

No. 8263

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
MALAYSIA**

Loan Agreement—*Muda Irrigation Project* (with related letter and annexed Loan Regulations No. 3). Signed at Washington, on 17 November 1965

Official text: English.

Registered by the International Bank for Reconstruction and Development on 19 July 1966.

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
MALAISIE**

Contrat d'emprunt — *Projet relatif à l'irrigation de Muda* (avec lettre y relative et, en annexe, le Règlement n° 3 sur les emprunts). Signé à Washington, le 17 novembre 1965

Texte officiel anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 19 juillet 1966.

No. 8263. LOAN AGREEMENT¹ (*MUDA IRRIGATION PROJECT*) BETWEEN MALAYSIA AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 17 NOVEMBER 1965

AGREEMENT, dated November 17, 1965, between MALAYSIA (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

Article I

LOAN REGULATIONS; DEFINITIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 3 of the Bank dated February 15, 1961,² with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Loan Regulations No. 3 as so modified being hereinafter called the Loan Regulations) :

(a) The second sentence of Section 3.02 of the Loan Regulations shall apply only to withdrawals in respect of expenditures in currencies other than the currency of the Borrower.

(b) Section 4.01 of the Loan Regulations shall be deleted.

(c) Section 9.04 of the Loan Regulations shall be deleted.

Section 1.02. Unless the context otherwise requires, the following terms, wherever used in the Loan Agreement, shall have the following meanings :

(a) The initials " DID " means the Drainage and Irrigation Division of the Ministry of Agriculture and Cooperatives of the Borrower.

(b) The term " Project Area " means that area within the States of Kedah and Perlis declared by publication in the Gazettes of those States to be in the Muda River Irrigation Scheme.

¹ Came into force on 1 February 1966, upon notification by the Bank to the Government of Malaysia.

² See p. 46 of this volume.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Loan Agreement set forth or referred to, an amount in various currencies equivalent to forty-five million dollars (\$45,000,000).

Section 2.02. The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan. The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Loan Agreement and the Loan Regulations.

Section 2.03. Except as the Borrower and the Bank shall otherwise agree, the Borrower shall be entitled, subject to the provisions of the Loan Agreement, to withdraw from the Loan Account :

- (a) the equivalent of a percentage or percentages to be established from time to time by agreement between the Borrower and the Bank of such amounts as shall have been expended for the reasonable cost of construction required for carrying out the Project; and
- (b) such amounts as shall have been expended for the foreign exchange cost of equipment acquired for and services rendered in connection with the Project and not included in the foregoing, and, if the Bank shall so agree, such amounts as shall be required by the Borrower to meet payments for such equipment and services;

provided, however, that no withdrawals shall be made on account of : (i) expenditures prior to March 1, 1965; or (ii) expenditures made in the territories of any country (except Switzerland) which is not a member of the Bank or for goods produced in (including services supplied from) such territories.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-eighths of one per cent ($\frac{3}{8}$ of 1%) per annum on the principal amount of the Loan not so withdrawn from time to time.

Section 2.05. The Borrower shall pay interest at the rate of five and one-half per cent ($5\frac{1}{2}\%$) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

Section 2.06. Except as the Borrower and the Bank shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent ($\frac{1}{2}$ of 1%) per annum on the principal amount of any such special commitments outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semi-annually on April 1 and October 1 each year.

Section 2.08. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1 to this Loan Agreement.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied exclusively to financing the cost of goods required to carry out the Project described in Schedule 2 to this Loan Agreement. The specific goods to be financed out of the proceeds of the Loan and the methods and procedures for procurement of such goods shall be determined by agreement between the Bank and the Borrower, subject to modification by further agreement between them.

Section 3.02. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall cause all goods financed out of the proceeds of the Loan to be used in the territories of the Borrower exclusively in the carrying out of the Project.

Article IV

BONDS

Section 4.01. The Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in the Loan Regulations.

Section 4.02. The Minister of Finance of the Borrower and such person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 6.12 of the Loan Regulations.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound agricultural, engineering, economic and financial practices.

(b) The Borrower shall at all times make available promptly as needed all funds and other resources which shall be required for the carrying out of the Project.

(c) The Borrower shall take all possible measures to assure that the operating policies and the procedures for carrying out the Project are satisfactory to the Bank.

(d) The Borrower shall cause consultants acceptable to the Bank to be employed for purposes and upon terms and conditions satisfactory to the Bank.

