

No. 10486

**INTERNATIONAL DEVELOPMENT ASSOCIATION
and
AUSTRALIA**

Letter Agreement regarding undertakings made by the Commonwealth of Australia with reference to the Development Credit Agreement—*New Britain Smallholder Development Project*—of 21 January 1969 between the Association and the Administration of the Territory of Papua and New Guinea (with, as annexes, the said Development Credit Agreement and Development Credit Regulations No. 1). Washington, 21 January 1969

Authentic text: English.

Registered by the International Development Association on 25 May 1970.

**ASSOCIATION INTERNATIONALE DE DÉVELOPPEMENT
et
AUSTRALIE**

Accord par lettre se rapportant aux engagements pris par le Commonwealth d'Australie en ce qui concerne le Contrat de crédit de développement — *Projet relatif à la promotion des petits investissements en Nouvelle-Bretagne* — en date du 21 janvier 1969 entre l'Association et l'Administration du Territoire du Papua et de la Nouvelle-Guinée (avec, en annexe, ledit Contrat de crédit de développement et le Règlement n° 1 sur les crédits de développement). Washington, 21 janvier 1969

Texte authentique: anglais.

Enregistré par l'Association internationale de développement le 25 mai 1970.

LETTER AGREEMENT¹ BETWEEN THE INTERNATIONAL DEVELOPMENT ASSOCIATION AND AUSTRALIA REGARDING UNDERTAKINGS MADE BY THE COMMONWEALTH OF AUSTRALIA WITH REFERENCE TO THE DEVELOPMENT CREDIT AGREEMENT—*NEW BRITAIN SMALLHOLDER DEVELOPMENT PROJECT*—OF 21 JANUARY 1969 BETWEEN THE ASSOCIATION AND THE ADMINISTRATION OF THE TERRITORY OF PAPUA AND NEW GUINEA

THE COMMONWEALTH OF AUSTRALIA

January 21, 1969

International Development Association
1818 H Street N.W.
Washington, D.C. 20433

Re : Credit No. 137-PNG
(*New Britain Smallholder Development Project*)
Undertakings by the Commonwealth of Australia

Dear Sirs :

We refer to the Development Credit Agreement (*New Britain Smallholder Development Project*) between the International Development Association (the Association) and the Administration of the Territory of Papua and New Guinea (the Borrower), of even date herewith.²

It is the policy of the Commonwealth Government in relation to the Territory of Papua and New Guinea to assist towards its economic advancement by providing help through budgetary support. So long as the Commonwealth remains responsible for the said Territory this policy will be continued to the extent that the said Territory's needs are not met by financial help from other sources.

¹ Came into force on 15 July 1969, the date when the above-mentioned Development Credit Agreement entered into force by notification to the Government of Australia and the Administration of the Territory of Papua and New Guinea.

² See p. 306 of this volume.

The Commonwealth Government understand that in connection with the abovementioned Project, arrangements have been made by the Borrower to provide funds in an amount sufficient to meet the cost thereof, presently estimated in the equivalent of U.S. \$3,300,000. The equivalent of U.S. \$1,500,000 would come from the abovementioned Credit and the remainder from the Borrower's own resources, including financial assistance from the Commonwealth Government, if necessary. The Commonwealth Government confirm that the funds to be provided from such assistance will be made available to the Borrower promptly as required to enable it to meet the cost of the Project. Should the cost of the Project exceed the equivalent of U.S. \$3,300,000, the Commonwealth Government, so long as they remain responsible for the said Territory, will take such action, in consultation with the Association and the Borrower, as shall be appropriate and feasible in the light of all the circumstances to assist the Borrower to obtain the needed funds. If, before the completion of the Project, a constitutional change were made whereby the Commonwealth Government would no longer be responsible for the said Territory or for any part thereof within which any part of the Project is to be carried out, the Commonwealth Government will, before the effective date of such change, use their best endeavours, in consultation with the Association and the Borrower, to ensure that sufficient funds will be available to the said Territory.

