

## Resumption of ODA Loan to Malaysia after Five Years of Interval at the Largest Scale :Cooperation at Preferential Terms for Human Resources Development, Environmental Protection and Small and Medium Scale Industries Promotion

The OECF (the Overseas Economic Corporation Fund, Japan: President, Chairman of the Board: Mr. Kyosuke Shinozawa) has decided to provide for Malaysia loans totaling up to 107.695 billion yen to fund five projects including "Look East Policy" and signed the five loan agreements on March 4th, 1999.

These loan agreements were signed at OECF head office in Tokyo by Mr. Youseki Nagase, Senior Vice President, Deputy Chairman of the Board of OECF and H.E. Tan Sri H.M. Khatib, Ambassador Extraordinary and Plenipotentiary of Malaysia to Japan and Dato' Fuad bin Jaafar, Senior Vice President (Energy Supply)/Executive Director, Tenaga Nasional Berhad.

The cumulative total of ODA loan commitments to Malaysia now stands at 701.838 billion yen with 67 projects. These loans will be provided as part of the ODA loan package amounting to 117 billion yen which was pledged on the occasion of the Japan-ASEAN Summit Meetings held in Hanoi last December.

The amounts, terms and conditions, and project description for each project are shown below.

### 1. Amount Terms and Conditions

Project Name	Amount (Mil. Yen)	Interest Rate (% p.a.)		Repayment Period /Grace Period (years)		Tying Status	
		Goods and Services	Consulting Services	Goods and Services	Consulting Services	Goods and Services	Consulting Services
Look East Policy	14,026	0.75***	0.75***	40/10	40/10	General Untied	General Untied
Universiti Malaysia Sarawak Development Project	18,549	0.75***	0.75***	40/10	40/10	General Untied	General Untied
Port Dickson (Tuanku Jaafar) Power Station Rehabilitation Project	49,087	0.75*	0.75*	40/10	40/10	General Untied	General Untied
Beris Dam Project	9,737	1.7**	0.75*	25/7	40/10	General Untied	General Untied
Fund for Small and Medium Scale Industries	16,296	0.75****	0.75****	40/10	40/10	General Untied	General Untied
Total of 5 projects						107,695	

\* Special Environmental Projects

\*\* Standard environmental project

\*\*\* Supporting human resources development project

\*\*\*\* Supporting small- and medium-scale enterprises project

### 2. Highlights of the New Loans

(1) Resumption of ODA loan to Malaysia after five years of interval at the largest scale

A total of 16 packages of ODA loans have been provided to Malaysia, starting with the first in 1969. The cumulative total of ODA loan commitments to Malaysia had been the sixth largest among the recipient countries of ODA loans. Aid provided under these loans to Malaysia has been focused on project loans of infrastructure improvement, especially those for the electricity and gas sector with approximately half of the total loans targeted for this sector. These projects have played an important role in increasing the inflow of foreign direct investment which has contributed to the formation of the foundation for Malaysia's remarkable growth.

It was toward the end of 1997, when the effect of the currency crisis spread from Thailand was more keenly felt the before. The Malaysian economy had been riding high on a boom in direct investment, achieving continuous high growth rates averaging over 8% per year. The government's basic policy had been to leave infrastructure improvement to the private sector to limit public expenditure. As a result, the government had maintained a budget surplus over a five year period from 1993 to 1997. Public borrowing from foreign sources had been restricted to minimize exchange risks and Malaysia had not requested ODA loans from Japan since 1994.

When the 1997 currency crisis began to affect Malaysia, the Malaysian government adopted a policy of high interest rate in order to prevent depreciation of its currency, the Ringgit, and inflation. However, this policy affected the lending activities of financial institutions, causing a credit crunch. As a result, domestic production fell from the first quarter of 1998 and the GDP growth rate for the second quarter of 1998 was down 6.8% compared to that for the same period of the previous year.

To cope with this slump in domestic production, the Malaysian government introduced economic stimulus measures in the form of increased public expenditure and easier credit. To implement measures to revive the economy and deal with bad debts while supporting the value of the currency, the government introduced capital regulations including a fixed exchange rate system in September 1998.

This regulation had so far a favorable effect, including an increase in the foreign currency reserve, but the mobilization of funds through foreign loans and infrastructure improvement by the private sector, which had been proceeding, ran into difficulties. These trends increased the importance of public foreign borrowing in the form of ODA loans from Japan, World Bank finance and other sources.

