>
<td>10.8</td>
<td>11.5</td>
</tr>
<tr>
<td>Current Account Balance</td>
<td>683</td>
<td>6.5</td>
<td>.</td>
<td>.</td>
<td>.</td>
<td>.</td>
</tr>
<tr>
<td>Exports of Goods, NPS</td>
<td>5,555</td>
<td>52.6</td>
<td>4.1</td>
<td>6.5</td>
<td>5.8</td>
<td>20.1</td>
</tr>
<tr>
<td>Imports of Goods, NPS</td>
<td>4,409</td>
<td>41.7</td>
<td>3.3</td>
<td>5.7</td>
<td>4.0</td>
<td>10.8</td>
</tr>
</tbody>
</table>

### OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1975

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value Added</th>
<th>Labor Force</th>
<th>V.A. Per Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ Mln</td>
<td>%</td>
<td>Min.</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2,367</td>
<td>29.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Industry</td>
<td>2,224</td>
<td>27.3</td>
<td>0.6</td>
</tr>
<tr>
<td>Services</td>
<td>3,533</td>
<td>43.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Unemployed</td>
<td>.</td>
<td>.</td>
<td>0.3</td>
</tr>
<tr>
<td>Total/Average</td>
<td>8,144</td>
<td>100.0</td>
<td>6.2</td>
</tr>
</tbody>
</table>

### GOVERNMENT FINANCE

<table>
<thead>
<tr>
<th>Year</th>
<th>General Government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M$ Mln</td>
</tr>
<tr>
<td>1976</td>
<td>7,032</td>
</tr>
<tr>
<td>1976</td>
<td>6,400</td>
</tr>
<tr>
<td>1976</td>
<td>193</td>
</tr>
<tr>
<td>1976</td>
<td>371</td>
</tr>
</tbody>
</table>

### MONEY, CREDIT AND PRICES

- Money and Quasi-Money: 3,724, 4,131, 4,666, 5,770, 7,574, 8,729, 10,001, 12,769
- Bank Credit to Public Sector: 909, 1,065, 1,186, 1,375, 1,746, 2,138, 3,096
- Bank Credit to Private Sector: 1,841, 2,246, 2,572, 3,014, 4,586, 5,278, 6,084, 7,471

### NOTE:
- All conversions to dollars in this table are at the average exchange rate prevailing during the period covered.

/a Peninsular Malaysia.
/b World Bank Atlas.
TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

<table>
<thead>
<tr>
<th></th>
<th>1974</th>
<th>1975</th>
<th>1976</th>
</tr>
</thead>
<tbody>
<tr>
<td>(US$ million)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports of Goods, NFS</td>
<td>4,420</td>
<td>4,076</td>
<td>5,555</td>
</tr>
<tr>
<td>Imports of Goods, NFS</td>
<td>4,424</td>
<td>3,965</td>
<td>4,409</td>
</tr>
<tr>
<td>Resource Gap (deficit = -)</td>
<td>-4</td>
<td>111</td>
<td>1,146</td>
</tr>
<tr>
<td>Interest Payments (net)</td>
<td>-50</td>
<td>-57</td>
<td>-115</td>
</tr>
<tr>
<td>Other Factor Payments (net)</td>
<td>-199</td>
<td>-172</td>
<td>-291</td>
</tr>
<tr>
<td>Net Transfers</td>
<td>-58</td>
<td>-52</td>
<td>-57</td>
</tr>
<tr>
<td>Balance on Current Account</td>
<td>-311</td>
<td>-170</td>
<td>683</td>
</tr>
<tr>
<td>Direct Foreign Investment</td>
<td>373</td>
<td>229</td>
<td>130</td>
</tr>
<tr>
<td>Net MLT Borrowing /a</td>
<td>182</td>
<td>589</td>
<td>390</td>
</tr>
<tr>
<td>Disbursements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization</td>
<td>52</td>
<td>75</td>
<td>105</td>
</tr>
<tr>
<td>Subtotal</td>
<td>130</td>
<td>514</td>
<td>285</td>
</tr>
<tr>
<td>Other Capital (net)</td>
<td>-5</td>
<td>-502</td>
<td>-185</td>
</tr>
<tr>
<td>Other items n.e.i.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in Reserves (-)</td>
<td>-187</td>
<td>-71</td>
<td>-913</td>
</tr>
<tr>
<td>Net Official Reserves (end year)</td>
<td>1,615</td>
<td>1,695</td>
<td>2,504</td>
</tr>
<tr>
<td>Fuel and Related Materials</td>
<td>416</td>
<td>425</td>
<td>519</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which: Petroleum</td>
<td>215</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>345</td>
<td>402</td>
<td>744</td>
</tr>
<tr>
<td>of which: Petroleum</td>
<td>281</td>
<td>355</td>
<td>688</td>
</tr>
</tbody>
</table>