We wish to confirm that, (i) pursuant to Sub-Section (1) of Section 75A of the Papua and New Guinea Act 1949-1968, where any moneys are borrowed by the Borrower by way of a public loan, as defined in Sub-Section (2) of said Section, the Commonwealth is deemed, by force of the said Section, to guarantee the due payment of all moneys (including interest) payable by the Borrower under the terms and conditions in accordance with which the moneys are borrowed and the provisions relating to public loans contained in the laws of the said Territory in force at the time of the borrowing; (ii) pursuant to Sub-Section (2) of the said Section, the abovementioned Credit qualifies as a public loan for purposes of Sub-Section (1) of the said Section; and (iii) so long as the Commonwealth Government remain responsible for the said Territory, the Commonwealth Government will ensure that any necessary permission is granted to the Borrower to enable it to purchase the currencies required to service the abovementioned Credit.

We also wish to confirm that :

- (1) The Commonwealth Government will take or cause to be taken all action necessary or appropriate to enable the Borrower to perform all covenants, agreements and obligations of the Borrower set forth in the abovementioned Development Credit Agreement and will not take or, within the limits of their constitutional powers, permit any of their political subdivisions or agencies to take any action which would prevent or interfere with the performance by the Borrower of such covenants, agreements and obligations;

- (2) The principal of, and service charges on, the abovementioned Credit shall be paid without deduction for, and free from, any taxes, and free from all restrictions, imposed under the laws of the Commonwealth of Australia or laws in effect in its territories; and
- (3) The abovementioned Development Credit Agreement shall be free from any taxes that shall be imposed under the laws of the Commonwealth of Australia or laws in effect in its territories on or in connection with the execution, delivery or registration thereof.

Very truly yours,

The Commonwealth of Australia :

Authorized Representative

[*Signed*]

H. E. KEITH WALLER

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 21, 1969 between INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association) and ADMINISTRATION OF THE TERRITORY OF PAPUA AND NEW GUINEA (hereinafter called the Borrower).

Article I

CREDIT REGULATIONS; SPECIAL DEFINITIONS

Section 1.01. The parties to this Agreement accept all the provisions of Development Credit Regulations No. 1 of the Association dated June 1, 1961 as amended February 9, 1967,¹ with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Development Credit Regulations No. 1 as so modified being hereinafter called the Regulations), namely :

(a) Paragraph (f) of Section 5.02 is deleted and the following paragraph is substituted therefor :

“(f) An extraordinary situation shall have arisen which shall make it improbable that the Borrower will be able to perform its obligations under the Development Credit Agreement or there shall occur any such change in the nature and constitution of the Borrower as shall make it improbable that the Borrower will be able to carry out its obligations under the Development Credit Agreement.”

(b) The words “The Borrower” are deleted in paragraph (b) (i) of Section 3.01 and in paragraphs (g) and (h) of Section 5.02 and the words “The Commonwealth of Australia” are substituted therefor.

¹ See p. 332 of this volume.

(c) Paragraph (a) of Section 8.01 is deleted and the following paragraph is substituted therefor :

“(a) the execution and delivery of the Development Credit Agreement on behalf of the Borrower have been duly authorized or ratified by all necessary governmental action, including action of the Commonwealth of Australia; and”

(d) Paragraph 5 of Section 9.01 is deleted and the following paragraph is substituted therefore :

“5. The term ‘Borrower’ means the Administration of the Territory of Papua and New Guinea.”

(e) The second sentence of paragraph 6 of Section 9.01 is deleted.

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

(a) “NBPOD” means “New Britain Palm Oil Development Limited”, a company limited by shares, established under the Borrower’s Companies Ordinance 1963 and in accordance with a Memorandum of Association and Articles of Association, both dated May 12, 1967; and such term “NBPOD” also includes :

- (i) “Mosa Plantation Pty. Limited”, a company limited by shares, established under the Borrower’s Companies Ordinance 1963 and in accordance with a Memorandum of Association and Articles of Association, both dated May 23, 1967, which company is wholly owned by NBPOD and is sometimes hereinafter referred to as “the Plantation Company”; and
- (ii) “Mosa Oil Mill Pty. Limited”, a company limited by shares, established under the Borrower’s Companies Ordinance 1963 and in accordance with a Memorandum of Association and Articles of Association, both dated May 23, 1967, which company is wholly owned by NBPOD and is sometimes hereinafter referred to as “the Factory Company”.

(b) “PNGDB” means “The Papua and New Guinea Development Bank”, an instrumentality of the Borrower established by the Papua and New Guinea Development Bank Ordinance 1965 (No. 2 of 1966).

