

No. 8930

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

**Loan Agreement — *Kemubu Irrigation Project* (with related  
letter and annexed Loan Regulations No. 3, as amended).  
Signed at Washington, on 15 June 1967**

*Official text : English.*

*Registered by the International Bank for Reconstruction and Development on  
19 January 1968.*

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

**Contrat d'emprunt — *Projet d'irrigation du Kemubu* (avec  
lettre y relative et, en annexe, le Règlement n° 3 sur les  
emprunts, tel qu'il a été modifié). Signé à Washington, le  
15 juin 1967**

*Texte officiel anglais.*

*Enregistré par la Banque internationale pour la reconstruction et le développement  
le 19 janvier 1968.*

No. 8930. LOAN AGREEMENT<sup>1</sup> (*KEMUBU IRRIGATION PROJECT*) BETWEEN MALAYSIA AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 15 JUNE 1967

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AGREEMENT, dated June 15, 1967, 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 Agreement accept all the provisions of Loan Regulations No. 3 of the Bank dated February 15, 1961, as amended February 9, 1967,<sup>2</sup> with the same force and effect as if they were fully set forth herein (said Loan Regulations No. 3 being hereinafter called the Loan Regulations).

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

- (a) The initials " DID " mean 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 State of Kelantan declared by publication in the Gazette of that State to be in the Kemubu Irrigation Scheme.

*Article II*

THE LOAN

*Section 2.01.* The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to ten million dollars (\$10,000,000).

*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

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<sup>1</sup> Came into force on 31 October 1967, upon notification by the Bank to the Government of Malaysia.

<sup>2</sup> See p. 258 of this volume.

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 Agreement and the Loan Regulations.

*Section 2.03.* 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 2.04.* The Borrower shall pay interest at the rate of six per cent (6%) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

*Section 2.05.* 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 2.06.* Interest and other charges shall be payable semi-annually on February 1 and August 1 in each year.

*Section 2.07.* The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1 to this 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 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 practice.

(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 goods; 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) assets of 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 and Currency Surplus 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.* This 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 the Bank and the Borrower shall otherwise agree, the Borrower undertakes to insure the imported goods to be financed out of the proceeds of the Loan against marine, transit and other hazards incident to acquisition, transportation and delivery thereof to the place of use or installation and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

*Section 5.09.* The Borrower shall make suitable arrangements 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. In particular, the Borrower shall, except as the Bank shall otherwise agree, cause the accounts of the institutions involved in agricultural

credit operating in the Project Area to be audited at least one 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 5.12.* 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 suitable for double-cropping varieties of rice, 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. (a)* The Borrower shall cause DID, the Division of Agriculture and the Division of Cooperatives of the Ministry of Agriculture and Cooperatives and the institutions involved in credit and marketing 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 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 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 State of Kelantan with respect to the carrying out of the Project and the operation of the irrigation works in the Project Area.

*Section 7.02.* If this Agreement shall not have come into force and effect by September 15, 1967, this 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, 1972, 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

Cable address :

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

Cable address :

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 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  
Authorized Representative

International Bank for Reconstruction and Development :

By J. Burke KNAPP  
Vice 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>
August 1, 1972 . . . . .	\$125,000	February 1, 1983 . . . . .	\$235,000
February 1, 1973 . . . . .	130,000	August 1, 1983 . . . . .	245,000
August 1, 1973 . . . . .	135,000	February 1, 1984 . . . . .	250,000
February 1, 1974 . . . . .	140,000	August 1, 1984 . . . . .	260,000
August 1, 1974 . . . . .	145,000	February 1, 1985 . . . . .	265,000
February 1, 1975 . . . . .	145,000	August 1, 1985 . . . . .	275,000
August 1, 1975 . . . . .	150,000	February 1, 1986 . . . . .	280,000
February 1, 1976 . . . . .	155,000	August 1, 1986 . . . . .	290,000
August 1, 1976 . . . . .	160,000	February 1, 1987 . . . . .	300,000
February 1, 1977 . . . . .	165,000	August 1, 1987 . . . . .	310,000
August 1, 1977 . . . . .	170,000	February 1, 1988 . . . . .	320,000
February 1, 1978 . . . . .	175,000	August 1, 1988 . . . . .	325,000
August 1, 1978 . . . . .	180,000	February 1, 1989 . . . . .	335,000
February 1, 1979 . . . . .	185,000	August 1, 1989 . . . . .	345,000
August 1, 1979 . . . . .	190,000	February 1, 1990 . . . . .	360,000
February 1, 1980 . . . . .	200,000	August 1, 1990 . . . . .	370,000
August 1, 1980 . . . . .	205,000	February 1, 1991 . . . . .	380,000
February 1, 1981 . . . . .	210,000	August 1, 1991 . . . . .	390,000
August 1, 1981 . . . . .	215,000	February 1, 1992 . . . . .	405,000
February 1, 1982 . . . . .	225,000	August 1, 1992 . . . . .	425,000
August 1, 1982 . . . . .	230,000		