Against this background, the Malaysian government requested ODA loans in 1998 for the first time in four years. Japan, having announced the New Miyazawa Initiative to actively support Asian countries affected by the currency crisis, responded to the request positively. On the occasion of the Japan-ASEAN Summit Meeting in December 1998, Prime Minister Obuchi pledged Prime Minister Mahathir seven ODA loans of up to 117 billion yen, the amount larger than any other previous package. The newly committed five ODA loans are part of that pledged package and target human resource development, infrastructure development which contribute to environmental improvement, and support for small and medium scale industries. These projects are expected to contribute to the recovery of the Malaysian economy.

#### Allocation of ODA loans (including this package) by sector

Sector	No. of Commitments	Committed Amounts (million yen)	Ratio (%)
Electric Power and Gas	30	356,931	50.8
Transportation	16	119,473	17.0
Social Services	8	110,785	15.8
Mining and Manufacturing	10	98,015	14.0
Agriculture, Forestry and Fisheries	1	10,442	1.5

Telecommunications	2	6,158	0.9
Total	67	701,804	100.0

## (2) Economic and Social Development Aid at Preferential Terms

The five ODA loans in this package are eligible for preferential terms as a result of the following Japanese policies:

- "Reduced interest rate on environment-related ODA loan" policy announced by the Japanese government in September 1997
- "Enhancing of Measures against Global Warming through ODA loans and Other Assistance: Reinforcement of the Kyoto Initiative" announced in December 1997
- "Supporting Measures for Asia" decided in April 1998

Interest rate for supporting human resources development project (interest rate 0.75% per annum, repayment period 40 years) was applied to the two human resources development projects, ie, "Look East Policy" and "Universiti Malaysia Sarawak Development Project". These will assist the development of human resources which are essential for Malaysia's sustainable growth.

Interest rate for special environmental project (interest rate 0.75% per annum, repayment period 40 years) was applied to "Port Dickson Power Station Rehabilitation Project" and consulting service portion of "Beris Dam Project". Interest rate for standard environmental project (interest rate 1.7% per annum, repayment period 25 years) was applied to the remainder of the latter project. These measures will encourage Malaysia's efforts to tackle environmental problems.

Interest rate for supporting small- and medium-scale enterprises project (interest rate 0.75% per annum, repayment period 40 years) was applied to "Fund for Small and Medium Scale Industries" in order to raise the productivity of such industries and ease the credit crunch.

## 3. Project Descriptions

### (1) Look East Policy

One of the Malaysian government's greatest objectives is to join the developed countries by 2020. It has highlighted human resources development as one of the key requirements for the realization of that goal and implemented a wide range of reforms in the education sector. These reforms have built and expanded the educational foundation for elementary and secondary education, yielding considerable improvements. At the higher education level the government sees the necessity of expanded educational facilities and overseas study in order to raise the human capital required for the country's long-term development. Furthermore, the government believes that the secret of Japan's progress are its people's work ethic, diligence, managerial ability, the virtue they make out of the national identity, education and their will to study. Therefore the Malaysian government, in cooperation with the Japanese government, has been on implementing the Look East Policy since 1982, under which Malaysian students would go to Japan to study and to learn these attributes. However, as a result of the current economic crisis the Malaysian government has been forced to drastically cut the numbers of students who study abroad with government scholarships.

In the light of this situation, this project is intended to support the continued implementation of the Look East Policy in 1999 and beyond.

The proceeds of the loan will be used for overseas study scholarships for university students, post-graduate students, technical college students and trainees of teachers for Japanese language, as well as consulting services (monitoring of students studying in Japan etc.).

The executing agency is the Public Services Department (Address: Block C, Level 2, Kompleks JPA, Jalan Tun Ismail, 50510 Kuala Lumpur, Malaysia, TEL: 60-3-2914487, FAX: 60-3-2940131).

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Look East Policy, which has been implemented since 1982, comprises overseas study, especially in Japan, for university students, technical college students and trainees for teachers of Japanese language, as well as training in industrial technologies, managerial work and relevant areas for candidate top government officials. [\(back\)](#)

### (2) Universiti Malaysia Sarawak Development Project

Malaysian government aims to strengthen its measures in the field of higher education. It has set improvement of the graduation rate (approximately 3.7% in 1995) and the wider provision of higher education opportunities, especially through expansion of the existing national universities as urgent policy objectives.

Universiti Malaysia Sarawak is the only general university in the Sarawak State and it has been operating in limited facilities since its establishment in 1992. The number of students who can enroll is also limited to a level far below initial plans. The project under the ODA loan will begin with the expansion of five high-priority faculties (Resource Science and Technology, Information Technology, Engineering, Applied and Creative Arts, and Cognitive Science and Human Development) and their related facilities. This will help to meet the rising demand for higher education, to promote development in Malaysia of human resources in order to contribute to the country's economic progress and correct the regional disparity between Malay peninsular and Sarawak.