MERCHANDISE EXPORTS (AVERAGE 1974-76)

<table>
<thead>
<tr>
<th></th>
<th>US$ Mln</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rubber</td>
<td>1,087</td>
<td>24.8</td>
</tr>
<tr>
<td>Tin</td>
<td>577</td>
<td>13.2</td>
</tr>
<tr>
<td>Timber</td>
<td>677</td>
<td>15.4</td>
</tr>
<tr>
<td>Palm Oil</td>
<td>441</td>
<td>10.0</td>
</tr>
<tr>
<td>Petroleum</td>
<td>441</td>
<td>10.0</td>
</tr>
<tr>
<td>All Other Commodities</td>
<td>1,160</td>
<td>26.6</td>
</tr>
<tr>
<td>Total</td>
<td>4,384</td>
<td>100.0</td>
</tr>
</tbody>
</table>

EXTERNAL DEBT, DECEMBER 31, 1976

<table>
<thead>
<tr>
<th></th>
<th>US$ Mln</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Debt, incl. Guaranteed</td>
<td>1,619</td>
</tr>
<tr>
<td>Non-Guaranteed Private Debt</td>
<td>..</td>
</tr>
<tr>
<td>Total Outstanding &amp; Disbursed</td>
<td>1,619</td>
</tr>
</tbody>
</table>

DEBT-SERVICE RATIO FOR 1976 /b

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Debt, incl. Guaranteed</td>
<td>4.3</td>
</tr>
<tr>
<td>Non-Guaranteed Private Debt</td>
<td>..</td>
</tr>
<tr>
<td>Total Outstanding &amp; Disbursed</td>
<td>4.3</td>
</tr>
</tbody>
</table>

IBRD/IDA LENDING (January 31, 1978)

<table>
<thead>
<tr>
<th></th>
<th>(US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding &amp; Disbursed</td>
<td>309.3</td>
</tr>
<tr>
<td>Undisbursed</td>
<td>426.5</td>
</tr>
<tr>
<td>Outstanding incl. Undisbursed</td>
<td>735.8</td>
</tr>
</tbody>
</table>

RATE OF EXCHANGE

<table>
<thead>
<tr>
<th>Average rate during period:</th>
<th>M$ per US$</th>
<th>US$ per M$</th>
</tr>
</thead>
<tbody>
<tr>
<td>M$ per US$</td>
<td>US$ per M$</td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>3.05</td>
<td>0.33</td>
</tr>
<tr>
<td>1972</td>
<td>2.82</td>
<td>0.35</td>
</tr>
<tr>
<td>1973</td>
<td>2.44</td>
<td>0.41</td>
</tr>
<tr>
<td>1974</td>
<td>2.41</td>
<td>0.41</td>
</tr>
<tr>
<td>1975</td>
<td>2.40</td>
<td>0.42</td>
</tr>
<tr>
<td>1976</td>
<td>2.54</td>
<td>0.39</td>
</tr>
</tbody>
</table>

/a Medium and long-term capital flows are obtained from World Bank debt data and are not comparable with balance of payments estimates.

