

No. 10570

**INTERNATIONAL DEVELOPMENT ASSOCIATION
and
INDONESIA**

Development Credit Agreement—*North Sumatra Agricultural Estates Project* (with annexed General Conditions Applicable to Development Credit Agreements). Signed at Washington on 20 June 1969

Authentic text: English.

Registered by the International Development Association on 1 July 1970.

**ASSOCIATION INTERNATIONALE
DE DÉVELOPPEMENT
et
INDONÉSIE**

Contrat de crédit de développement — *Projet d'aménagement de zones agricoles dans le nord de Sumatra* (avec, en annexe, les Conditions générales applicables aux contrats de crédit de développement). Signé à Washington le 20 juin 1969

Texte authentique: anglais.

Enregistré par l'Association internationale de développement le 1^{er} juillet 1970.

DEVELOPMENT CREDIT AGREEMENT ¹

AGREEMENT, dated June 20, 1969, between the REPUBLIC OF INDONESIA (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association):

Article I

GENERAL CONDITIONS; SPECIAL DEFINITIONS

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Development Credit Agreements of the Association dated January 31, 1969,² with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Development Credit Agreements being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth, and in the Development Credit Agreement, the following additional terms have the following meanings:

(a) "PNP V" and "PNP VII" mean, respectively, the state-owned estate enterprises (*Perusahaan Negara Perkebunan*) in North Sumatra, established and so designated by Government Regulation No. 14, 1968 as amended and supplemented by Government Regulation No. 17, 1969, and any successor thereto.

(b) "Joint Board of Directors" means the organization of Managing Directors of PNP's I to IX, with offices in Medan, established under Regulation No. 6/Kpts/D/68 of the Director General of State Plantations dated June 17, 1968, and any successor thereto.

(c) "Joint Marketing Office" means the organization of that name established under said Regulation No. 6/Kpts/D/68, and any successor thereto.

¹ Came into force on 10 December 1969, upon notification by the Association to the Government of Indonesia.

² See p. 248 of this volume.

(d) "Subsidiary Loan Agreements" means the agreements referred to in Section 3.01 (b) of this Agreement.

Article II

THE CREDIT

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions in this Development Credit Agreement set forth or referred to, an amount in various currencies equivalent to sixteen million dollars (\$ 16,000,000).

Section 2.02. (a) The Association shall open a Credit Account on its books in the name of the Borrower and shall credit to such 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 Development Credit Agreement 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 Borrower and the Association.

Section 2.03. The Borrower shall be entitled to withdraw from the Credit Account such amounts as shall have been paid (or, if the Association shall so agree, as shall be required to meet payments to be made) after the date of this Agreement for the reasonable cost of goods and services required for the Project, described in Schedule 2 to this Agreement, and to be financed under this Development Credit Agreement; provided, however, that (i) unless the Association shall otherwise agree, no withdrawals shall be made in respect of payments in the currency of the Borrower or for goods produced in, or services supplied from, the territory of the Borrower and (ii), no withdrawals shall be made for part A of the Project until initial appointments to the positions referred to in Section 6.01 (b) have been made in respect of PNP V, nor for part B of the Project until such appointments have been made in respect of PNP VII.

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 charges shall be payable semi-annually on June 15 and December 15 in each year.

Section 2.06. The Borrower shall repay the principal of the Credit withdrawn from the Credit Account in semi-annual instalments payable on each June 15 and December 15 commencing December 15, 1979 and ending June 15, 2019, each instalment to and including the instalment payable on June 15, 1989 to be one-half of one per cent ($\frac{1}{2}$ of 1%) of such principal amount, and each instalment 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 specified for the purposes of Section 4.02 (a) of the General Conditions.

Article III

USE OF PROCEEDS OF THE CREDIT

Section 3.01. (a) The Borrower shall apply the proceeds of the Credit, or cause such proceeds to be applied, in accordance with the provisions of this Development Credit Agreement exclusively to expenditures on the Project.

(b) For the purposes of parts A and B of the Project, to be carried out by PNP V and PNP VII, respectively, Subsidiary Loan Agreements satisfactory in form and substance to the Association shall be entered into between the Borrower and each of such PNP's, providing, *inter alia*, that an amount of the proceeds of the Credit equivalent to \$3,140,000 shall be relented to PNP V and an amount thereof equivalent to \$10,380,000, to PNP VII, and providing for the performance by each PNP of the obligations relating to it set forth in this Agreement, for the doing by each PNP of all such acts as shall be required on its part to enable to Borrower to perform its obligations under this Development Credit Agreement, and for the lending by the Borrower to each such PNP of the Borrower's contribution in its own currency to the financing of the Project. Each Subsidiary Loan Agreement providing for relending of proceeds of the Credit shall provide for eventual adjustments in the amounts of such proceeds relented thereunder, to reflect reallocations pursuant to Schedule 1 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, the Borrower shall, until completion of the Project, cause all goods and services financed out of the proceeds of the Credit to be used exclusively in carrying out the Project.

