

LOAN NUMBER 3536 MA

(Third Primary and Secondary Education Sector Project)

between

MALAYSIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 16, 1992

LOAN NUMBER 3536 MA

LOAN AGREEMENT

AGREEMENT, dated December 16, 1992, between MALAYSIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Bank has received a letter dated May 28 1992, from the Ministry of Education of the Borrower, describing objectives and policies designed for the development of primary and secondary education together with a plan of action (hereinafter called the Letter of Policy), and declaring the Borrower's commitment to the implementation of said policies and to the execution of the program of action;

(B) the Borrower has requested the Bank to support the implementation during the period 1993-1996 of the Sixth Malaysia Plan, as hereinafter defined, and the Borrower's subsequent plan for Primary and Secondary Education, and assist in the financing of measures and investments to be undertaken pursuant to, or in furtherance of, the provisions of the Letter of Policy through the Project described in Schedule 2 to this Agreement by extending the Loan as hereinafter provided; and

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

foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

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

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

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

(a) "Core Investment Program" means the program of primary and secondary education investments under the Sixth Malaysia Plan;

(b) "MOE" means the Borrower's Ministry of Education;

(c) "Sub-project" means a sub-project under the Core Investment Program to be carried out under the Project and to be implemented in accordance with criteria and guidelines contained in a letter of even date herewith entitled "General and Specific Implementation Criteria" from the Borrower to the Bank; and

(d) "Sixth Malaysia Plan" means the Borrower's plan dealing with its educational strategy and supporting investment program for the period 1991-1995.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred and forty one million dollars (\$141,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

Section 2.03. The Closing Date shall be December 31, 1996, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per

annum on the principal amount of the Loan not withdrawn from time to time.

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

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

(c) For the purposes of this Section:

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

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

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

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

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

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

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

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

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

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MOE, with due diligence and efficiency and in conformity with appropriate administrative, financial and educational practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. (a) Unless the Bank shall otherwise agree, the Borrower shall implement Sub-projects in accordance with guidelines and implementation criteria satisfactory to the Bank, and procedures and policies as indicated in the Letter of Policy and thereafter evaluate such Sub-projects in accordance with the monitoring indicators as contained in the Letter of Policy; and (b) shall consult with the Bank in a timely manner in respect of any material change of any provision contained in the Letter of Policy.

Section 3.04. The Borrower shall carry out the research, studies and pilot operations under Parts A.6 and C.2 of the Project, in accordance with arrangements and under terms of reference satisfactory to the Bank.

Section 3.05. Not later than the commencement of school year 1993/94, the Borrower shall introduce a criterion-referenced mathematics test for year three pupils in a representative sample of schools, in a manner satisfactory to the Bank, and shall monitor and analyze the results thereof and the progress achieved thereby.

Section 3.06. The Borrower shall maintain and enforce adequate regulations to prohibit the use of cement-asbestos materials in the construction, upgrading or rehabilitation of schools or buildings used for educational purposes under the Project.

Section 3.07. By not later than March 1, 1993, the Borrower, through MOE, shall have entered into contractual arrangements with appropriate institutions or universities satisfactory to the Bank, on terms and conditions satisfactory to the Bank, for the carrying out of Parts A.6 and C.2 of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail

as the Bank shall have reasonably requested; and

- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) The Borrower shall:

- (i) develop mechanisms satisfactory to the Bank, and thereafter apply the same to monitor, throughout the implementation of the Project, the growth and distribution of educational recurrent expenditures;
- (ii) commencing in fiscal year 1993, develop and subsequently introduce efficiency measures and budgetary norms satisfactory to the Bank to contain the growth of educational recurrent expenditures in the primary and secondary sector while ensuring that the share of such expenditures to be allocated to pedagogic materials and administrative costs (including utilities) is maintained at no less than the average level of such expenditures during fiscal years 1991 and 1992; and
- (iii) by not later than June 30, 1993, develop and thereafter implement, a formula to maintain in real terms the value of the per capita grants in primary and secondary education at not less than their 1991 level.

(b) For the purposes of this Section:

- (i) "educational recurrent expenditures" means the annual fiscal budgetary allocation made by the Borrower in its budget to MOE to finance salaries, the procurement of pedagogic materials, administrative costs and direct subsidies to students; and
- (ii) "per capita grants" means payments made in each year by MOE to schools on a per capita basis to finance pedagogic materials.

Additional Event of Suspension

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that an extraordinary situation has arisen which shall make it improbable that the Core Investment Program, or a significant part thereof, will be carried out.