(c) “Management Agreement” means the Management Agreement and Amending Agreement between NBPOD, the Plantation Company and the Factory Company, of the one part, and Harrisons and Crosfield (A. N. Z.) Limited, a Company incorporated under the laws of the State of Victoria, Commonwealth of Australia, of the other part, dated May 29, 1967, as the same may be amended or supplemented from time to time.

(d) “NBPOD Agreement” means the agreement or agreements between the Borrower and NBPOD, providing for the undertaking by NBPOD of certain obligations in respect of the carrying out of Part C of the Project and related matters, as the same may be amended or supplemented from time to time.

(e) “Subsidiary Loan Agreement” means the loan agreement to be entered into between the Borrower and PNGDB, pursuant to Section 3.01 (b) of this Agreement, on terms and conditions satisfactory to the Association, as the same may be amended or supplemented from time to time.

Article II

THE CREDIT

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions in this Agreement set forth or referred to, a development credit in an amount in various currencies equivalent to one million five hundred thousand dollars (\$1,500,000).

Section 2.02. (a) The Association shall open a Credit Account in the name of the Borrower and shall credit to such Credit Account the amount of the Credit.

(b) The amount of the Credit may be withdrawn from the Credit Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Agreement and the Regulations, and in accordance with the allocation of the proceeds of the Credit 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 Association and the Borrower.

Section 2.03. (a) The Borrower shall be entitled to withdraw from the Credit Account in respect of the reasonable cost of goods required for the Project and to be financed under this Agreement :

- (i)* such amounts as shall have been paid (or, if the Association shall so agree, as shall be required to meet payments to be made) for expenditures under Category 1 of the allocation of the proceeds of the Credit set forth in Schedule 1 to this Agreement; and
- (ii)* the equivalent of eighty per cent (80%) of such amounts as shall have been paid (or, if the Association shall so agree, as shall be required to meet payments to be made) for expenditures under Category 2 of the allocation of the proceeds of the Credit set forth in Schedule 1 to this Agreement;

provided, however, that if there shall be an increase in the estimate of expenditures under Category 2, the Association may by notice to the Borrower adjust the above percentage as required in order that withdrawals of the amounts of the Credit then allocated to such Category 2 and not withdrawn may continue *pro rata* with expenditures remaining to be made under such Category.

(b) Except as shall be otherwise agreed between the Association and the Borrower, no withdrawals shall be made on account of expenditures made prior to the date of this Agreement.

Section 2.04. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.05. Service and other charges shall be payable semi-annually on March 1 and September 1 in each year.

Section 2.06. The Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 1 and September 1 commencing September 1, 1979 and ending March 1, 2019, each installment to and including the

installment payable on March 1, 1989 to be one-half of one per cent ($\frac{1}{2}$ of 1%) of such principal amount, and each installment thereafter to be one and one-half per cent ($1\frac{1}{2}\%$) of such principal amount.

Section 2.07. The currency of the United States of America is hereby specified for purposes of Section 3.02 of the Regulations.

Article III

USE OF THE PROCEEDS OF THE CREDIT

Section 3.01. (a) The Borrower shall apply the proceeds of the Credit in accordance with the provisions of this Agreement to expenditures on Parts A and B of the Project, described in Schedule 2 to this Agreement.

(b) In the carrying out of the provisions of the foregoing paragraph *(a)* of this Section, the Borrower shall relend to PNGDB, pursuant to the Subsidiary Loan Agreement, the amount of the Credit allocated from time to time to Category 2 of the allocation of the proceeds of the Credit set forth in Schedule 1 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, the goods to be financed out of the proceeds of the Credit shall be procured in accordance with such methods and procedures as shall be determined by agreement between the Association and the Borrower, subject to modification by further agreement between them.

Section 3.03. Except as the Association shall otherwise agree, the Borrower shall cause all goods financed out of the proceeds of the Credit to be used exclusively in the carrying out of Parts A and B of the Project.