(e) Upon request from time to time by the Bank, the Borrower shall promptly furnish or cause DID to furnish to the Bank the plans, specifications and work schedules for the Project and any material modifications subsequently made therein, in such detail as the Bank shall request.

Section 5.02. The Borrower shall maintain or cause to be maintained records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations of DID; shall enable the Bank's representatives to inspect the Project, the goods, and any relevant records and documents; and shall furnish or cause to be furnished to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project and the goods, and the administration and operations of DID.

Section 5.03. (a) The Borrower and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Borrower, such information shall include information with respect to administration of the agency or agencies of the Borrower responsible for carrying out the Project and with respect to financial and economic conditions in the territories of the Borrower and the international balance of payments position of the Borrower.

(b) The Borrower and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Borrower shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Borrower for purposes related to the Loan.

Section 5.04. It is the mutual intention of the Borrower and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial good; or (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term “assets of the Borrower” as used in this Section includes: (i) assets of the Borrower; (ii) assets of any statutory authority of the Borrower, including assets of any state or political subdivision of the Borrower; (iii) any agency of the Borrower, including the Bank Negara Malaysia or any other institution at any time performing the functions of a central bank for the Borrower; and (iv) any right, interest or share of the Borrower in the Currency Fund administered under the Malaya British Borneo Currency Agreement, 1960.

Section 5.05. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes imposed under the laws of the Borrower or laws in effect in its territories; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Borrower.

Section 5.06. The Loan Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Borrower or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof and the Borrower shall pay all such taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries.

Section 5.07. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid free from all restrictions imposed under the laws of the Borrower or laws in effect in its territories.

Section 5.08. Except as shall be otherwise agreed between the Borrower and the Bank, the Borrower shall insure or cause to be insured with responsible insurers all goods financed with the proceeds of the Loan. Such insurance shall cover such marine, transit and other risks incident to delivery of the goods into the territories of the Borrower and to the site of the Project and shall be for such amounts, as shall be consistent with sound commercial practice. Such insurance shall be payable in freely convertible currencies or in the currency in which the cost of the goods insured thereunder shall be payable.

Section 5.09. The Borrower shall make suitable provision for the recovery, by means of charges for the use of irrigation water and by means of increased taxes on land in the Project Area, of all operating and maintenance costs and of as much as practicable of the moneys invested in the Project together with reasonable interest thereon. The Borrower shall cause such water charges and taxes on land in the Project Area to be assessed and shared between landlords and tenants on such a basis that tenant-cultivators will have an incentive to maximize production.

Section 5.10. The Borrower shall take or cause to be taken all steps necessary to assess and collect all charges, rents and taxes as established from time to time for the use of water and for the benefits of drainage on the lands drawing water in the Project Area.

Section 5.11. The Borrower shall make available or cause credit to be made available on reasonable terms to farmers in the Project Area to enable such farmers to make effective use of the Project facilities. The Borrower shall furnish or cause to be furnished such reports as the Bank shall from time to time request with respect to the administration and financial operations of the institutions providing such credit.

Section 5.12. The Borrower shall provide, or cause to be provided, agricultural extension services which shall include conducting research and tests at experimental stations, making available seeds, fertilizers and agricultural machinery and informing and instructing farmers in the Project Area through an adequate staff of officers trained in the techniques appropriate to the Project.

Section 5.13. Except as the Bank shall otherwise agree, the Borrower shall cause the accounts of the agricultural credit institutions operating in the Project Area to be audited at least once a year by an independent auditor acceptable to the Bank and shall cause a signed copy of the auditor's report to be furnished to the Bank within four months after the end of any such institution's fiscal year.

Section 5.14. (a) The Borrower shall cause DID, the Division of Agriculture and the Division of Cooperatives of the Ministry of Agriculture and

Cooperatives to carry on their operations and conduct their affairs in accordance with sound agricultural, engineering, economic and financial practices and under experienced and competent direction.

(b) The Borrower shall cause all works facilities and equipment related to the Project to be adequately maintained and from time to time shall cause all necessary renewals and repairs thereof to be made in accordance with sound engineering and agricultural practices.

Article VI

REMEDIES OF THE BANK

Section 6.01. (i) If any event specified in paragraph (a) or paragraph (b) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days, or (ii) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Loan Agreement or in the Bonds to the contrary notwithstanding.