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

The Treasury
Jalan Duta
50592 Kuala Lumpur
Malaysia

Cable address:

Telex:

TREASURY
Kuala Lumpur

MA 30242
MA 32369

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

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

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

MALAYSIA

By /s/ Dato' Abdul Majid Mohamed
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gautam Kaji
Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works	84,300,000	35%
(2) Equipment	26,200,000	100% of foreign expenditures; 100% of local expenditures ex- factory cost, and 65% of other local expenditures
(3) Furniture	8,400,000	30%
(4) Books and educational materials	5,300,000	30%
(5) Specialist services and overseas fellowships	13,600,000	80%
(6) Research and studies	1,800,000	40%
(7) Local training	1,200,000	40%
(8) Operations and administration	200,000	40%
TOTAL	141,000,000	

2. For the purposes of this Schedule:

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

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

(c) "Operations and Administration" means the operational and administrative costs of MOE's development and supply division arising out of the direct implementation and monitoring of the Project, including, inter alia, office equipment and overseas travel

costs and short-term training for MOE's staff.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$14,100,000, may be made on account of payments made for expenditures before that date but after July 1, 1992.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve the quality of, and increase access to, primary and secondary education, and to strengthen the efficiency of educational management.

The Project consists of financing Sub-projects under the first phase of the Core Investment Program, being the period from January 1, 1993 through December 31, 1996, as set forth in the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Quality Improvement

1. Rationalization and expansion of teacher-training capacity for primary and secondary teachers by provision of about 3,000 additional places for teacher training.
2. Provision of video, television, radio and radio-cassette equipment to primary and secondary schools.
3. The production and distribution of multi-media kits for class-room use and self-paced learning modules for teachers training and for students.
4. Enhancement of the resource centers network by the rehabilitation of four (4) existing state resource centers.
5. The provision of library materials, including books and related library science equipment to schools.
6. Implementation of a program of research, studies, and pilot-operations (including pilot operations on early childhood development and special education), with an emphasis on mathematics and science education, small rural schools, communications technology, and educational research.

Part B: Increase of Educational Access

1. The rehabilitation, construction, equipping and furnishing, as appropriate, of approximately 4,400 primary and 3,200 secondary classrooms.
2. Provision of housing for about 3,000 teachers and provision of boarding for about 20,000 primary and secondary students from rural areas.

Part C: Strengthening of Educational Management

1. Implementation of a staff development program, for about 1,000 senior and middle-level educational managers and professionals to include local and overseas training, the provision of specialist services and the carrying out of educational studies.
2. Upgrading of the educational management information system through training, the provision of specialist services, studies and the provision of equipment and software.
3. The carrying out of a supervision program of the activities under the Project at the State and District levels, including the provision of specialist services, the provision of equipment and

carrying out of studies.

* * *

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 1 and August 1 beginning August 1, 1998 through August 1, 2009	5,875,000
and on February 1, 2010	5,875,000

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

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than eleven years before maturity	0.65
More than eleven years but not more than fifteen years before maturity	0.88
More than fifteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, contracts for goods estimated to cost the equivalent of \$200,000 or more each and contracts for civil works estimated to cost the equivalent of \$5,000,000 or more each shall be awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

Part B: Preference for Domestic Manufacturers and Suppliers

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

Part C: Other Procurement Procedures

1. Contracts for civil works estimated to cost less than \$5,000,000 equivalent per contract, up to an aggregate amount not to exceed the equivalent of \$211,300,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Goods (other than furniture) may be procured under the following procedures:

(a) Contracts for goods grouped in packages costing the equivalent of \$200,000 or less per contract up to an aggregate amount not to exceed the equivalent of \$8,300,000 may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

(b) Goods estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$2,500,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from a list of at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures satisfactory to the Bank.

(c) Goods estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$1,500,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures satisfactory to the Bank or may be supplied under existing government bulk procurement contracts awarded in accordance with procedures satisfactory to the Bank.

3. Furniture shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

4. Books and instructional materials may be procured directly from qualified suppliers in accordance with procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract to be awarded under international competitive bidding in accordance with Part A of this Section, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

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

standard bidding documents to be used in local competitive bidding, and the first contracts for goods and works based on local competitive bidding procedures; and (ii) a sample (approximately 10%) of overseas fellowships, training, consultancy contracts, which shall be subject to prior review in accordance with paragraph 2 of this Appendix I.

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

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