Article IV

PARTICULAR COVENANTS

Section 4.01. The Borrower shall (i) carry out Part A of the Project, (ii) make and maintain arrangements with PNGDB under the Subsidiary Loan Agreement, satisfactory to the Association, for the carrying out by PNGDB of Part B of the Project, and (iii) make and maintain arrangements with NBPOD under the NBPOD Agreement, for the carrying out by NBPOD of Part C of the Project, all with due diligence and efficiency and in conformity with sound agricultural, engineering, administrative, economic and financial practices and shall provide, and cause PNGDB and NBPOD to be provided with, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 4.02. (a) The Borrower shall (i) cause PNGDB punctually to perform all the covenants, agreements and obligations of PNGDB set forth in the Subsidiary Loan Agreement and (ii) take or cause to be taken all action necessary or appropriate to enable PNGDB and NBPOD to perform all covenants, agreements and obligations of PNGDB and NBPOD respectively set forth in the Subsidiary Loan Agreement and the NBPOD Agreement and shall not take or permit any of its political subdivisions or agencies to take any action which would prevent or interfere with the performance by PNGDB or NBPOD of such covenants, agreements and obligations.

(b) The Borrower shall exercise its rights in relation to the Subsidiary Loan Agreement and the NBPOD Agreement in such manner as to protect the interests of the Borrower and the Association; and except as the Association shall otherwise agree, the Borrower shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving any provision of the Subsidiary Loan Agreement.

Section 4.03. The Borrower shall furnish or cause to be furnished to the Association, promptly upon their preparation, the reports, plans, specifications, contract documents and work schedules for the Project and any material modifications subsequently made therein, in such detail as the Association shall reasonably request.

Section 4.04. (a) The Borrower shall maintain or cause to be maintained records adequate to identify the goods financed out of the proceeds of the Credit and out of the proceeds of PNGDB loans made under Part B of the Project, 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, administration and financial condition, in respect of the Project, of any department or agency of the Borrower (including PNGDB) responsible for the carrying out of the Project or any part thereof or the maintenance of all works, facilities and equipment related thereto and shall enable the Association's representatives to inspect the Project, the goods financed out of the proceeds of the Credit and out of the proceeds of PNGDB loans made under Part B of the Project, and any relevant records and documents.

(b) The Borrower shall at all times maintain auditing arrangements satisfactory to the Association, with regard to all expenditures made in connection with Parts A and B of the Project.

Section 4.05. (a) The Borrower and the Association shall cooperate fully to ensure that the purposes of the Credit will be accomplished. To that end, the Borrower and the Association shall from time to time at the request of either party, exchange views through their representatives with regard to: the performance by the Borrower of its obligations under this Agreement, the administration, operations and financial condition of any department or agency of the Borrower (including PNGDB) responsible for the carrying out of the Project or any part thereof or the maintenance of all works, facilities and equipment related thereto, and other matters relating to the purposes of the Credit.

(b) The Borrower shall furnish to the Association all such information as the Association shall reasonably request concerning: the expenditure of the proceeds of the Credit and of the proceeds of PNGDB loans made under Part B of the Project, the goods financed out of such proceeds, the Project, and the administration, operations and financial condition of any department or agency of the Borrower (including PNGDB) responsible for the carrying out of the Project or any part thereof or the maintenance of all works, facilities and equipment related thereto.

(c) The Borrower shall promptly inform the Association of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the

Credit or the maintenance of the service thereof or the performance by the Borrower, PNGDB or NBPOD of their obligations under this Agreement, the Subsidiary Loan Agreement and the NBPOD Agreement. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower and, to the extent possible, the international balance of payments position of the Borrower.

(d) The Borrower shall afford all reasonable opportunity for accredited representatives of the Association to visit any part of the territories of the Borrower for purposes related to the Credit.

Section 4.06. The Borrower shall adequately maintain or cause to be maintained all works, facilities and equipment related to the Project and from time to time shall make or cause to be made all necessary renewals and repairs thereof in accordance with sound agricultural and engineering practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 4.07. The Borrower undertakes to insure or cause to be insured, or make other provision satisfactory to the Association for the insurance of, the imported goods to be financed out of the proceeds of the Credit or out of the proceeds of PNGDB loans made under Part B of the Project against marine, transit and other hazards incident to the 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 to replace or repair such goods.

Section 4.08. The principal of, and service charges on, the Credit 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.

Section 4.09. This Agreement 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, delivery or registration thereof.