The proceeds of the loan will be used for construction of university's buildings and related basic infrastructure, procurement of relevant equipment and materials, and consulting services (for project management, detailed design and supervisory services).

The executing agency is the Universiti Malaysia Sarawak (Address: 94300 Kota Samarahan, Sarawak, Malaysia, TEL: 60-82-672406, FAX: 60-82-672407).

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### (3) Port Dickson (Tuanku Jaafar) Power Station Rehabilitation Project

Malaysian government has three key targets in its energy policy:

- i) Diversification of energy sources
- ii) Efficient use of energy
- iii) Environmental conservation

In addition, the government aims to secure sufficient capacity to meet future electricity demand and achieve high operating efficiency in the electricity system of the entire peninsula.

This project will work towards that aim by scrapping the dilapidated and environmentally problematic generation plant in the Port Dickson Power Station in Negeri Sembilan State and replacing it with combined-cycle generation plant. This will reduce the power station's environmental impact, raise generation efficiency and make the system more stable. The use of gas, an alternative to oil, at the power station will help to diversify energy sources. Compared to the existing generation plant, that to be procured in this project is expected to reduce emissions of NOx and SOx per unit of generation by almost 100%, and of CO2 by approximately 50%.

The proceeds of the loan will be used for procurement and construction of the generation plant, and consulting services (detailed design with consideration of the environmental impact, supervisory services etc.).

The executing agency is the Tenaga Nasional Berhad (Address: 129 Jl. Bangsan, 59200 Kuala Lumpur, Malaysia, TEL: 60-3-282-5566, FAX: 60-3-283-3686).

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### (4) Beris Dam Project

There is a growing water shortage in Penang State in the North of Malaysia due to rapid population increase and industrial development. The demand for urban water supply is expected to grow to 1.8 times the 1995 level by 2010 as the population grows, per-capita water demand increases and concentrated industrial development continues. Water resources need to be developed urgently to increase the supply of water.

This project will construct a dam in the river basin of the Beris River, a tributary of the Muda River which flows from Kedah State to Penang State. The dam is to have a capacity of 122 million m3 and will mainly supply domestic, industrial and irrigation water to Penang State to alleviate the water shortage in these fields.

The proceeds of the loan will be used for construction of the dam and related facilities, and consulting services (supervisory services, consideration of environmental and social development, etc.).

The executing agency is the Department of Irrigation and Drainage Malaysia (Address: Jl. Sultan Salahudin, 50626 Kuala Lumpur, Malaysia, TEL: 60-3-2982011, FAX: 60-3-2914282).

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#### (5) Fund for Small and Medium Scale Industries

Small and medium scale industries play an important role in the Malaysian economy which have succeeded in industrialization rapidly since the 1980s. The government has been working to give these industries technical guidance and to build stronger links between them, as auxiliary industries, and the country's larger industries. OECF has provided two **two-step loans** in the past to assist Malaysia's small and medium scale industries.

Malaysian government has addressed the currency crisis with a succession of financial restraint policy, including raising the legal reserve rate for financial institutions and raising policy-based interest rates. These measures have met with some success. However, there have been problems of bad debts, and leading financial institutions have tightened their credit provision to such an extent that businesses are facing grave financing difficulties.

This project will provide a long-term, low-interest loan to the policy-based credit system, which was established in January 1998 by the Malaysian government as a scheme to provide finance to small and medium scale industries. This system will enable the provision of finance to small and medium scale industries under more concessional terms, and help alleviate the credit crunch to strengthen the industrial sector.

The proceeds of the loan will be used for a funding resource for sub-loans to small and medium scale industries in the private-sector, and consulting services (monitoring of the operation of revolving funds etc.).

The executing agencies are the following three banks which are the policy-based finance institutions in Malaysia: Bank Industri Malaysia Berhad (Address: Level 17, Darul Takaful, Jl. Sultan Ismail, P.O. Box 10788, 50724 Kuala Lumpur, Malaysia, TEL: 60-3-2929088, FAX: 60-3-2985701), Bank Pembangunan Malaysia Berhad (Address: Menara Bank Pembangunan, Jl. Sultan Ismail, Peti Surat 12352, 50774 Kuala Lumpur, Malaysia, TEL: 60-3-2913399, FAX: 60-3-2928520), Malaysian Industrial Development Finance Berhad (Address: 195A Jl. Tun Razak, 50400 Kuala Lumpur, P.O. Box 12110, 50939 Kuala Lumpur, Malaysia, TEL: 60-3-2610066, FAX: 60-3-2615973).

Two-step loan:

A project in which OECF provides funding resources to enable policy-based finance institutions in developing countries to provide loans to small and medium businesses, etc. [\(back\)](#)

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