Article VII

EFFECTIVE DATE; TERMINATION

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Loan Agreement within the meaning of Section 9.01 (b) of the Loan Regulations :

(a) The Borrower shall have engaged consultants, acceptable to the Bank, to prepare specifications and tender documents, design the works and supervise construction.

(b) The Borrower shall have provided assurances satisfactory to the Bank from the States of Kedah and Perlis with respect to the carrying out of the Project and the operation of the irrigation works in the Project Area.

Section 7.02. If the Loan Agreement shall not have come into force and effect by February 1, 1966, the Loan Agreement and all obligations of the parties hereunder shall terminate, unless the Bank, after consideration of the reasons for the delay, establishes a later date for the purposes of this Section. The Bank shall promptly notify the Borrower of such date.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be June 30, 1970, or such other date as shall be agreed between the Borrower and the Bank as the Closing Date.

Section 8.02. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Borrower :

Minister of Finance
The Treasury
Kuala Lumpur
Malaysia

Alternative address for cablegrams and radiograms :

Treasury
Kuala Lumpur

For the Bank :

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

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D. C.

Section 8.03. The Minister of Finance of the Borrower is designated for the purposes of Section 8.03 of the Loan Regulations.

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

Malaysia :

By ONG YOKE LIN

International Bank for Reconstruction and Development :

By George D. WOODS
President

SCHEDULE 1
AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars) *</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars) *</i>
October 1, 1970	\$605,000	April 1, 1981	\$1,070,000
April 1, 1971	625,000	October 1, 1981	1,100,000
October 1, 1971	640,000	April 1, 1982	1,130,000
April 1, 1972	660,000	October 1, 1982	1,165,000
October 1, 1972	675,000	April 1, 1983	1,195,000
April 1, 1973	695,000	October 1, 1983	1,225,000
October 1, 1973	715,000	April 1, 1984	1,260,000
April 1, 1974	735,000	October 1, 1984	1,295,000
October 1, 1974	755,000	April 1, 1985	1,330,000
April 1, 1975	775,000	October 1, 1985	1,370,000
October 1, 1975	795,000	April 1, 1986	1,405,000
April 1, 1976	815,000	October 1, 1986	1,445,000
October 1, 1976	840,000	April 1, 1987	1,485,000
April 1, 1977	865,000	October 1, 1987	1,525,000
October 1, 1977	885,000	April 1, 1988	1,565,000
April 1, 1978	910,000	October 1, 1988	1,610,000
October 1, 1978	935,000	April 1, 1989	1,655,000
April 1, 1979	960,000	October 1, 1989	1,700,000
October 1, 1979	990,000	April 1, 1990	1,745,000
April 1, 1980	1,015,000	October 1, 1990	1,790,000
October 1, 1980	1,045,000		

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	½%
More than three years but not more than six years before maturity	1%
More than six years but not more than eleven years before maturity	1½%
More than eleven years but not more than sixteen years before maturity	2½%
More than sixteen years but not more than twenty-one years before maturity	3½%
More than twenty-one years but not more than twenty-three years before maturity	4½%
More than twenty-three years before maturity	5½%

SCHEDULE 2

DESCRIPTION OF PROJECT

1. The purpose of the Project is so to increase irrigation capacity in the States of Kedah and Perlis in northwestern Malaysia that an area of about 261,500 acres can be double-cropped.

2. The principal works to be constructed as part of the Project are :

A. Muda Dam, a reinforced concrete structure with a maximum height of about 125 feet with minimum spillway capacity of 60,000 cusecs at elevation 330 feet m.s.l.;

B. Pedu Dam, a rock-filled dam with a maximum height of about 215 feet, with minimum spillway capacity of 10,000 cusecs at elevation 320 feet m.s.l., to create in conjunction with the Muda Dam minimum useable storage capacity of 800,000 acre-feet;

C. An auxiliary dam in a low saddle at the Batang site about 4 miles southeast of the Pedu Dam;

D. Saiong Tunnel, linking Muda and Pedu Reservoirs, lined with concrete, with a minimum capacity of 1,000 cusecs with Muda Reservoir at elevation 300 feet m.s.l.;

E. Regulatory structures and improvements on the rivers to prevent excessive flooding;

F. Pelubang Head Works, including a re-regulating capacity of at least 1,500 acre-feet, to control and regulate the diversion of water from the Pedang Terap (of which the Pedu River is a tributary) into the Northern and Southern Canal Systems;

G. Enlargement, realignment and improvement (including regulating structures at Jitra and Lana Bulu) of the 23 mile Northern Canal, and construction of the Central and Southern Canal, approximately 40 miles long;

H. Enlargement and improvement of existing, and the construction of additional, distributary canals;

I. Improvement of drainage by constructing new, and enlarging existing, drains, diking to create salt water barriers and the installing of tidal gates; and

J. An equipment yard and storage warehouse for each of four Operating and Maintenance Divisions, a headquarters building and a central repair and maintenance shop.