Section 4.10. In the carrying out of Part A of the Project, the Borrower shall :

- (a) grant to qualified settlers (hereinafter called the smallholders) 99-year lease on Borrower's plots, each containing about 15 acres of land suitable for oil palm cultivation under good husbandry and residence conditions and under such other conditions as shall be satisfactory to the Borrower and the Association, including, but without being limited to, the Borrower's right to terminate any such lease in the event of failure by the smallholder to perform his obligations thereunder;
- (b) cause the smallholders to (i) plant with oil palms a minimum aggregate of 4,600 acres not later than June 30, 1972, and to properly maintain and harvest such minimum aggregate acreage thereafter, or make alternative arrangements, satisfactory to the Association, for the purpose and (ii) supply to the Factory Company, until they have fully repaid the principal of, and interest and other charges on, the loans made to them by PNGDB under Part B of the Project, their entire production of fresh fruit bunch, or make alternative arrangements, satisfactory to the Association, the Borrower and NBPOD; and

- (c) make arrangements satisfactory to the Association for the procurement and use of adequate quantities of cover crop seed and a suitable kind of pollen in the smallholders' settlement.

Section 4.11. Unless the Association shall otherwise agree, the Borrower shall make and maintain arrangements, satisfactory to the Association, with NBPOD under the NBPOD Agreement, for :

- (a) the Plantation Company to grow or import high-yield oil palm seedlings and to sell adequate quantities thereof to the smallholders to be settled under Part A of the Project; and
- (b) the Factory Company to (i) accept, process and market for a period of twenty-five years the fresh fruit bunch production of not less than 4,640 acres of oil palms planted by such smallholders at a purchase price to be established in accordance with a formula to be agreed from time to time between the Borrower and NBPOD in consultation with the Association, on the basis set forth in Schedule 3 to this Agreement and (ii) withhold, for PNGDB's account, from any amounts payable to such smallholders on account of such production such part thereof as shall be established by PNGDB as amortization and interest on PNGDB loans made under Part B of the Project, such withholding not to exceed one-half of any amount payable to such smallholders.

Section 4.12. In the event that the Factory Company's processing and marketing facilities shall not be available as provided in Section 4.11 (b) (i) of this Agreement, the Borrower shall make arrangements, satisfactory to the Association, providing for alternative fresh fruit bunch processing and marketing facilities.

Section 4.13. The Borrower shall make arrangements satisfactory to the Association under the Subsidiary Loan Agreement for the establishment and maintenance by PNGDB of operating policies and procedures in respect of the Project as are set forth in Schedule 4 to this Agreement, subject to modification in consultation with the Association and the Borrower.

Section 4.14. If, at any time, the Borrower, or the Governor-General of the Commonwealth of Australia, pursuant to Sections 65 (b) and 78 of the Papua and New Guinea Act 1949-1968 of the Commonwealth of Australia, shall enact or amend, or propose to enact or amend, any regulations applicable in the territories of the Borrower, on the marketing of palm oil, palm kernels or derivatives thereof, the Borrower shall promptly inform the Association and exchange views with it thereon.

Article V

REMEDIES OF THE ASSOCIATION

Section 5.01. (i) If any event specified in paragraph (a) or paragraph (c) of Section 5.02 of the Regulations shall occur and shall continue for a period of thirty days, or (ii) if any event specified in paragraph (b) of Section 5.02 of the Regulations or in paragraph (a), paragraph (b), paragraph (c), paragraph (d) or paragraph (e) of Section 5.02 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof

shall have been given by the Association to the Borrower, then at any subsequent time during the continuance thereof, the Association, at its option, may declare the principal of the Credit then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Development Credit Agreement to the contrary notwithstanding.

Section 5.02. The following are specified as additional events for the purpose of paragraph (k) of Section 5.02 of the Regulations :

(a) Any provision of (i) the Palm Oil Industry (New Britain Agreement) Ordinance 1967 (No. 23 of 1967) of the Borrower including the Schedule thereto; or (ii) the Memoranda and Articles of Association, referred to in Section 1.02 (a) of this Agreement, of New Britain Palm Oil Development Limited, the Plantation Company or the Factory Company; or (iii) the Management Agreement, shall have been amended, suspended or abrogated so as to adversely affect the Project or the performance by NBPOD of its obligations under the NBPOD Agreement.

(b) Any provision of the Papua and New Guinea Development Bank Ordinance 1965 (No. 2 of 1966) of the Borrower shall have been amended, suspended or abrogated so as to adversely affect the Project, the operations or financial conditions of PNGDB or the performance by PNGDB of its obligations under the Subsidiary Loan Agreement.

(c) NBPOD shall have failed to perform any covenant or agreement of NBPOD under the NBPOD Agreement.

(d) PNGDB shall have failed to perform any covenant or agreement of PNGDB under the Subsidiary Loan Agreement.