/b Ratio of debt service to exports of goods and nonfactor services.

.. not available
### THE STATUS OF BANK GROUP OPERATIONS IN MALAYSIA

#### A. STATEMENT OF BANK LOANS (AS OF JULY 31, 1978)

<table>
<thead>
<tr>
<th>Loan Number</th>
<th>Year</th>
<th>Borrower</th>
<th>Purpose</th>
<th>Bank Cancellations</th>
<th>Undisbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>774</td>
<td>1971</td>
<td>Sabah Ports Authority</td>
<td>Ports</td>
<td>16.1</td>
<td>0.4</td>
</tr>
<tr>
<td>810</td>
<td>1972</td>
<td>Malaysia</td>
<td>Education (II)</td>
<td>15.5</td>
<td>6.9</td>
</tr>
<tr>
<td>880</td>
<td>1973</td>
<td>Malaysia</td>
<td>Population</td>
<td>5.0</td>
<td>3.6</td>
</tr>
<tr>
<td>885</td>
<td>1973</td>
<td>Malaysia</td>
<td>Land Settlement</td>
<td>25.0</td>
<td>9.1</td>
</tr>
<tr>
<td>908</td>
<td>1973</td>
<td>Malaysia</td>
<td>Water Supply (II)</td>
<td>13.5</td>
<td>2.1</td>
</tr>
<tr>
<td>931</td>
<td>1973</td>
<td>Malaysia</td>
<td>Highway (II)</td>
<td>19.5</td>
<td>5.5</td>
</tr>
<tr>
<td>967</td>
<td>1974</td>
<td>Malaysia</td>
<td>Land Settlement</td>
<td>40.0</td>
<td>21.5</td>
</tr>
<tr>
<td>973</td>
<td>1974</td>
<td>Malaysia</td>
<td>Agricultural Development</td>
<td>45.0</td>
<td>38.9</td>
</tr>
<tr>
<td>974</td>
<td>1974</td>
<td>Malaysia</td>
<td>Education (III)</td>
<td>19.0</td>
<td>15.4</td>
</tr>
<tr>
<td>1031</td>
<td>1974</td>
<td>National Electricity Board</td>
<td>Power (VI)</td>
<td>43.3</td>
<td>15.1</td>
</tr>
<tr>
<td>1044</td>
<td>1974</td>
<td>Malaysia</td>
<td>Land Settlement</td>
<td>36.0</td>
<td>28.4</td>
</tr>
<tr>
<td>1115</td>
<td>1975</td>
<td>Malaysia</td>
<td>Agricultural Research and Extension</td>
<td>28.5</td>
<td>26.9</td>
</tr>
<tr>
<td>1178</td>
<td>1975</td>
<td>National Electricity Board</td>
<td>Power (VII)</td>
<td>35.0</td>
<td>30.9</td>
</tr>
<tr>
<td>1213</td>
<td>1976</td>
<td>Malaysia</td>
<td>Sewerage</td>
<td>21.5</td>
<td>21.0</td>
</tr>
<tr>
<td>1214</td>
<td>1976</td>
<td>Malaysia</td>
<td>Urban Transport (II)</td>
<td>26.0</td>
<td>23.5</td>
</tr>
<tr>
<td>1294</td>
<td>1976</td>
<td>Malaysia</td>
<td>Rural Development</td>
<td>21.0</td>
<td>20.7</td>
</tr>
<tr>
<td>1329</td>
<td>1976</td>
<td>Malaysia</td>
<td>Education (IV)</td>
<td>35.0</td>
<td>34.7</td>
</tr>
<tr>
<td>1376</td>
<td>1977</td>
<td>Malaysia</td>
<td>Highway (III)</td>
<td>35.0</td>
<td>33.1</td>
</tr>
<tr>
<td>1443</td>
<td>1977</td>
<td>National Electricity Board</td>
<td>Power (VIII)</td>
<td>22.0</td>
<td>21.6</td>
</tr>
<tr>
<td>1444</td>
<td>1977</td>
<td>Malaysia</td>
<td>Irrigation</td>
<td>39.0</td>
<td>38.7</td>
</tr>
<tr>
<td>1493</td>
<td>1978</td>
<td>Malaysia</td>
<td>National Extension /a</td>
<td>19.0</td>
<td>19.0</td>
</tr>
<tr>
<td>1522</td>
<td>1978</td>
<td>Malaysia</td>
<td>Rural Development</td>
<td>26.0</td>
<td>26.0</td>
</tr>
<tr>
<td>1608</td>
<td>1978</td>
<td>Malaysia</td>
<td>Population (II) Family Health /a</td>
<td>17.0</td>
<td>17.0</td>
</tr>
</tbody>
</table>

