
LOAN NUMBER 560 MA

Loan Agreement
(Telecommunications Project)

BETWEEN

MALAYSIA

AND

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

DATED SEPTEMBER 27, 1968

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AGREEMENT, dated September 27, 1968, 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, 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 term "TDM" wherever used in this Agreement means the Telecommunications Department of the Ministry of Works, Posts and Telecommunications of the Borrower or any successor thereto performing telecommunications services in the territories of the Borrower.

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 four million four hundred thousand dollars (\$4,400,000).

SECTION 2.02. (a) The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Loan Account the amount of the Loan.

(b) The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Agreement and the Loan Regulations and in accordance with the allocation of the proceeds of the Loan set forth in Schedule 1 to this Agreement, as such allocation shall be modified from time to time pursuant to the provisions of such Schedule or by further agreement between the Borrower and the Bank.

(c) Where goods produced outside the territories of the Borrower are purchased through local importers for use in the Project and are invoiced and paid for in the currency of the Borrower, 70% of the total expenditures for such goods will be eligible for withdrawal from the Loan Account, the balance of such expenditures being a reasonable estimate of the local currency costs for such goods.

(d) Withdrawals from the Loan Account in respect of expenditures in the currency of the Borrower shall be in such currency or currencies as the Bank shall from time to time reasonably select.

SECTION 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

SECTION 2.04. The Borrower shall pay interest at the rate of six and one-half per cent ($6\frac{1}{2}\%$) per annum on the principal amount of the Loan 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 commitment outstanding from time to time.

SECTION 2.06. Interest and other charges shall be payable semi-annually on March 1 and September 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 2 to this Agreement.

ARTICLE III

Use of Proceeds of the Loan

SECTION 3.01. The Borrower shall apply the proceeds of the Loan in accordance with the provisions of this Agreement to expenditures on the Project, described in Schedule 3 to this Agreement.

SECTION 3.02. Except as the Bank shall otherwise agree, the goods to be financed out of the proceeds of the Loan shall be procured on the basis of international competitive bidding in accordance with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in February 1968, and in accordance with such other procedures supplementary thereto as are set forth in Schedule 4 to this Agreement.

SECTION 3.03. Except as the Bank shall otherwise agree, the Borrower shall cause all goods financed out of the proceeds of the Loan to be used exclusively in carrying out the Project.

ARTICLE IV

Bonds

SECTION 4.01. If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VI of the Loan Regulations.

SECTION 4.02. The Minister of Finance of the Borrower

is designated as authorized representative of the Borrower for the purpose of Section 6.12 (a) of the Loan Regulations. The Minister of Finance may designate additional or other authorized representatives by appointment in writing notified to the Bank.

ARTICLE V

Particular Covenants

SECTION 5.01. The Borrower shall carry out the Project with due diligence and efficiency and in conformity with sound engineering, telecommunications and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

SECTION 5.02. (a) The Borrower shall at all times conduct TDM's operations, including its financial transactions, in accordance with sound practices under the supervision of experienced and competent management.

(b) The Borrower shall: (i) make arrangements satisfactory to the Bank to retain qualified and experienced engineers for the execution of the Project and for the training of local staff in the operation of the new telecommunications facilities of TDM in Sabah and Sarawak; and (ii) retain qualified and experienced experts as required for the planning and implementation of TDM's telecommunications projects during the period of 1968-1970 and for the preparation of future development of TDM under the Second Malaysia Plan.

SECTION 5.03. (a) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans, specifications and construction schedules for the Project and any material modifications subsequently made therein, in such detail as the Bank shall from time to time request.

(b) The Borrower shall maintain 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 the operations, including financial transactions, of TDM; shall enable the Bank's representatives to inspect the Project, the goods, all other properties and equipment of TDM and any relevant records and documents; and shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods and the management and operations, including financial transactions, of TDM.