(e) A default shall have occurred in the performance of any covenant or agreement on the part of the Borrower under the NBPOD Agreement or the Subsidiary Loan Agreement.

(f) An extraordinary situation shall have arisen which shall make it improbable that NBPOD or PNGDB will be able to perform their respective obligations under the NBPOD Agreement or the Subsidiary Loan Agreement.

Article VI

EFFECTIVE DATE; TERMINATION

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 8.01 (b) of the Regulations :

(a) the execution and delivery of the NBPOD Agreement on behalf of the Borrower and NBPOD have been duly authorized or ratified by all necessary corporate and governmental action; and

(b) the execution and delivery of the Subsidiary Loan Agreement on behalf of the Borrower and PNGDB have been duly authorized or ratified by all necessary corporate and governmental action.

Section 6.02. The following are specified as additional matters, within the meaning of Section 8.02 (b) of the Regulations, to be included in the opinion or opinions to be furnished to the Association :

- (a) that the Ordinance of the Borrower authorizing or ratifying this Agreement has been laid before each House of Parliament of the Commonwealth of Australia;
- (b) that the NBPOD Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and NBPOD and constitutes a valid and binding obligation of the Borrower and NBPOD in accordance with its terms; and
- (c) that the Subsidiary Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and PNGDB and constitutes a valid and binding obligation of the Borrower and PNGDB in accordance with its terms.

Section 6.03. If this Agreement shall not have come into force and effect by May 16, 1969, this Agreement and all the obligations of the parties hereunder shall terminate, unless the Association, after consideration of the reasons for the delay, establishes a later date for the purposes of this Section. The Association shall promptly notify the Borrower of such later date.

Article VII

MISCELLANEOUS

Section 7.01. The Closing Date shall be December 31, 1972 or such other date as may from time to time be agreed between the Borrower and the Association.

Section 7.02. The following addresses are specified for the purposes of Section 7.01 of the Regulations :

For the Association :

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address :

Indevas
Washington, D.C.

For the Borrower :

His Honour the Administrator of Papua and New Guinea
Port Moresby
Papua and New Guinea

Cable address :

Admin
Port Moresby

Section 7.03. The Administrator of Papua and New Guinea is designated for the purposes of Section 7.03 of the Regulations.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Development Credit 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.

International Development Association :

By J. BURKE KNAPP
Vice President

Administration of the Territory of Papua and New Guinea :

By G.A. LOW
Authorized Representative

SCHEDULE 1

ALLOCATION OF THE PROCEEDS OF THE CREDIT

<i>Category</i>	<i>Amounts Expressed in U.S. Dollar Equivalent</i>
1. Borrower's services to smallholders :	
(a) Land sub-division and crop extraction roads	430,000
(b) Agricultural extension services	320,000
2. Long-term PNGDB loans investment in smallholdings	600,000
3. Unallocated	150,000
	TOTAL : 1,500,000
	1,500,000

REALLOCATION UPON CHANGE IN COST ESTIMATES

1. If the estimate of the cost of the items included in Categories 1 or 2 shall decrease, the amount of the Credit then allocated to, and no longer required for, such Category will be reallocated by the Association to Category 3.

2. If the estimate of the cost of the items included in Categories 1 or 2 shall increase, an amount equal to such increase in the case of Category 1 or an amount equal to 80% of such increase in the case of Category 2, will be allocated by the Association, at the request of the Borrower, to such Category from Category 3, subject, however, to the requirement for contingencies, as determined by the Association, in respect of the cost of the items in the other Category.

SCHEDULE 2

DESCRIPTION OF PROJECT

The Project is the initial phase of development of about 9,000 acres in the West New Britain District and includes :

Part A. i) Settlement by the Borrower, before June 30, 1969, of about 580 smallholders on about 8,700 acres in the blocks known as Kapore, Tamba, Sarakolok and Lakiemata and, within 3 years after each settlement, clearing and planting with oil palms of 8 acres on each smallholder plot.

ii) Provision by the Borrower of adequate educational and health services to the smallholders.

iii) Provision by the Borrower of adequate extension services, including supervision, for oil palm cultivation and harvesting by the smallholders.

iv) Construction by the Borrower of all-weather crop extraction roads linking each smallholder plot with the factory.

v) Construction by the Borrower of an overseas wharf capable of handling the export by ocean-going freighters of the palm oil factory production, to be operative not later than June 30, 1971, and of an all-weather road and associated bridges linking the overseas wharf and the factory.