Section 3.03. Except as the Association shall otherwise agree, (i) the goods to be financed out of the proceeds of the Credit 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 Association in February 1968, and in accordance with such other procedures supplementary thereto as shall be agreed between the Borrower and the Association, and (ii) contracts for the procurement of such goods shall be subject to the prior approval of the Association.

Article IV

PARTICULAR COVENANTS

Section 4.01. The Borrower shall carry out the Project and shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, agricultural and engineering practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 4.02. Pursuant to Section 4.01, the Borrower shall cause the road linking Tebing Tinggi to the Pematang Siantar-Kisaran road and the road from Kisaran to the Sungei Silau estate of PNP V, to be improved and maintained to permit use by ordinary estate vehicles.

Section 4.03. In respect of the carrying out of parts A and B of the Project and of the management and operations of PNP V and PNP VII the Borrower shall, except as the Association shall otherwise agree:

- (a) ensure that all future commercial plantings of oil palms shall be Tenera;
- (b) (i) establish before the end of 1969 scientifically determinable standards of quality for concentrated latex and crumb rubbers which follow internationally accepted forms; (ii) ensure that appropriate testing facilities are made available in North Sumatra for verifying that such standards are being met and (iii) cause PNP V to meet such standards in its production of such products;
- (c) ensure that PNP V maintains arrangements satisfactory to the Association for the processing of the oil palm products expected to result from plantings by PNP V under part A of the Project;

- (d) ensure: (i) that no land be added to or taken from the lands currently under the management and control of PNP V and PNP VII, respectively, and (ii) that additional management burdens, not inherent to the management of their estates, not be imposed upon either of those enterprises without, in the case of either (i) or (ii), the prior agreement of the Association during the period of carrying out of parts A and B of the Project and prior consultation with the Association thereafter;
- (e) ensure that appointments of persons to the positions referred to in Section 6.01 (b) be made only following consultation with the Association and that PNP V and PNP VII be operated at all times according to sound administrative, financial and agricultural practices and policies under qualified and experienced management;
- (f) cause PNP V and PNP VII each to engage a company qualified in the management and operation of plantations, acceptable to the Association and engaged under terms and conditions satisfactory to the Association, to strengthen the management and operations of such PNP's, including the provision of an estate and factory inspection service for at least five years, a financial management adviser for at least two years and such other technical advisers and supporting services as may be necessary;
- (g) cause the accounts of PNP V and PNP VII to be audited at least once each year, and their financial statements (balance sheet and statement of income and expenses) to be certified, by independent auditors satisfactory to the Association, and copies of such statements as so certified, together with the report of the auditors thereon, to be furnished to the Association within three months following the close of each fiscal year;
- (h) cause the Joint Board of Directors to establish by the end of 1969, and to maintain thereafter, a committee for each principal crop produced by the PNP's represented on such Board, each such committee to comprise one representative of each such PNP producing substantial quantities of a given crop, to advise the Joint Marketing Office on the marketing of such crops; and
- (i) ensure that all rubber produced by PNP V and PNP VII be marketed only by the Joint Marketing Office through the standard procedures of such office.

Section 4.04. The plant-breeding training programs and the personnel to be trained thereunder pursuant to part D of the Project shall be subject to the prior approval of the Association.

Section 4.05. In carrying out parts C and D of the Project the Borrower shall employ consultants acceptable to the Association and to an extent and upon terms and conditions satisfactory to the Association.

Section 4.06. The Borrower shall cause all goods to be financed out of the proceeds of the Credit to be insured with responsible insurers against marine, transit and other hazards incident to the acquisition, transportation and delivery of such goods to the place of use or installation, and any indemnity thereunder shall be payable in a currency freely usable by the importer to replace or repair such goods.

Section 4.07. The Borrower shall maintain or cause to be maintained records adequate to show the use of the proceeds of the Credit, and to record the progress of the Project (including the cost thereof); shall enable the Association's representatives to inspect any records and documents relevant to the Project, including records and documents which the consultants employed by the Borrower shall be required to keep for the purposes of the Project; and shall furnish or cause to be furnished to the Association all such information as the Association shall reasonably request concerning the expenditures of the proceeds of the Credit and the Project.