Total of which has been repaid: **904.4/b**
Total now outstanding: **815.7**

Amount sold: **40.2**

Total now held by Bank: **788.9**

Total undisbursed: **460.0**

/a Not yet effective.
### B. STATEMENT OF IFC INVESTMENTS (AS OF JULY 31, 1978)

<table>
<thead>
<tr>
<th>Year</th>
<th>Business Description</th>
<th>Type of Business</th>
<th>Amount in US$ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Loan</td>
</tr>
<tr>
<td>1964</td>
<td>Malaysian Industrial Development Ltd. (MIDF)</td>
<td>Development Financing</td>
<td>-</td>
</tr>
<tr>
<td>1966</td>
<td>Tasek Cement Ltd.</td>
<td>Cement</td>
<td>1.28</td>
</tr>
<tr>
<td>1968</td>
<td>Malayawata Steel Ltd.</td>
<td>Steel</td>
<td>2.45</td>
</tr>
<tr>
<td>1969</td>
<td>Malayawata Steel Ltd.</td>
<td>Steel</td>
<td>-</td>
</tr>
<tr>
<td>1970</td>
<td>India-Malaysia Textiles Ltd.</td>
<td>Textiles</td>
<td>1.25</td>
</tr>
<tr>
<td>1974</td>
<td>Malaysian Industrial Development Ltd. (MIDF)</td>
<td>Development Financing</td>
<td>-</td>
</tr>
</tbody>
</table>

**Total gross commitment**: 4.98 3.71 8.69

**Less: repayments, sales, cancellations, terminations and write-offs**: 3.89 3.46 7.35

**Total commitments now held by IFC**: 1.09 0.25 1.34

**Total undisbursed**: - - -
C. PROJECTS IN EXECUTION /1

Loan No. 774  Sabah Ports Project; US$16.1 Million Loan of June 30, 1971; Effective Date: August 24, 1971; Closing Date: December 31, 1978

Work has been satisfactorily completed on the new berths at Kota Kinabalu and Sandakan. Slow progress in completing the access road to Sandakan delayed full use of the latter facilities until mid-1977. The new headquarters building has been occupied. Delay in mobilization, procurement of materials and difficulties in retaining suitable consultant engineers, compounded with the world-wide inflation, resulted in a cost overrun of about 50%. Settlement of an outstanding claim by the contractors will delay the final account and the closing date of the loan has been extended for six months to December 31, 1978.

Loan No. 931  Second Highway Project; US$19.5 Million Loan of August 22, 1973; Effective Date: October 25, 1973; Closing Date: March 31, 1980

Overall, the project is about 85% completed. Two of the three contract sections constituting the new Kuala Lumpur-Seremban Expressway have been completed and the third section which is nearing completion has been partially taken over. Except for a two mile section at the northern end, the Expressway was opened for traffic in October 1976. The improvement works to the existing Kuala Lumpur-Seremban Road are substantially completed, while the widening and improvement works of the Kuala Lumpur-Batang Kali Road, which were started in November 1976, will take still one and a half to two years to complete. Consulting services for various studies and detailed engineering have been completed. Construction costs have escalated sharply because of rapid inflation, and the total project cost is now estimated to be US$46 million, compared to an appraisal estimate of US$37 million.