Part B. Provision by PNGDB of long-term loans to smallholders.

Part C. Establishment and operation of a palm oil factory and of oil pumping and storage facilities at the overseas wharf.

SCHEDULE 3

Basic principles to be followed by NBPOD and the Borrower to formulate the purchase price of fresh fruit bunch, payable by NBPOD to the smallholders :

(a) Each calendar month, the Borrower will gazette a local f.o.b. equivalent of the European main port c.i.f. price for palm oil and palm kernels as of an agreed date in the preceding month, less agreed freight, insurance, commissions, normal wastage and overseas port rates.

(b) An agreed deduction will be made for wharf handling charges and for running NBPOD's oil pumping and storage facilities at the wharf to determine the "in-tank" value of palm oil and the "in-store" value of palm kernels.

(c) To cover the cost of financing bulk storage, a deduction of three months' simple interest at 0.5 per cent per annum over NBPOD's bankers' current lending rate on commercial advances will be allowed on the said "in-tank" and "in-store" values of oil and kernels.

(d) An agreed deduction will be made for transportation of palm oil and palm kernels from factory to wharf and for bulk handling, bagging, handling and storage of palm kernels to determine the factory tank value of palm oil and the factory store value of naked palm kernels.

(e) The ex-factory value of the derivatives of a ton of smallholders' fresh fruit bunch will be derived from the factory tank value of palm oil and the factory store value of naked palm kernels by :

- (i) first, deducting an agreed amount, per ton of palm oil and per ton of naked palm kernels, in lieu of profit, depreciation and working capital charges and standard company tax;
- (ii) second, deducting any levies, cesses, export or other charges or duties imposed by any taxing authority of the Borrower, other than standard company tax; and then
- (iii) applying rates of extraction of oil and kernels from smallholders' fresh fruit bunch, as agreed on the basis of monthly factory tests satisfactory to the Borrower.

(f) The purchase price of fresh fruit bunch payable by NBPOD to the smallholders shall be the ex-factory value of the derivatives of a ton of smallholders' fresh fruit bunch less the following agreed charges :

- (i) agreed factory operating costs, including management, but excluding depreciation and working capital charges; and
- (ii) transport costs for collection and delivery to the factory of smallholders' fresh fruit bunch, if this service is performed by NBPOD.

SCHEDULE 4

OPERATING POLICIES AND PROCEDURES OF PNGDB

PNGDB's Lending Policy published in July 1967 shall be applied by PNGDB in making loans under Part B of the Project described in Schedule 2 to this Agreement together with the following supplemental policies and procedures, as such Lending Policy and supplemental policies and procedures (other than the interest rate set forth in paragraph 3 below) shall be amended from time to time by PNGDB after consultation with the Association and the Borrower.

Eligibility

1. All credit-worthy settlers selected by the Borrower for participation in Part A of the Project shall be eligible for PNGDB loans.

Loans

2. PNGDB shall lend to each smallholder up to 2,000 Australian Dollars to be disbursed over about five years, repayable within 11 years including a 5-year grace period. Standard loan agreements shall include such terms and conditions as shall be satisfactory to the Association, *inter alia*, good husbandry, prompt harvesting and residence covenants on the part of the smallholder, withholding of amounts payable by NBPOD to the smallholder in accordance with Section 4.11 (b) (ii) of this Agreement and adequate rights for suspension of disbursements and foreclosure or other enforcement of security in favor of PNGDB.

Interest

3. PNGDB's loans under Part B of the Project shall bear interest at a rate of not less than 6% per annum on the outstanding balance. PNGDB shall not increase such interest rate without prior consultation with the Association.

Amount

4. Subject to the maximum established in paragraph 2 above, the amount of each loan shall be determined by PNGDB in consultation with the Borrower's Department of Agriculture, Stock and Fisheries (DASF), on the basis of a standard budget showing the maximum amount to be lent for each type of expenditure listed therein, including a smallholder's monthly cash allowance and interest to accrue during the grace period.

