

No. 10960

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**INTERNATIONAL DEVELOPMENT ASSOCIATION  
and  
INDONESIA**

**Development Credit Agreement—*Second North Sumatra Agricultural Estates Project* (with annexed General Conditions Applicable to Development Credit Agreements).  
Signed at Washington on 15 June 1970**

*Authentic text: English.*

*Registered by the International Development Association on 26 February 1971.*

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**ASSOCIATION INTERNATIONALE  
DE DÉVELOPPEMENT  
et  
INDONÉSIE**

**Contrat de crédit de développement — *Deuxième projet d'aménagement d'exploitations agricoles dans le nord de Sumatra* (avec, en annexe, les Conditions générales applicables aux contrats de crédit de développement).  
Signé à Washington le 15 juin 1970**

*Texte authentique : anglais.*

*Enregistré par l'Association internationale de développement le 26 février 1971.*

## DEVELOPMENT CREDIT AGREEMENT<sup>1</sup>

AGREEMENT, dated June 15, 1970, between the REPUBLIC OF INDONESIA (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association).

### *Article I*

#### GENERAL CONDITIONS; DEFINITIONS

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

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

(a) "PNP IV" and "PNP VI" 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. 18, 1970, and any successor thereto.

(b) "Joint Board of Directors" means the organization of Managing Directors of PNPs 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.

(d) "RISPA" means the Estates Research Institute in Medan, within the Directorate-General of Estates in the Ministry of Agriculture, and any successor thereto.

<sup>1</sup> Came into force on 9 February 1971, upon notification by the Association to the Government of Indonesia.

<sup>2</sup> See p. 240 of this volume.

(e) "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 seventeen million dollars (\$17,000,000).

*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, shall be required to meet payments to be made) in respect of the reasonable cost of goods or 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 territories of the Borrower, and (ii) no withdrawals shall be made in respect of Estate Tanah Itam Ulu of PNP VI until the blocked outlet drain to the sea at Tanah Itam Ulu has been rehabilitated.

*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 May 1 and November 1 in each year.

*Section 2.06.* The Borrower shall repay the principal amount of the Credit withdrawn from the Credit Account in semi-annual installments payable on each May 1 and November 1 commencing November 1,

1980 and ending May 1, 2020, each installment to and including the installment payable on May 1, 1990 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 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 the proceeds of the Credit 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 IV and PNP VI, respectively, Subsidiary Loan Agreements satisfactory in form and substance to the Association shall be entered into between the Borrower and each of such PNPs, providing, *inter alia*, that an amount of the proceeds of the Credit equivalent to \$2,900,000 shall be relented to PNP IV and an amount of the proceeds of the Credit equivalent to \$12,000,000 shall be relented to PNP VI, and providing for the performance by each of such PNPs of the obligations relating to it set forth in this Development Credit Agreement, for the doing by each of such PNPs of all such acts as shall be required on its part to be done to enable the 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 the 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 may 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 and services 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 Bank in August 1969, and in accordance with such other procedures supplementary thereto as are set forth in Schedule 3 to this Agreement or as shall be agreed between the Borrower and the Associa-

tion, and (ii) contracts for the procurement of such goods and services 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 of this Agreement, the Borrower shall (i) cause the Rantau Prapat-Adjamu road, and all other roads to be used by ordinary estate vehicles for the carrying out of the Project, to be improved and properly maintained to permit use by said vehicles; and (ii) rehabilitate and properly maintain the blocked outlet drain to the sea at Tanah Itam Ulu, and all other outlet drains to the sea affecting PNP IV and PNP VI, said rehabilitation at Tanah Itam Ulu to be completed by not later than June 30, 1971.

*Section 4.03.* In respect of the carrying out of Parts A and B of the Project, and of the management and operation of PNP IV and PNP VI, the Borrower shall, except as the Association shall otherwise agree:

- (a) ensure that all planting material used for commercial plantings of rubber and oil palm during the years 1971 to 1974, inclusively, will have been recommended by the plant-breeding consultants to be employed by the Borrower pursuant to Section 4.05 of the Development Credit Agreement between the Borrower and the Association dated June 20, 1969;<sup>1</sup>
- (b) cause all necessary measures to be taken to ensure that all persons illegally occupying any part of the estates of PNP IV and PNP VI and whose continued presence thereon could otherwise impede the implementation of the Project, shall timeously vacate or be evicted therefrom;
- (c) ensure that PNP IV and PNP VI maintain arrangements satisfactory to the Joint Marketing Office and to the Association for the processing of their products, and in particular that no processing arrangements pres-

<sup>1</sup> United Nations, *Treaty Series*, vol. 736, p. 221.

ently in use will continue to be used by PNP IV or PNP VI without the prior approval in each case of the Joint Marketing Office and of the Association;