Section 4.08. (a) The Borrower and the Association shall cooperate fully to ensure that the purposes of the Credit 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 administration, operations and financial condition of PNP V and PNP VII, the Joint Marketing Office, the Joint Board of Directors and any other agency charged with carrying out any part of the Project, and to the general status of the Credit. 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 the international balance of payments position of the Borrower.

(b) The Borrower and the Association shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Credit, the maintenance of the service thereof and to the matters

referred to in paragraph (a) of this Section. 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.

(c) 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 4.09. 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 4.10. The Development Credit 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 4.11. The Borrower shall ensure that PNP V and PNP VII shall be subject only to those taxes and rates thereof which are imposed generally upon limited companies or corporations in like circumstances.

Article V

REMEDIES

Section 5.01. If any event specified in Section 7.01 of the General Conditions or in Section 5.02 of this Agreement shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Association, at its option, may by notice to the Borrower declare the principal of the Credit then outstanding to be due and payable immediately, together with the service charges thereon, and upon such declaration such principal and service charges shall become due and payable immediately, anything in this Development Credit Agreement to the contrary notwithstanding.

Section 5.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified:

(a) The Borrower or any other authority shall have taken any action for the dissolution of, or suspension of any operations of, PNP V or PNP VII.

- (b) During the life of the Subsidiary Loan Agreements, or for a period of 16 years after the date hereof, whichever is longer, any change shall have been made in the arrangement described in Section 6.01 (b) of this Agreement, or any provision of a Subsidiary Loan Agreement shall have been amended or waived, without the prior approval of the Association.
- (c) Either PNP V or PNP VII shall have failed to carry out any obligation under its respective Subsidiary Loan Agreement and such default shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower and the PNP in question.

Article VI

EFFECTIVE DATE; TERMINATION

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Development Credit Agreement within the meaning of Section 10.01 (b) of the General Conditions:

- (a) the Subsidiary Loan Agreements, in form and substance satisfactory to the Association, have been entered into by the parties thereto;
- (b) there has been validly established an arrangement, satisfactory to the Association, covering the organization, composition, and respective functions and authorities of officials having responsibility and authority for the policies of PNP V and PNP VII and for the management of their affairs, including physical, financial and other operations, by Boards of Directors and Executive Managements comprising general managers and specialized managers, including production and commercial managers.

Section 6.02. The following are specified as additional matters, within the meaning of Section 10.02 (b) of the General Conditions, to be included in the opinion or opinions be furnished to the Association:

- (a) that PNP V and PNP VII are legal entities duly organized and operating under the laws of the Borrower, with all rights and powers necessary to enable them to carry out their respective parts of the Project and to enter into, and carry out the terms and conditions of, the Subsidiary Loan Agreements; and
- (b) that the Subsidiary Loan Agreements have been duly authorized or ratified by, and executed and delivered on behalf of, the respective parties thereto and constitute valid and binding obligations of such parties in

accordance with their terms, subject only to the effectiveness of this Development Credit Agreement; and

- (c) that the arrangement referred to in Section 6.01 (b) has been duly and validly adopted and is in full force and effect.

Section 6.03. The date of September 26, 1969 is specified for the purposes of Section 10.04 of the General Conditions.

Section 6.04. The obligations of the Borrower in respect of the parts of the Project concerned under Section 4.02, 4.03, 4.04 and 4.11 of this Agreement shall terminate on the respective dates on which the Subsidiary Loan Agreement covering such part of the Project shall terminate, or on a date 16 years after the date of this Development Credit Agreement, whichever shall be the later.

Article VII

MISCELLANEOUS

Section 7.01. The Closing Date shall be June 30, 1974 or such other date as may from time to time be agreed between the Borrower and the Association.

Section 7.02. The Minister of Finance of the Borrower is designated as the representative of the Borrower for the purposes of Section 9.03 of the General Conditions.

Section 7.03. The following addresses are specified for the purposes of Section 9.01 of the General Conditions.

For the Borrower:

Ministry of Finance
Post Office Box 21
Djakarta, Indonesia

Alternative address for cables:

Ministry Finance
Djakarta

For the Association:

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

Alternative address for cables:

Indevas
Washington, D. C.

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 to be delivered in the District of Columbia, United States of America, as of the day and year first above written.