SECTION 5.04. (a) The Borrower and the Bank shall cooperate fully to ensure 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 the administration of TDM and of any other agency or agencies of the Borrower responsible for carrying out the Project or any part thereof 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 proposed material changes in the structure, organization, powers or responsibilities of TDM and 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 5.05. 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; or (ii) 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 5.06. The Borrower undertakes to establish by December 31, 1972, and thereafter maintain in TDM an effective system of accounting and financial management. To that end, the Borrower shall retain experienced and qualified financial advisors acceptable to the Bank:

- (i) to study, with the assistance of qualified staff of the Borrower, the accounting and financial management system of TDM and to submit reports containing their findings and recommendations for the establishment of such system in accordance with terms of reference, and within such time limits as shall have been accepted by the Bank; and
- (ii) to assist in the establishment of such system.

SECTION 5.07. The Borrower shall operate and maintain TDM's plants, equipment and property, and from time to time make all necessary renewals and repairs thereof, all in accordance with sound engineering standards, and shall at all times operate TDM's plants and equipment in accordance with sound telecommunications practices.

SECTION 5.08. Until the establishment of the accounting system referred to in Section 5.06 of this Agreement, the Borrower shall inform the Bank of any proposed change in the telecommunications tariffs of TDM sufficiently in advance of such change for the Bank to have adequate opportunity to comment on it.

SECTION 5.09. (a) Except as the Bank shall otherwise agree, after the accounting system referred to in Section 5.06 of this Agreement shall have been established, the Borrower shall adjust and maintain the telecommunications tariffs of TDM to provide revenue sufficient to produce an annual rate of return of not less than 8% on the value of TDM's net fixed assets in operation.

(b) For the purposes of this Section:

- (i) The annual rate of return shall be calculated by relating the operating income accruing from the telecommunications services of TDM for the year in question to the average of the net value of the fixed assets of TDM in operation at the beginning and at the end of each year.

- (ii) The term "net value of fixed assets in operation" shall mean the gross value of such assets, less the amount of accumulated depreciation, valued in accordance with consistently maintained methods of valuation, acceptable to the Bank.
- (iii) The term "operating income" shall mean the difference between:
 - (A) all operating revenue accruing from the telecommunications services excluding contributions towards capital expenses; and
 - (B) the operating cost of the telecommunications services including administration expenses, adequate maintenance and depreciation but excluding interest and other charges on debt.

SECTION 5.10. (a) The Borrower shall have TDM's accounts audited annually by the Auditor General or by an independent accountant acceptable to the Bank, and shall promptly after preparation, transmit to the Bank certified copies of a statement of accounts, together with a certified copy of the Auditor General's or the accountant's report.

(b) After the accounting system referred to in Section 5.06 of this Agreement shall have been established, the Borrower shall transmit annually to the Bank the audited statement of accounts and the report referred to in subsection (a) hereof not later than five months following the close of the Borrower's financial year.

SECTION 5.11. 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, and free from all restrictions, 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 5.12. 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.

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 principle shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

ARTICLE VII

Termination; Miscellaneous

SECTION 7.01. The Closing Date shall be December 31, 1971, or such other date as shall be agreed between the Borrower and the Bank as the Closing Date.

SECTION 7.02. If this Agreement shall not have come into force and effect by December 10, 1968, 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.

SECTION 7.03. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations:

For the Borrower:

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 7.04. 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 /s/ TAN SRI ONG YOKE LIN
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ J. BURKE KNAPP
Vice President

SCHEDULE 1**Allocation of Proceeds of Loan**

Category	Amounts Expressed In Dollar Equivalents
I. Local telephone subscribers network and outside equipment (overhead line materials, private automatic and manual branch exchanges and special telephone sets)	1,600,000
II. Long-distance network equipment (trunk overhead lines and wire junctions, Sarawak microwave link)	1,400,000
III. Telegraph and telex equipment (Kuala Lumpur automatic exchange and accessories)	300,000
IV. Miscellaneous (transport, tools and mechanical aids, power and wiring accessories, equipment for accounting and billing)	600,000
V. Engineering and planning services	100,000
VI. Unallocated	400,000
Total	<u>4,400,000</u>