Loan No. 1214 Second Kuala Lumpur Urban Transport Project; US$26.0 Million Loan of March 11, 1976; Effective Date: November 11, 1976; Closing Date: June 30, 1981

The main objective of the project is to increase the efficiency of the transport system in Kuala Lumpur. Public transport services will be improved while the use of private cars will be restrained. Although primarily concerned with urban transport, the project also introduces new approaches to residential development for low-income families. The main components are:

/1 These notes are designed to inform the Executive Directors regarding the progress of projects in execution, and in particular to report any problems which are being encountered, and the action being taken to remedy them. They should be read in this sense, and with the understanding that they do not purport to present a balanced evaluation of strengths and weaknesses in project execution.
(a) road and intersection improvements, traffic engineering and control schemes and new radial roads; (b) transport policy measures including introduction of minibus services, traffic priorities for high-occupancy vehicles and area road pricing; (c) new serviced plots for about 1,400 households and 150 businesses and improvement of infrastructure services for about 2,100 existing households; and (d) technical assistance to support traffic management and transport planning, to prepare an urban development project for Kuantan, and to review national housing policies and programs. Progress on the transport components has been quite satisfactory although delays have been experienced. Execution of the residential components has been less satisfactory due to administrative and policy problems.

Loan No. 1376 Third Highway Project; US$35.0 Million Loan of April 4, 1977; Effective Date: May 4, 1977; Closing Date: June 30, 1982

The main objective of the project is to improve the highway network in the East Malaysian State of Sabah through the reconstruction and upgrading of priority links and the development of the Public Work Department’s maintenance capacity. A further objective is to protect road investments in Peninsular Malaysia through a pilot road maintenance and pavement strengthening program in three states. The project also includes an urban study of Kota Kinabalu in Sabah and a transport/railway study in Peninsular Malaysia. Construction work on the East and West Coast Roads in Sabah started in and upgrading program in Sabah has not yet been started due to a delay of about one year in appointing consultants to assist PWD. While satisfactory progress has been made in the preparatory work for the construction in Peninsular Malaysia, the reorganization of maintenance sections in the three pilot states is behind schedule due to staff shortages. The consulting services for the studies are slightly behind schedule and will be completed during the first half of 1978.

Loan No. 1031 Sixth Power Project; US$45.0 Million Loan of July 25, 1974; Effective Date: October 22, 1974; Closing Date: June 30, 1980

Loan No. 1178 Seventh Power Project; US$35.0 Million Loan of December 17, 1975; Effective Date: March 10, 1976; Closing Date: June 30, 1981

Loan No. 1443 Eighth Power Project; US$22.0 Million Loan of August 3, 1977; Effective Date: January 9, 1978; Closing Date: June 30, 1982

The 275 kV transmission lines from Temengor to Papan and from Port Dickson to Malacca financed under the Sixth Power Project have been completed. The Seventh Power Project (the Prai Power Station extension, 3 x 120 MW) and the Eighth Power Project (the Pasir Gudan Power Station, 2 x 120 MW) are still in the early stages of construction; the progress is generally satisfactory. Based on the Bank’s recommendation, the Government has agreed to
apply fuel surcharges to commercial and industrial consumers since mid-1975 and to provide NEB with equity of about US$200 million during the period FY77-81 on a year by year basis to bridge NEB’s financial gap. Maximum demand and energy sales for FY77 were 975-MW and 5,297 GWH respectively (16% above FY76 levels). The co-financing arrangement for the Eighth Power Project (commercial bank loan of US$30 million) was completed on October 4, 1977.