- (d) ensure (i) that PNP VI shall be divested of all management responsibilities in respect of Estate Karang Inoue and shall be entirely absolved from all liability for the financial losses and obligations of Estate Karang Inoue, of whatsoever nature; (ii) that no land shall be added to or, subject as aforesaid, taken from the lands currently under the management and control of PNP IV and PNP VI, respectively; and (iii) that additional management burdens, not inherent to the management of their estates, shall not be imposed upon PNP IV or PNP VI, without, in the case of either (ii) or (iii), 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 Boards of Directors and Executive Managements of PNP IV and PNP VI shall be made following consultation with the Association, and that PNP IV and PNP VI shall be operated at all times according to sound administrative, financial and agricultural practices and policies under qualified and experienced management;
- (f) cause PNP IV and PNP VI 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 PNPs, including the provision of an estate and factory inspection service for at least five years, a financial adviser, an estate management specialist adviser and an agricultural specialist adviser, each for at least two years, and such other technical advisers and supporting services as may be necessary;
- (g) cause the accounts of PNP IV and PNP VI 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 four months following the close of each fiscal year;
- (h) cause the annual budgets proposed for PNP IV and PNP VI, together with comments thereon by the companies providing inspection services under Section 4.03 (f) of this Agreement, to be submitted to the Association at least thirty days before the commencement of the financial year to which such budgets will apply, and any subsequent material amendments to such budgets, with comments as aforesaid, to be submitted to

the Association at least thirty days before adoption thereof, for (i) approval by the Association of the planting programs to be included in said budgets and (ii) any comments which the Association may wish to make with reference to other aspects of said budgets;

- (i) ensure that rubber, palm oil and palm kernels produced by PNP IV and PNP VI shall be marketed only by the Joint Marketing Office through the standard procedures of such office.

*Section 4.04.* In carrying out Part C of the Project the Borrower shall (i) employ consultants acceptable to the Association and to an extent and upon terms and conditions satisfactory to the Association; and (ii) ensure that the recommendations of said consultants are promptly submitted to the Association in order that agreement may be reached between the Borrower and the Association with reference to the implementation thereof.

*Section 4.05.* 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 4.06.* 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 4.07.* (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 IV and PNP VI, RISPA, 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 4.08.* 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.* 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 4.10.* The Borrower shall ensure that PNP IV and PNP VI 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 IV or PNP VI.
- (b) During the life of the Subsidiary Loan Agreement between the Borrower and PNP IV, or for a period of sixteen years after the date hereof,



whichever is longer, any change concerning PNP IV shall have been made in the arrangement described in said Government Regulation No. 18, 1970, or any provision of said Subsidiary Loan Agreement shall have been amended or waived.

- (c) During the life of the Subsidiary Loan Agreement between the Borrower and PNP VI, or for a period of thirteen years after the date hereof, whichever is longer, any change concerning PNP VI shall have been made in the arrangement described in said Government Regulation No. 18, 1970, or any provision of said Subsidiary Loan Agreement shall have been amended or waived.
- (d) Either PNP IV or PNP VI 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) the first Boards of Directors and Executive Managements of PNP IV and PNP VI referred to in said Government Regulation No. 18, 1970 have been duly appointed in accordance with Section 4.03 (e) of this Agreement;
- (c) PNP VI has been entirely discharged from all management and financial responsibility for Estate Karang Inoue in accordance with Section 4.03 (d) (i) of this Agreement;
- (d) the plant-breeding consultants referred to in Section 4.03 (a) of this Agreement have been duly appointed and have commenced to exercise their functions within the territory of the Borrower; and
- (e) companies qualified in the management and operation of plantations have been engaged by PNP IV and PNP VI in accordance with Section 4.03 (f) of this Agreement to provide the services referred to therein.

*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 to be furnished to the Association:

- (a) that PNP IV and PNP VI 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;
- (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;
- (c) that the appointments referred to in Section 6.01 (b) of this Agreement have been duly and validly made; and
- (d) that PNP VI has been lawfully and effectively discharged from all management and financial responsibility for Estate Karang Inoue.

*Section 6.03.* The date of September 1, 1970 is specified for the purposes of Section 10.04 of the General Conditions.