Reallocation Upon Change in Cost Estimates

1. If the estimate of the cost of the items included in any of the Categories I to V shall decrease, the amount of the Loan then allocated to, and no longer required for, such Category will be reallocated by the Bank to Category VI.
2. If the estimate of the cost of the items included in any of the Categories I to V shall increase, an amount equal to the portion, if any, of such increase to be financed out of the proceeds of the Loan will be allocated by the Bank, at the request of the Borrower, to such Category from Category VI, subject, however, to the requirements for contingencies, as determined by the Bank, in respect of the cost of the items in the other Categories.

SCHEDULE 2
Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars) *
March 1, 1972	75,000
September 1, 1972	75,000
March 1, 1973	80,000
September 1, 1973	80,000
March 1, 1974	85,000
September 1, 1974	85,000
March 1, 1975	90,000
September 1, 1975	90,000
March 1, 1976	95,000
September 1, 1976	95,000
March 1, 1977	100,000
September 1, 1977	105,000
March 1, 1978	105,000
September 1, 1978	110,000
March 1, 1979	115,000
September 1, 1979	115,000
March 1, 1980	120,000
September 1, 1980	125,000
March 1, 1981	130,000
September 1, 1981	135,000
March 1, 1982	140,000
September 1, 1982	140,000
March 1, 1983	145,000
September 1, 1983	150,000
March 1, 1984	155,000
September 1, 1984	160,000
March 1, 1985	165,000
September 1, 1985	170,000
March 1, 1986	180,000
September 1, 1986	185,000
March 1, 1987	190,000
September 1, 1987	195,000
March 1, 1988	200,000
September 1, 1988	215,000

* To the extent that any part 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	1/2%
More than three years but not more than six years before maturity	1 1/2%
More than six years but not more than eleven years before maturity	2 1/2%
More than eleven years but not more than sixteen years before maturity	3 3/4%
More than sixteen years but not more than eighteen years before maturity	5 1/4%
More than eighteen years before maturity	6 1/2%

SCHEDULE 3**Description of the Project**

The Project is part of TDM's Program (1968-1970) under the First Malaysia Plan for the expansion and improvement of telecommunications services in Malaysia. The Project consists of the following:

1. approximately 40,000 lines of new automatic local switching equipment and associated subscribers outside line plant and telephone installations;
2. long-distance microwave, cables and overhead lines and switching installations, including links between West and East Malaysia, and subsidiary and junction networks;
3. additions to and redeployment of existing radio, cable and openwire facilities for long-distance and junction networks, provision of systems for servicing new areas and for improving present facilities;
4. telegraph and telex equipment and subscribers installations;
5. additional common facilities for technical and administrative services;
6. the strengthening of TDM's planning and implementation of the Project and of future development.

The Project will be executed by TDM and is expected to be completed by December 1970.

SCHEDULE 4

I. With respect to contracts (other than contracts for consultants' services) involving an amount of \$50,000 equivalent or more, the following procedures shall apply:

- (A) Before bids are invited or at latest at the time of issuance of bidding documents, the Borrower shall submit to the Bank for review and comment the invitations to bid, specifications and all other tender documents, together with a description of advertising procedures. If prequalification is to be used, before the qualification information is invited, the Borrower shall submit to the Bank for review and comment the procedures for such prequalification.
- (B) After bids have been received and analyzed, the bid analysis and recommendation for contract award, together with the reasons for such recommendation, will be submitted by the Borrower to the Bank for review and comment prior to the contract award or the issuance of a letter of intent.
- (C) As soon as a contract is signed, the Borrower shall furnish to the Bank a certified copy of such contract.

II. With respect to contracts (other than contracts for consultants' services) involving an amount below \$50,000 equivalent, the Borrower shall furnish to the Bank the documents referred to in Paragraph I above prior to the submission of an application for withdrawal from the Loan Account on account of expenditures on the contract in question.