3. The Project includes the purchase, installation and utilization of equipment for repair and maintenance operations and also the employment of consultants.

4. The Project also includes :

A. The provision to farmers of technical, extension and credit services, including the establishment of demonstration areas throughout the irrigated area, to assist them in the effective use of the irrigation water.

B. The continued operation of the present experimental and demonstration farm units working on new varieties and alternative crops in the irrigated area.

LETTER RELATING TO THE LOAN AGREEMENT

MALAYSIA

November 17, 1965

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

Muda Irrigation Project
Letter re Operating Policies, Agricultural Credit
and Technical Services

Dear Sirs :

The purpose of this letter is to supplement certain undertakings embodied in the Loan Agreement for the Muda Irrigation Project.

1. *Operating Policies.* Although the operation and maintenance of the Project Area will be under the administrative supervision of State Drainage and Irrigation Division, the State Drainage and Irrigation Division Engineer will be subject to the technical supervision of DID. Furthermore, the annual budgets of each of the State Drainage and Irrigation Divisions are prepared in consultation with DID. Efficient exploitation of the Project works requires that the organization of operations and maintenance activities be gradually expanded. We agree that the State Engineer with headquarters at Alor Star will supervise the entire project in the States of Kedah and Perlis. He will be assisted by a deputy State Engineer and four resident engineers one in Kangar, one at Jitra, one at Pokok Sena and one at Alor Star. Their activities will be supported by a mechanical engineer who will supervise the workshops and the operations and maintenance of all mechanical equipment and vehicles. Each of these engineers will have an assistant and such overseers, inspectors and workmen as are required. It is accepted that these increases in personnel are necessary if the Project is to be effectively carried out. Malaysia undertakes to recruit and employ such personnel as part of its undertaking in Section 5.01 (c) of the Loan Agreement.

2. *Agricultural Credit.* In accordance with the covenant in Section 5.11 of the Loan Agreement, Malaysia agrees to strengthen the agricultural credit system to meet the needs of farmers in the Project Area by reorganization of the cooperative credit system and such other measures as may be necessary. Malaysia agrees that one of the prime needs with respect to agricultural credit in the Project Area is to establish a consistent method of accounting and to obtain meaningful periodic reports based on such accounting. The Borrower shall keep the Bank regularly informed about these activities by transmitting such reports as the Bank may from time to time request.

3. *Research and Experimental Stations.* In accordance with Section 5.12 of the Loan Agreement, Malaysia will continue and will improve facilities for agricultural research. Existing experimental stations in Kedah and Perlis will continue work on new varieties of rice and double cropping of padi. They will also extend their research

into alternative crops which may be grown under irrigation. Malaysia agrees that the double-cropping which will be made possible by the Project requires continued efforts along these lines.

4. *Seeds, Fertilizers and Agricultural Machinery.* Malaysia agrees that its obligation in Section 5.12 also requires arrangement for the provision to the farmers of seeds, including those of strains of rice with a shorter growing period, fertilizers and agricultural machinery, all on such terms that farmers in the Project Area can effectively exploit the potential benefit of the Project works.

Activities which are the subject of this letter require the cooperation of State officials. Nevertheless, Malaysia has means, within the limits of its constitutional power, to arrange that the obligations it has undertaken herein can be carried out.

Please confirm your agreement with the foregoing by signing copies of this letter, retaining one copy for your records and returning another to us.

Sincerely yours,

Malaysia :

By Dato ONG YOKE LIN
Authorized Representative

Confirmed:

International Bank for
Reconstruction and Development :
By I. P. M. CARGILL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 3, DATED 15 FEBRUARY 1961

LOAN REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO
MEMBER GOVERNMENTS

[Not published herein. See *United Nations, Treaty Series, Vol. 414, p. 268.*]