\* 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 . . . . .	2 %
More than eleven years but not more than sixteen years before maturity . . . . .	3 %
More than sixteen years but not more than twenty-one years before maturity . . . . .	4 %
More than twenty-one years but not more than twenty-three years before maturity . . . . .	5 %
More than twenty-three years before maturity . . . . .	6 %

## SCHEDULE 2

### DESCRIPTION OF PROJECT

1. The purpose of the Project is so to increase irrigation capacity in the State of Kelantan in northeastern Malaysia that an area of about 47,000 acres can be double-cropped.
2. The principal works to be constructed as part of the Project are :
  - A. Three diversion dams, one on each of the three rivers : the Seligi, the Danan and the Ketereh;
  - B. Kemubu pumping plant consisting of five automatic diesel engine driven pump units, each with a hydraulic capacity of 250 cusecs;
  - C
    - 1) Kelantan Canal and the Limbat Canal to serve land lying between the Kelantan River and the Ketereh River;
    - 2) South Canal to serve land in the southeastern portion of the Project;
    - 3) Peringat-Banggu Canal to serve the interior and northeastern portion of the Project Area;
  - D. Distribution system of secondary, tertiary and quarternary canals to deliver water to each irrigation unit;
  - E. Project drainage system for the removal of excess rainfall and irrigation water;
  - F. Flood protection dikes on right bank of the Kelantan River and along the South Canal; and
  - G. Operation and maintenance headquarters and staff housing.
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 to assist them in the effective use of the irrigation water; and

- 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

June.15, 1967

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

Re : *Loan No. 500-MA : Kemubu Irrigation Project*  
*Operating Policies, Agricultural Credit and Technical Services*

Dear Sirs :

The purpose of this letter is to define certain undertakings embodied in the Loan Agreement of even date between Malaysia and the Bank for the *Kemubu Irrigation Project*.

1. *Operating Policies*. Although the operation and maintenance of the Project Area will be under the administrative supervision of the State Drainage and Irrigation Department, the State Drainage and Irrigation Engineer will be subject to the technical supervision of DID. Furthermore, the annual budgets of the State Drainage and Irrigation Departments 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 Drainage and Irrigation Engineer with headquarters at Kota Bharu will supervise the operation and maintenance of the entire project in the State of Kelantan. He will be assisted by a Drainage and Irrigation Engineer, an assistant engineer, a technical assistant, a Chief Irrigation Inspector, five Irrigation Inspectors, ten Irrigation Overseers and such other staff as may be required. Their activities will be supported by the State Drainage and Irrigation Mechanical Engineer who will supervise the workshops and the operations and maintenance of all mechanical equipment, pumps and vehicles. 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 by making credit available on reasonable terms to meet the needs of farmers in the Project Area. Malaysia agrees that such a system should be established before commencement of double-cropping. To accomplish this objective, Malaysia will submit to the Bank, not later than 15 months after the signing of the Loan Agreement, plans for a proposed credit system to be established in the Project Area. The Borrower shall keep the Bank regularly informed about the progress of these plans by transmitting such reports as the Bank may from time to time request.

3. *Agricultural Extension Services.*

(a) *Research, Experimental Stations and Agricultural Officers* : In accordance with Section 5.12 of the Loan Agreement, Malaysia will continue and will improve facilities for agricultural extension services. The existing experimental station at Lundang, Kelantan will continue work on new varieties of rice and double-cropping of padi and will closely cooperate with similar work done in Kedah, Perlis and Province Wellesley. 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 expansion of agricultural extension services. Senior extension staff should consist of one State agricultural officer and two assistant agricultural officers, each of whom would in turn supervise junior agricultural assistants. The total requirement of junior agricultural assistants is estimated at 20 on the basis of one assistant for no more than 1,000 farm holdings and an assumed total of 20,000 farm families. Recruitment of additional staff will commence at an early date and build up gradually to provide the increased staff required as the double-cropping acreage expands.

(b) *Seeds, Fertilizers and Agricultural Machinery.* Malaysia agrees that its obligation in Section 5.12 also requires suitable arrangements 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, including credit, 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 Government of Kelantan. 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.

Very truly yours,

Malaysia :  
By ONG YOKE LIN  
Authorized Representative

*Confirmed:*  
International Bank for  
Reconstruction and Development :  
By R. J. GOODMAN

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 3, DATED 15 FEBRUARY 1961,  
AS AMENDED 9 FEBRUARY 1967

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO MEMBER GOVERNMENTS

[*Not published herein. See United Nations, Treaty Series, Vol. 615. p. 98*]