*Section 6.04.* The obligations of the Borrower under Sections 4.02, 4.03 and 4.10 of this Agreement shall terminate (i) in respect of Part A of the Project, on the date on which the Subsidiary Loan Agreement between the Borrower and PNP IV shall terminate or on a date sixteen years after the date of this Development Credit Agreement, whichever shall be the later, and (ii) in respect of Part B of the Project, on the date on which the Subsidiary Loan Agreement between the Borrower and PNP VI shall terminate or on a date thirteen 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, 1975, 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* SIMON ALDEWERELD  
Vice 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 IV)	
1. Fertilizer .....	1,320,000
2. Processing, storage, workshop and laboratory facilities .....	390,000

<i>Category</i>	<i>Amounts Expressed in Dollar Equivalent</i>
3. Buildings .....	80,000
4. Vehicles, rolling stock, machinery, equipment and chemicals .....	550,000
5. Technical Services .....	<u>560,000</u>
Total Part A	2,900,000
 B. For Part B of the Project (PNP VI)	
1. Fertilizer .....	6,570,000
2. Processing, storage, workshop and laboratory faci- lities .....	2,145,000
3. Buildings .....	156,000
4. Vehicles, rolling stock, machinery, equipment and chemicals .....	2,534,000
5. Technical Services .....	<u>595,000</u>
Total Part B	12,000,000
 C. Technical Assistance for RISPA	
1. Consultants .....	200,000
2. Goods and Services .....	<u>400,000</u>
Total Part C	600,000
 D. Unallocated .....	
TOTAL	<u>17,000,000</u>

#### REALLOCATION UPON CHANGE 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 over the period 1970-74. It includes:

- Part A.* The rehabilitation and development of PNP IV, involving:
- (1) re-planting with rubber about 6,800 ha of uneconomic rubber;

- (2) planting with rubber about 5,200 ha of presently uncultivated land;
- (3) bringing into commercial production the above areas and some 9,800 ha of immature rubber planted prior to 1970;
- (4) rehabilitating, through a fertilizer application program in 1971 and 1972, about 19,400 ha of mature rubber;
- (5) rehabilitating about 300 ha of immature rubber through special programs of weed control;
- (6) rehabilitating, replacing and expanding rubber processing, storage, laboratory and workshop facilities and transportation equipment, to handle the crop from the above areas;
- (7) rehabilitating, replacing and expanding estate buildings, personnel transport and machinery for estate road maintenance, as required for the efficient conduct of estate operations;
- (8) rehabilitating, replacing and expanding agricultural machinery for land-clearing, draining, nursery irrigation and other agricultural purposes, as required for the efficient conduct of estate operations;
- (9) employing a company qualified in the management and operation of plantations to provide technical assistance to PNP IV management, including an estate and factory advisory and inspection service and a financial management advisor; and
- (10) purchasing foliar analysis services.

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

- (1) re-planting with oil palms about 2,100 ha of uneconomic oil palms and 500 ha of uneconomic rubber;
- (2) planting with oil palms about 5,400 ha of presently uncultivated land;
- (3) bringing into commercial production the above areas and some 7,200 ha of immature oil palms planted prior to 1970;
- (4) rehabilitating, through a fertilizer application program in 1970 through 1972, about 23,335 ha of mature oil palms;
- (5) rehabilitating about 9,100 ha of mature oil palms and 7,200 ha of immature oil palms through special programs of weed and disease control, drainage and selective felling of uneconomic palms;
- (6) rehabilitating, replacing and expanding oil palm fruit processing, storage, laboratory and workshop facilities and transportation equipment, to handle the crop from the above areas;
- (7) rehabilitating, replacing and expanding estate buildings, personnel transport and machinery for estate road maintenance, as required for the efficient conduct of estate operations;

- (8) rehabilitating, replacing and expanding agricultural machinery for land clearing, draining, nursery irrigation and other agricultural purposes, as required for the efficient conduct of estate operations;
  - (9) employing a company qualified in the management and operation of plantations to provide technical assistance to PNP VI management, including an estate and factory advisory and inspection service and a financial management advisor; and
  - (10) purchasing foliar analysis services.
- Part C.* The rehabilitation and improvement of RISPA, involving:
- (1) employment by the Borrower of consultants to submit proposals for the reorganization of RISPA and to prepare a long-term research and development program; and
  - (2) implementation of such recommendations of said consultants as shall be agreed between the Borrower and the Association.

### SCHEDULE 3

#### PROCUREMENT

1. Contracts proposed for the procurement of such goods in amounts not exceeding \$50,000 equivalent need not be submitted to the Association for its approval prior to signature. In respect of each such contract, the Association will be furnished with copies of the bidding documents, the analysis of bids and a conformed copy of the contract, promptly after the execution of such contract and prior to the date of the first application to the Association for withdrawal of proceeds of the Credit in respect of any payment under such contract.

2. Before bids are invited for any contract for the procurement of such goods expected to be in an amount exceeding \$50,000 equivalent, the bidding documents, including draft contract, shall be submitted to the Association for its approval. Before any award is made thereon, a summary of the bids received, an analysis thereof with recommendation on justification for the proposed award, together with the *procès-verbal* of the public opening of the bids, will be submitted to the Association for its approval. As soon as the approved award has been made and prior to the date of the first application for withdrawal of proceeds of the Credit in respect of any payment under such contract, a conformed copy of the contract will be furnished to the Association.

#### 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.*]