

## Twining Program (Mutual Acknowledgment of Degree Credits) between Japanese and Malaysian Universities to Commence by ODA Loan

### - Signing 2nd set of ODA Loan Agreements with Malaysia after resumption-

For more information---

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The OECF (the Overseas Economic Corporation Fund, Japan: President, Chairman of the Board: Mr. Kyosuke Shinozawa) has signed loan agreements with Malaysia on April 28, 1999 as a necessary fund totaling up to 6.378 billion yen to fund two projects: "Higher Education Loan Fund Project (II)" and "Engineering Services for Pahang-Selangor Raw Water Transfer Project".

These loan agreements were signed by Mr. Youseki Nagase, Senior Vice President, Deputy Chairman of the Board of the OECF and H.E. Tan Sri H.M. Khatib, Ambassador Extraordinary and Plenipotentiary of Malaysia to Japan.

The cumulative total of ODA loan commitments to Malaysia now stands at 708.182 billion yen with 69 projects.

The new loans, which will be provided under the New Miyazawa Initiative, were pledged, together with the five projects signed on March 4th this year amounting to 107.695 billion yen, by Prime Minister Obuchi to Prime Minister Mahathir 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 (Million 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
1 Higher Education Loan Fund Project (II)	5,285	0.75*	0.75*	40 / 10	40 / 10	General Untied	General Untied
2 Engineering Services for Pahang-Selangor Raw Water Transfer Project	1,093	-	0.75**	-	40/10	-	General Untied
Total of 2 projects	6,378						

\* Supporting human resources development project

\*\* Special environmental project

#### 2. Highlights of the New Loans

##### (1) Introduction of twining program for Malaysian students at Japanese universities

The loan for the "Higher Education Loan Fund Project (II)" (HELP II) provided this time is to support study of Malaysian students for which the Malaysian Government funds scholarship, as a follow-up to the "Higher Education Loan Fund Project" (HELP I) amounting to 5,493 million yen that was extended in FY1992 as the first phase.

The study under HELP I consists of 2-year preparatory study in an educational institution in Malaysia and 4-year undergraduate study in Japanese universities after their entrance examination. HELP I has in total 311 Malaysian students in five batches in faculties of natural science and engineering of Japanese universities and 52 of the first batch students got a bachelor's degree March this year, who are expected to contribute to human resources development of Malaysia which is essential for the mid- and long-term economic development of the country.

Due to the recent economic depression caused by the currency crisis and the severe budgetary constraints, the Malaysian Government, however, dramatically reduced the scale of overseas study and in principle restricted overseas study with government scholarship only to education of these academic fields which are not obtainable in Malaysia or graduate study. Under such circumstances, the Malaysian Government intended to continue overseas study in Japan with government scholarship in order to obtain not only advanced technology and knowledge but also work ethics of Japan which is said to have been a key to the economic development of Japan, while the problem of its higher cost compared to that in other countries was pointed out.

Against this background, HELP II this time has been tailored to be more cost effective by introducing the new system of "twining". The "twining" program has been materialized after two years consultation among Japanese universities which have received students from Malaysia in the first phase project. In the "twining" program, a part of university education will be provided in Malaysia, which will be acknowledged by Japanese universities as comparable education in them, which will result in shortening the period of stay in these Japanese universities and reducing the cost accordingly. It is planned that, pursuant to the university-level education in Malaysia, students will be received in the 2nd academic year by the thirteen private universities which participate in HELP I. Consideration will be made on the elevation of the "twining" such as receiving Malaysian students in the 3rd academic year of the Japanese universities and increasing the number of participating universities, based on the progress made of the project.

##### (2) Assistance for economic and social development under favorable terms

The two loans concluded this time have favorable terms for Malaysia in keeping with the "Reduction of interest rates of ODA loans for Special Environmental Projects" of September 1997; the "Kyoto Initiative" expansion and strengthening measure of December 1997; and the "Supporting Measures for Asia" of April 1998, announced by the Japanese Government.