Disbursement and Records

5. PNGDB shall make arrangements with DASF for DASF to (i) disburse the monthly cash allowance to smallholders; (ii) suspend such disbursements whenever smallholders fall behind schedule in the clearing, planting or maintenance of their plots or in harvesting their crops; (iii) report to PNGDB on the foregoing and (iv) inform PNGDB of the amounts to be charged to each smallholder's loan account for goods and services supplied, such information to be supported with the smallholder's receipts for such goods and services in the amounts to be charged. PNGDB shall furnish semi-annual statements to each smallholder showing the amounts drawn on the smallholder's loan account, including interest, payments made and the outstanding balance of the loan.

Supervision

6. PNGDB shall ensure that amounts drawn on smallholders' loans are applied exclusively to expenditures on Part A of the Project, and its staff shall regularly visit the smallholders' plots to ensure that the smallholders are complying with the terms of their loan agreements.

Relending

7. Proceeds of payments received by PNGDB on account of loans made by PNGDB under Part B of the Project, which are not required by PNGDB to service the loan from the Borrower under the Subsidiary Loan Agreement or to meet PNGDB's expenses arising from Part B of the Project, shall be relented by PNGDB for the purpose of financing further agricultural development in the territories of the Borrower.

Reports and Information

8. PNGDB shall furnish to the Association semi-annual statements of amounts disbursed under the loans made under Part B of the Project indicating, in such detail as PNGDB and the Association shall agree, the specific goods and services financed therefrom.

9. PNGDB shall transmit to the Association, promptly after their preparation and not later than four months after the close of PNGDB's fiscal year, certified copies of its financial statements (balance sheet and related statement of earnings and expenses) as audited

by the banking section of the Auditor-General's Department of the Commonwealth of Australia and a signed copy of such Auditor General's report.

10. The Association and PNGDB shall cooperate fully to ensure that the purposes of the Credit will be accomplished. To that end, the Association and PNGDB shall from time to time at the request of either party, exchange views through their representatives with regard to : the performance by PNGDB of its obligations, under the Subsidiary Loan Agreement, the administration, operations and financial condition of PNGDB and other matters relating to the purposes of the Credit.

11. PNGDB shall furnish to the Association all such information as the Association shall reasonably request concerning : the expenditure of the proceeds of the Credit made available to it under the Subsidiary Loan Agreement, the goods financed out of such proceeds, Part B of the Project and the administration, operations and financial condition of PNGDB.

12. PNGDB shall promptly inform the Association of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Credit in connection with Part B of the Project or the performance by PNGDB of its obligations under the Subsidiary Loan Agreement.

Miscellaneous

13. PNGDB shall promptly exercise its powers, rights and remedies under the loan agreements with smallholders.

14. PNGDB shall satisfy itself that the rights and obligations of smallholders are clearly drawn to their attention.

INTERNATIONAL DEVELOPMENT ASSOCIATION

DEVELOPMENT CREDIT REGULATIONS No. 1, DATED 1 JUNE 1961,
AS AMENDED 9 FEBRUARY 1967

REGULATIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS WITH MEMBER
GOVERNMENTS

[*Not published herein. See United Nations, Treaty Series, vol. 617, p. 60.*]

THE COMMONWEALTH OF AUSTRALIA
THE ADMINISTRATION OF THE TERRITORY OF PAPUA AND NEW GUINEA

January 21, 1969

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433

Re : Credit No. 137-PNG
(*New Britain Smallholder Development Project*)
Marketing Regulations

Dear Sirs :

We refer to Section 4.14 of the Development Credit Agreement (*New Britain Smallholder Development Project*) between the International Development Association (the Association) and the Administration of the Territory of Papua and New Guinea (the Borrower), of even date herewith.¹

We confirm that, as of this date, neither the Borrower nor the Commonwealth of Australia have enacted any regulations concerning the marketing of palm oil, palm kernels or derivatives thereof, applicable in the territories of the Borrower.

If, at any time, the Governor-General of the Commonwealth shall, pursuant to Sections 65 (b) and 78 of the Papua and New Guinea Act 1949-1968 of the Commonwealth of Australia, enact or amend, or propose to enact or amend, any regulations on the marketing of palm oil, palm kernels or derivatives thereof, applicable in the territories of the Borrower, the Commonwealth of Australia will promptly inform the Association and exchange views with it thereon.

Very truly yours,

The Commonwealth of Australia :

[Signed]

H.E. KEITH WALLER
Authorized Representative

The Administration of the Territory of Papua and New Guinea :

[Signed]

G.A. Low
Authorized Representative

¹ See p. 302 of this volume.