

CREDIT OPPORTUNITIES IN FOREST PLANTATION

OBJECTIVES

- ◆ To encourage the development of commercial forest plantations
- ◆ To sustain raw materials supply for the timber industry
- ◆ To increase investment in the timber industry

BACKGROUND

- The export performance for timber and timber-based products increased 3.0 % from RM22.08 billion in 2020 to RM22.74 billion in 2021.
- Commercial forest plantations will ensure sustainable supply of raw materials while the natural forest can be conserved for non-related timber activities essentially as water catchments areas, ecotourism and recreation, biodiversity, carbon footprints and germplasm conservation.

SPECIAL PURPOSE VEHICLE

The Ministry of Plantation Industries and Commodities (MPIC) was given a mandate by the Cabinet on the 5th March 2005 to establish a large scale commercial forest plantation in Malaysia. A Special Purpose Vehicle known as the Forest Plantation Development Sdn. Bhd. was set up on 13 February 2006 acting as the implementing agency by the Malaysian Timber Industry Board (MTIB). The main functions of the company are:

- ◆ To promote the established of forest plantations for future timber supply.
- ◆ To provide soft loans to state agencies and private companies interested in development of forest plantations.
- ◆ To update policy makers on issues pertaining to land, investment opportunities, policies and guidelines and to initiate new investment programmes.

ALLOCATION AND FINANCING

- For the Forest Plantation Development Programme (FPDP), the Ministry of Finance has allocated RM1.008 billion to be given out as soft loan to eligible companies applying to participate in the forest plantation programme.
- Between 2006 and 2020, RM1.008 billion under FPDP has been disbursed to MTIB (the parent company/custodian of FPDSB) which then release the loan to eligible borrowers through FPDSB.
- FPDSB has been tasked to administer and monitor the FPDP.
- Total land area of 129,575.99 hectares have been approved FPDP and with the implementation time frame from 2006 until 2021.

- In the Twelfth Malaysia Plan (2021-2025), Ministry of Finance approved a loan amount of RM500 million for FPDP 2. FPDP 2.0 targeted an estimated 50,000 hectares of forest plantations areas will be developed for the first 5 years and with an estimated raw material supply turnover of 10-million-meter cube for a felling cycle of 4 years to 13 years depending on the species being planted. The minimum requirements under PPLH 2.0 is 4 hectares and above depending on the species to be planted which is able to give a better and high return of investment to the participants. This initiative provides encouragement and opportunities for investors to venture into the plantation sector as a source of income as well as to create employment opportunities.
- The terms and conditions of the Shariah Principle are as follow: -
 1. Sales Price of 5.0% (for year 2022)
 2. Financing Period; Rubber species: 13 years
Forest species:13 years
Bamboo, Paulownia and Eucalyptus species: 12 years
 3. Grace period: Rubber species: 8 years
Forest species:8 years
Bamboo, Paulownia and Eucalyptus species: 7 years
 4. Repayment period: Rubber species: 5 years
Forest species :5 years
Bamboo, Paulownia and Eucalyptus species : 5 years
 5. One percent (1%) administrative fee for processing and monitoring the plantation.
 6. Five percent (5%) security deposit of financing amount.
 7. The borrower shall purchase seedling from FPDSB. In the event FPDSB cannot supply, Borrower may purchase from any authorise party.

The quantum of loan given to a successful applicant are RM10,000 per hectare (Peninsular Malaysia) and RM13,000 per hectare (Sabah & Sarawak) for Rubberwood, RM8,000 per hectare for forest species, RM10,000 per hectare for bamboo and RM10,000 per hectare for Paulownia.

CRITERIA FOR ELIGIBILITY

- Malaysian public listed company with a minimum of 51% local equity and registered under the Companies Act 1965;
- For non-public listed company the equity should be 100% Malaysian owned registered under the Companies Act 1965;
- The company should have minimum paid-up capital of at least 10% of the loan amount.
- Peninsular Malaysia: Forest plantation to be developed must be on state land or alienated land with prior approval from the State Forestry Department and within Permanent Reserved Forest (PRFs) that are designated for forest plantation;
- Sarawak: Only areas with a Licence for Planted Forest (LPF)

- Sabah: Only areas that are approved as zones for Industrial Tree Plantation (ITP) under the Sustainable Forest Management Licence Agreement (SFMLA); and
- Private land with a permanent title or a minimum of 30 years leasehold (supported in writing from the State Authority);
- The land has been approved for the forest plantation by the relevant State Authority such as Forestry Department and Department of Environment (supported by written letter from these State Authorities);
- The land is free from other crops such as palm oil and cocoa and the fund is for the new planting of timber species approved by the Technical Committee only;
- The company should have a strong financial standing with satisfactory and reasonable cash-flow indicating capability for loan repayment;
- The company must have sufficient planting materials for the forest plantation that are approved by the Malaysian Rubber Board (MRB) for Rubberwood species and Forest Research Institute of Malaysia (FRIM) for other selected species; and
- Companies should not have any adverse borrowing records of borrowing from any financial institutions or government agencies.

- **THE PROCEDURES FOR LOAN APPLICATION**

Applicants are required to submit the following documents:

1. Application Letter
2. Application Form;
3. Company Profile;
4. Company's Organisation Chart;
5. Copies of Form 9 (Section 17), 24 (Section 78) and 49 (Section 58) under the Company Act (to be verified);
6. Copies of Identification Card for Director of the Company & Shareholder;
7. A copy of Memorandum and Articles of Association (to be verified) ;
8. Form J (to be verified);
9. A copy of Land Title [Ownership] (to be verified) or Leasehold Agreement (LA);
10. Working Paper of the Proposed Project;
11. The company's audited report for the past three years (to be verified);
12. Bank Statement for past 3 Months (to be verified);
13. Latest Company's Cash Flow;
14. Copies of EIA or EMP;
15. Project Location (Attach location map) and shape file;

As a guide, the working paper of the proposed project requiring financing should include the following:

1. Objective and Scope of the Project;
2. Background of the Project;
3. Project Location and Hectarage (Attach location map) and shape file;
4. Project Details including species to be planted;
5. Prospect of the project;

6. Implementation Plan (Date to commencement and end of the project/Planting Schedule);
7. Project Costs (List all items and cost in detail);
8. Project financing (Percentage of financing needed)
9. Marketing proposal for the timber produce (for own consumption or for sales);
10. Project cash flow for the 13-year period; and
11. The company's audited report for the past three years (to be verified).

For more information please contact: -

- i) Ministry of Plantation Industries and Commodities
Website: www.mpic.gov.my
- ii) Malaysian Timber Industry Board
Website: www.mtib.gov.my
- iii) Forest Plantation Development Sdn. Bhd.
Website: www.fpd.com.my

Selected Species Under FPDP 2.0:

1. Rubberwood (Timber Latex Clone)
2. *Akasia spp. (Acacia mangium/Acacia hybrid)*
3. *Khaya spp. (Khaya ivorensis/Khaya senegalensis)*
4. Teak (*Tectona grandis*)
5. Sentang (*Azadirachta excelsa*)
6. Kelempayan/Laran (*Neolamarckia cadamba*)
7. Batai (*Paraserianthes falcataria*)
8. Binuang (*Octomeles sumatrana*)
9. *Bamboo spp (Bambuseae spp.)*
10. *Paulownia spp.*
11. *Eucalyptus spp.*