HELP II will be financed at the special interest rate for Supporting Human Resources Development Project (0.75% per year, with a repayment period of 40 years). It will contribute to development of human resources, which is essential for Malaysia's sustainable growth.

"Engineering Services for Pahang-Selangor Raw Water Transfer Project" will be financed at the preferential interest rate for Special Environmental Project (0.75% per year, with a repayment period of 40 years). This is intended to assist Malaysia to tackle its environmental problems.

##### (3) 2nd set of Loan Agreements after resumption of ODA loans to Malaysia

A total of 16 packages of ODA loans had 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 these 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 than 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 1998 was down 6.7% compared to that of the previous year.

To cope with this slump in domestic production, the Malaysian Government introduced economic stimulus measures since 1998 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, while 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 Meetings 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 two ODA loans are a remaining part of that pledged package, following the 5 projects signed on March 4th this year, targeting human resources development, infrastructure development which contributes 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	50.4
Transportation	16	119,473	16.9
Social Services	10	117,163	16.5
Mining and Manufacturing	10	98,015	13.8
Agriculture, Forestry and Fisheries	1	10,442	1.5
Telecommunications	2	6,158	0.9
Total	69	708,182	100.0

### 3. Project Description

#### (1) Higher Education Loan Fund Project (II)

One of the most important goals of the Malaysian Government is to acquire the status of developed country 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 in order to develop human resources required for Malaysia's long-term economic development. These reforms have improved and expanded the foundation for elementary and secondary education, yielding considerable improvements.

On the other hand, as for higher education, the Malaysian Government realizes the necessity of sending students overseas as well as of expanding teaching facilities in Malaysia, and puts a strong emphasis on human resources development in scientific research fields, in view of the shortage of supply of engineers expected due to the industrialization of the Malaysian economy. Under such circumstances, by improving the cost-effectiveness with the introduction of the "twinning" program for undergraduate courses, this project is intended to support the continued implementation of overseas study by Malaysian students in scientific fields at Japanese universities as the second phase of "Higher Education Loan Fund Project" which has been successfully implemented so far. It is planned that in total 400 Malaysian students will be accepted in undergraduate courses, and 140 graduates in post graduate courses.

The proceeds of the loan will be used for the scholarship for undergraduate and post graduate studies as well as consulting services (e.g., monitoring of the students studying in Japan).

The executing agency is the Yayasan Pelajaran MARA (Address: Wisma YPM, Jalan 6/91, Taman Shamelin Perkasa Cheras, P.O.Box 13464, 50810 Kuala Lumpur, Malaysia, TEL: 60-3-9819700, FAX: 60-3-9815764).

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#### (2) Engineering Services for Pahang-Selangor Raw Water Transfer Project

In accordance with the rapid economic growth since 1980s, water demand in Selangor State, especially Kuala Lumpur region, which is the political, commercial and industrial center of Malaysia, has been increasing at a high growth rate. Water demand there is expected to continue to grow still rapidly in the 21st century as well.

The water resources development in Selangor State and Kuala Lumpur region has been focused on that of the main river basins. However, such water development can no longer sufficiently meet the increasing water demand and water shortages have occurred occasionally especially in the dry season. Serious water shortages in 1997 and 1998 have impressed the necessity of a new scheme for increasing water supply. Despite this, it is found difficult to develop new water resources within the State, over and above those that have been planned already.

Based on the above-mentioned background, an interstate project to transfer water from Pahang State to Selangor State has been considered in order to cope with the increase of future water demand in Selangor State and Kuala Lumpur region. In this project, dams will be constructed in Pahang State and the reserved water will be transferred through a water transfer tunnel from Pahang State to Selangor State.

The proceeds of the Loan will be used for consulting services for necessary studies (scrutiny of water demand, technical review on the scale and structure of each facility, etc.) and for design works, including for the water transfer tunnel.

The executing agency is the Public Works Department Malaysia (Address: Jalan Sultan Salahuddin, 50582 Kuala Lumpur, Malaysia, TEL: 60-3-4407300, FAX: 60-3-2931920).

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