Loan No. 908  Second Kuala Lumpur Water Supply Project; US$13.5 Million Loan of June 14, 1973; Effective Date: August 27, 1973; Closing Date: June 30, 1980

The project consists of the expansion of water supply facilities to meet increasing demands in Kuala Lumpur and the Klang Valley area. The first part of the project, comprising ordinary water works, was completed in 1976, practically on schedule and within the cost estimates, and is operational. The construction of the Langat Dam, the last and major work of the project, is progressing satisfactorily and is expected to be completed by the end of 1979. Completion will be two years behind schedule. Cost of the dam is likely to be about 25% more than originally estimated, resulting in an increase in the total project cost of about 15%. No difficulties are foreseen in raising the additional funds required. The Selangor State Water Department, which is responsible for the project, performs well in spite of staffing problems. Its financial management still needs some strengthening. The closing date has been extended for two years to June 30, 1980.

Loan 1213-MA  Kuala Lumpur Sewerage Project; US$21.5 Million Loan of March 11, 1976; Effective Date: August 25, 1976 Closing Date: December 31, 1981

The project is the first stage (1976-81) of a 30-year master plan for the sewerage development in the Kuala Lumpur Metropolitan area. It includes the extension of sewers (about 70 miles of trunk and lateral sewers) and treatment facilities to serve an additional population of 200,000 in the Kuala Lumpur Federal Territory; the institution of a separate Sewerage Department within the Kuala Lumpur City Hall, with its own accounting system and finances; engineering and management consultant services; staff training; and the preparation of sewerage and pollution control measures for the Kuala Lumpur metropolitan area. The engineering of the project has been satisfactorily completed. Bidding for two out of the three major contracts (sewers) has also been completed. However, land acquisition and resettlement of present occupants are creating serious problems which are delaying the project. The establishment of a separate accounting system for the Sewerage Department (Kuala Lumpur City Hall) is progressing well. Action to levy the sewerage surcharge on water bills has been undertaken after long delays. Compliance with covenants regarding long-term sewerage and urban planning in Selangor State is lagging.
Loan No. 885  Third Jengka Triangle Land Settlement Project; US$25.0 Million Loan of March 30, 1973; Effective Date: June 22, 1973; Closing Date: December 31, 1981

Planting operations have been completed but due to the severe droughts in 1976 and 1977 a heavy supplying program especially on the rubber schemes is being carried out, which is due to be completed by the end of 1978. About 23,500 acres of oil palm and 16,400 acres of rubber have been planted. Planting and maintenance standards are satisfactory. Only scheme 15 is in production. So far, 1,467 houses have been constructed and 1,347 settlers have moved in. Schools and clinics are under construction but will only be completed about one year after settler entry. Due to delays in settler house construction, settler entry will be delayed by two to two and a half years on various schemes. JKR capacity is a major constraint in speeding up house construction. Coordination between JKR and FELDA has improved considerably and FELDA expects that the backlog will not increase. Oil palm mill construction on scheme 18 is on schedule and will be completed by April 1979. Water to schemes 16 to 18 is temporarily supplied from Jengka II due to delays in intake construction on scheme 19. Due to excessive transfers in middle management field staff, there is lack of leadership which affects continuity of work.

Loan No. 967  Johore Land Settlement Project; US$40.0 Million Loan of February 27, 1974; Effective Date: May 16, 1974; Closing Date: June 30, 1982

Clearing and planting proper are satisfactorily on schedule, except for phase III of the Ulu Dengar scheme due to late logging. Planting and maintenance standards are satisfactory. Oil palm production started on four schemes in 1977. However, due to the severe droughts in 1976 and 1977, early yields are disappointing. Attacks of elephants and wild boar resulted in a loss of 25% of the total oil palm stand. FELDA has embarked on a massive trenching program around the scheme boundaries and indications are that this program may be effective. FELDA is now preparing for a gigantic supplying program. So far, 828 houses have been constructed and 710 settlers have moved in. Due to delays in settler house construction, delays of one to three years in settler entry are to be expected on various schemes. Lack of capacity in JKR.