Republic of Indonesia:

By SOEDJATMOKO
Authorized Representative

International Development Association:

By ROBERT S. McNAMARA
President

SCHEDULE 1

ALLOCATION OF PROCEEDS OF THE CREDIT

<i>Category</i>	<i>Amounts Expressed in Dollar Equivalent</i>
A. For part A of the Project (PNP V)	
1. Fertilizer	610,000
2. Processing and storage facilities	500,000
3. Vehicles and agricultural machinery	1,430,000
4. Technical services	600,000
B. For part B of the Project (PNP VII)	
1. Fertilizer	4,580,000
2. Processing facilities and workshop equipment.	3,490,000
3. Vehicles, agricultural machinery, locomotives and rolling stock.	1,580,000
4. Materials for road/rail-crop transfer structures	100,000
5. Technical services	630,000
C. Technical assistance for	
1. Plant-breeding programs	100,000
2. Joint Marketing Office.	360,000
3. Government estates survey	340,000
4. Smallholder feasibility study	200,000
D. Unallocated	1,480,000
	<u>16,000,000</u>

REALLOCATIONS UPON CHANGES IN COST ESTIMATES

1. If the estimate of the cost of any item included under any of the Categories A, B or C shall decrease, the amount of the Credit then allocated to, but no longer required for, such item will be reallocated by the Association to Category D.

2. If the estimate of the cost of any such item shall increase, an amount equal to the portion, if any, of such increase to be financed out of the proceeds of the Credit will be allocated by the Association, at the request of the Borrower, to such item from Category D, subject, however, to the requirements for contingencies, as determined by the Association, in respect of the cost of the other items.

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The Project constitutes a program of rehabilitation and development of Government-owned estates as well as a feasibility study for smallholder rubber rehabilitation in Atjeh and North Sumatra, over the period 1969-1973. It includes:

Part A. The rehabilitation and development of PNP V, involving:

- 1) re-planting with rubber about 5,830 ha of uneconomic rubber;
- 2) re-planting with oil palms about 1,080 ha of uneconomic rubber;
- 3) planting with rubber about 720 ha of presently uncultivated land;
- 4) bringing into commercial production the above areas and some 7,070 ha of immature rubber planted prior to 1969;
- 5) rehabilitating, through a fertilizer application program in 1970 and 1971, about 960 ha of mature oil palms and about 9,660 ha of mature rubber;
- 6) rehabilitating, replacing and expanding rubber processing and storage facilities and transportation equipment, to handle the crop from the above areas;
- 7) rehabilitating, replacing and expanding estate buildings, personnel transport and machinery for land-clearing and estate road maintenance, as required for the efficient conduct of estate operations;
- 8) employing a company qualified in the management and operation of plantations to provide technical assistance to PNP V management, including an estate and factory advisory and inspection service and a financial management adviser; and
- 9) purchasing foliar analysis services.

Part B. The rehabilitation and development of PNP VII, involving:

- 1) re-planting with oil palms about 4,900 ha of uneconomic crops;
- 2) planting with oil palms about 4,800 ha of presently uncultivated land;

- 3) felling, clearing and planting with oil palms about 2,890 ha of virgin jungle;
- 4) bringing into commercial production the above areas and some 5,750 ha of oil palms planted prior to 1969;
- 5) rehabilitating, through a fertilizer application program in 1969 through 1971, about 23,030 ha of mature oil palms;
- 6) rehabilitating, replacing and expanding oil palm fruit processing and storage facilities and transportation equipment, to handle the crop from the above areas;
- 7) rehabilitating, replacing and expanding estate buildings, personnel transport and machinery for a central workshop, land-clearing and estate road maintenance, as required for the efficient conduct of estate operations;
- 8) employing a company qualified in the management and operation of plantations to provide technical assistance to PNP VII management, including an estate and factory advisory and inspection service and a financial management adviser; and
- 9) purchasing foliar analysis services.

Part C. The carrying out by the Borrower, utilizing the services of firms of consultants, of:

- 1) a market survey for oil palm and rubber products produced by Government-owned estates in Atjeh and North Sumatra and technical assistance in marketing estate products;
- 2) a development survey of Government-owned estates in Atjeh and North Sumatra and of such rubber-producing estates elsewhere; and
- 3) a feasibility study for the rehabilitation of the small-holder rubber sector in Atjeh and North Sumatra.

Part D. Implementation by the Borrower of plant-breeding programs to service all Government-owned rubber and oil palm estates and small-holders in Atjeh and North Sumatra, involving:

- 1) employment of consultants to make periodic advisory visits;
- 2) training outside Indonesia of personnel employed on the programs; and
- 3) the procurement of requisite equipment for such programs.

INTERNATIONAL DEVELOPMENT ASSOCIATION

GENERAL CONDITIONS, DATED 31 JANUARY 1969

GENERAL CONDITIONS APPLICABLE TO DEVELOPMENT CREDIT AGREEMENTS

[*Not published herein. See United Nations, Treaty Series, Vol. 703. p. 244.*]