Loan No. 973  Western Johore Agricultural Development Project; US$45.0 Million Loan of April 5, 1974; Effective Date: August 14, 1974; Closing Date: June 30, 1980

Project civil works are still substantially behind schedule, and acceleration of work has proven difficult due to unusually severe rainfall and flooding, refinements in design requiring construction of numerous small water control structures, and the persistent problems of land acquisition in a settled smallholder area. However, work is progressing on all drainage basin contracts, at costs considerably below appraisal estimates. The project has recently been expanded to include the construction of
drainage works and agricultural installations in the Phase II area of Western Johore and construction of a network of secondary roads in the original Phase I area.

Loan No. 1044  Keratong Land Settlement Project; US$36.0 Million Loan of October 3, 1974; Effective Date: January 9, 1975; Closing Date: June 30, 1983

Clearing and planting operations on schemes 8 and 9 are delayed by about 9 to 12 months due to late logging. Scheme 2 is in production. Production on scheme 3 has been postponed due to labor shortages. Schemes 4 and 5 are expected to come in production by late 1978, but this may also have to be postponed. Despite the labor shortage, maintenance standards are satisfactory. Attacks by elephants and wild boar resulted in a loss of 12% of the total oil palm stand. FELDA will start a trenching program whereafter a supplying program will be initiated. Following the decision to reduce the holding size from 14 to 10 acres, settlers of schemes 1 through 5 will be housed in Town 22, while separate townships will be constructed for schemes 6 through 9. So far, 411 houses have been completed and 283 settlers moved in. The relationship between DARA and FELDA has improved considerably following the changes in DARA top management, and FELDA expects that the backlog in settler entry will not increase. Efforts will be made to clear this backlog.

Loan No. 1115  Agricultural Research and Extension Project; US$28.5 Million Loan of May 30, 1975; Effective Date: October 21, 1975; Closing Date: June 30, 1982

Project implementation is now about two years behind the appraisal estimates. A new Director General was appointed in mid-1977 and a new Deputy Director for Administration was appointed in January 1978, but the post of Deputy Director for Research is still vacant. Some progress has been made on international recruitment of scientist and research program reviewers. Six scientists are now on board and a total of 15 man-years has been committed representing 15% of the total scheduled under the project. An additional one man-year has been utilized for consultants to conduct nine program reviews. Civil works and fellowships are the only components of the project that have been proceeding at a satisfactory pace. The extension component of the project is also about two years behind schedule and has had similar management constraints with a change in Directors occurring in March 1978. The next six months should be adequate to indicate whether the new management will be able to get the project moving.

Loan No. 1294  North Kelantan Rural Development Project; US$21.0 Million Loan of July 21, 1976; Effective Date: October 28, 1976; Closing Date: December 31, 1981

The project includes the Lemal Irrigation component which will provide drainage and flood protection to 30,000 gross ha of farmland and intensive irrigation to 12,000 net ha of paddy; construction of 190 km of rural roads throughout North Kelantan; 15 small irrigation schemes serving
1,300 ha of paddy; construction, rehabilitation and equipping of 25 Farmers Development Centers (FDCs); and establishment of an effective agricultural extension service for Kelantan. The project start-up period has seen rapid implementation of the FDC component, good progress on the agricultural extension component with planning, staffing and preparation of equipment specifications proceeding on schedule, and a welcome degree of cooperation between the Farmers Organization Authority and the Kelantan Department of Agriculture in joint planning of agricultural service buildings and field operations. Some delay in engineering of roads and irrigation works has occurred due to delays in approval of staff, but this problem appears to have been largely resolved.

Loan No. 1444 National Small-Scale Irrigation Project; US$39.0 Million Loan of August 3, 1977; Effective Date: October 25, 1977; Closing Date: March 31, 1983

The loan became effective on October 25, 1977 and the project works have just been started.

Loan No. 1522 Northwest Selangor Integrated Agricultural Development Project; US$26.0 Million Loan of February 23, 1978; Effective Date: June 21, 1978; Closing Date: December 31, 1983

The project is providing improved drainage and irrigation facilities, access roads, training and intensified agricultural supporting services; it is also improving the regional drainage systems.

Loan No. 810 Second Education Project; US$15.5 Million Loan of April 5, 1972; Effective Date: July 7, 1972; Closing Date: December 31, 1978

The project is financing the establishment of a curriculum development center, science schools for the University of Penang, vocational schools, and an educational television system. With the exception of parts of the University and one vocational school, project institutions are practically completed and operating. Earlier delays incurred in the implementation of these two items necessitated a postponement of the closing date by one year. The delays are reflected in slow disbursements, but the problem is currently being addressed by the Bank and the Government. Project cost overruns (20%) are expected to be financed by the Government.

Loan No. 974 Third Education Project; US$19.0 Million Loan of April 5, 1974; Effective Date: June 26, 1974; Closing Date: December 31, 1980

The project assists the Government to develop technical training, pre-service teacher training, and an East Malaysia educational television system. Implementation has improved since a year ago when less than 50% of project civil works had been tendered. Contracts have now been awarded for 11
out of 13 project institutions. Construction began in early 1976 and most of the project institutes are scheduled for completion in late 1978. The Project Unit is functioning satisfactorily, despite current problems with bid evaluation.

Loan No. 1329  Fourth Education Project; US$35.0 Million Loan of November 18, 1976; Effective Date: January 14, 1977; Closing Date: June 30, 1982

The project is designed to improve the quality of primary schooling and to redress existing imbalances in the provision of primary education by providing additional classrooms in poverty areas, facilities for teacher training and one teacher training college in Sarawak. The project includes three new Industrial Training Centers and expansion of two existing ones. It includes also a study on community education in preparation of government investment in nonformal education. Project implementation appears to be satisfactory. Problems in the processing of disbursements have been resolved. Shortage of staff in the Project Unit has been remedied by the Government. Disbursements began a half year behind schedule during the second half of FY78.

Loan No. 880  Population Project; US$5.0 Million Loan of February 9, 1973; Effective Date: June 21, 1973; Closing Date: September 30, 1978

After initial delays and difficulties, the project has picked up momentum in recent months. Out of a total of 571 buildings, 232 have been completed, another 80 are under construction, and a further 148 are at tender stage. An IBM minicomputer has already been procured and put in operation. Computerization of management information is under way. A review of the total program (including the project) has been carried out by an external team of experts. Program performance in 1977 was even better than in 1976 and the number of annual new acceptors was the highest since the inception of the program. Project-assisted extension of integrated health and family planning services recorded the highest increase in performance. Due to delays in acquisition of sites, frequent changes in building locations and architects' briefs, and inadequate coordination of civil works, the project fell behind schedule by about 15 months. Despite recent intensification of efforts, earlier delays in disbursement could not be made up. Up until September 1976, only 10% of the loan was disbursed; by June 30, 1978, this had increased to 28%. The NFPB is continuing with intensified monitoring of the program of civil works to clear this backlog.
MALAYSIA

COCONUT SMALLHOLDER’S DEVELOPMENT PROJECT

Supplementary Data Sheet

Section I - Timetable of Key Events

(a) Time taken to prepare the project: 1 year
(b) Project prepared by Department of Agriculture assisted by the FAO/CP
(c) First presented to the Bank: August 1977
(d) Appraised: October 1977
(e) Completion of negotiations: June 1978
(f) Planned loan effectiveness: October 1978

Section II - Special Implementation Actions Required of the Bank

None

Section III - Special Conditions

(a) adequate holding capacity for imported animals (para. 46);
(b) selection criteria for smallholders (para. 47);
(c) appointment of project coordinator, two project component leaders and establishment of project secretariat as conditions of effectiveness (para. 48);
(d) coordination of extension services under project with normal State extension activities (para. 49);
(e) progress review of milk collection centers (para. 49);
(f) extension of employment of seed garden specialists (para. 49);
(g) study of feasibility of converting cattle raising centers to cattle breeding centers (para. 51);
(h) livestock procurement from approved sources, other procurement arrangements (paras. 57 and 58).