

**No. 19896**

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**UNITED STATES OF AMERICA  
and  
INDONESIA**

**Project Loan Agreement for provincial area development  
program I (with annex). Signed at Jakarta on 12 April  
1978**

*Authentic text: English.*

*Registered by the United States of America on 10 June 1981.*

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**ÉTATS-UNIS D'AMÉRIQUE  
et  
INDONÉSIE**

**Accord de prêt pour un projet relatif au programme I de  
développement dans certaines provinces (avec annexe).  
Signé à Jakarta le 12 avril 1978**

*Texte authentique : anglais.*

*Enregistré par les États-Unis d'Amérique le 10 juin 1981.*

# PROJECT LOAN AGREEMENT<sup>1</sup> BETWEEN THE REPUBLIC OF INDONESIA AND THE UNITED STATES OF AMERICA FOR PROVINCIAL AREA DEVELOPMENT PROGRAM I

Dated: April 12, 1978

A.I.D. Loan No. 497-T-047

Project No. 497-0264

## TABLE OF CONTENTS

### PROJECT LOAN AGREEMENT

Article 1. The Agreement	Section 5.4. Terminal Dates for Conditions Precedent
Article 2. The Project	Article 6. Special Covenants
Section 2.1. Definition of Project	Section 6.1. Project Evaluation
Article 3. Financing	Article 7. Procurement Source
Section 3.1. The Loan	Section 7.1. Foreign Exchange Costs
Section 3.2. Borrower Resources for the Project	Section 7.2. Local Currency Costs
Section 3.3. Project Assistance Completion Date	Article 8. Disbursements
Article 4. Loan Terms	Section 8.1. Disbursement for Foreign Exchange Costs
Section 4.1. Interest	Section 8.2. Disbursement for Local Currency Costs
Section 4.2. Repayment	Section 8.3. Other Forms of Disbursement
Section 4.3. Application, Currency, and Rate of Payment	Section 8.4. Rate of Exchange
Section 4.4. Prepayment	Section 8.5. Date of Disbursement
Section 4.5. Renegotiation of Terms	Article 9. Miscellaneous
Section 4.6. Termination on Full Payment	Section 9.1. Communications
Article 5. Conditions Precedent to Disbursement	Section 9.2. Representatives
Section 5.1. First Disbursement	Section 9.3. Standard Provisions Annex
Section 5.2. Disbursement for Annual Programs	Annex 1. Amplified Description of the Project
Section 5.3. Notification	Annex 2. Project Loan Standard Provisions Annex <sup>2</sup>

PROJECT LOAN AGREEMENT dated April 12, 1978, between the REPUBLIC OF INDONESIA ("Borrower") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

### Article 1. THE AGREEMENT

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Borrower of the

<sup>1</sup> Came into force on 12 April 1978 by signature.

<sup>2</sup> Not printed herein; for the text of the annex, see "Project Loan Agreement between the United States of America and the Philippines for Bicol integrated area development. Signed at Manila on 13 January 1978" in the United Nations, *Treaty Series*, vol. 1229, p. 393.

Project described below, and with respect to the financing of the Project by the Parties.

## Article 2. THE PROJECT

*Section 2.1. DEFINITION OF PROJECT.* The Project, which is further described in Annex 1, will consist of assistance to the Borrower to enable provincial and lower levels of government in Central Java and Aceh Provinces to improve their capability for the identification, planning, implementation, management, and evaluation of rural/area development projects and activities.

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of authorized representatives of the Parties named in Section 9.2, without formal amendment of this Agreement.

## Article 3. FINANCING

*Section 3.1. THE LOAN.* To assist the Borrower to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend the Borrower under the terms of this Agreement not to exceed Six Million United States ("U.S.") Dollars (\$6,000,000) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal".

The Loan may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project.

*Section 3.2. BORROWER RESOURCES FOR THE PROJECT.* (a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Borrower for the Project will be not less than the equivalent of U.S. \$3,610,000 including costs borne on an "in-kind" basis.

*Section 3.3. PROJECT ASSISTANCE COMPLETION DATE.* (a) The Project Assistance Completion Date (PACD), which is April 12, 1983, or such other date as the Parties agree to in writing, is the date by which the Parties estimate that all portions of the Project financed jointly by them on a Fixed Amount Reimbursement (FAR) basis will have been completed, that all services financed under the Loan other than on a FAR basis will have been performed, and that all goods financed under the Loan other than on a FAR basis will have been furnished for the Project, as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan for FAR portions of the Project completed subsequent to the PACD, or, in the case of portions of the Project financed under the Loan other than on a FAR basis, for services performed subsequent to the PACD or goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period,

A.I.D., giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

#### *Article 4. LOAN TERMS*

*Section 4.1. INTEREST.* The Borrower will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 8.5) of each respective disbursement, and will be payable semi-annually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

*Section 4.2. REPAYMENT.* The Borrower will repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement of the Loan in sixty-one (61) approximately equal semiannual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9½) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

*Section 4.3. APPLICATION, CURRENCY, AND PLACE OF PAYMENT.* All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

*Section 4.4. PREPAYMENT.* Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

*Section 4.5. RENEGOTIATION OF TERMS.* (a) The Borrower and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of Indonesia, which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.2, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.2, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under subsection (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of Borrower's Minister of Finance in Indonesia.

*Section 4.6. TERMINATION ON FULL PAYMENT.* Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. under it will cease.

#### *Article 5. CONDITIONS PRECEDENT TO DISBURSEMENT*

*Section 5.1. FIRST DISBURSEMENT.* Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) An opinion of the Minister of Justice of the Borrower that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;
- (b) A statement of the name of the person holding or acting in the office of the Borrower specified in Section 9.2 and of any additional representatives, together with a specimen signature of each person specified in such statement;
- (c) A letter setting forth detailed instructions and guidelines from the Ministry of Home Affairs to the Regional Government which will provide standard operating procedures for planning, implementing and monitoring the overall Program; and
- (d) A schedule for the evaluation program referred to in Section 6.1.

*Section 5.2. DISBURSEMENT FOR ANNUAL PROGRAMS.* Except as the Parties may otherwise agree in writing, prior to disbursement under the Loan or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for any activity in an annual provincial program, the Borrower and A.I.D. shall review and approve in writing the provincial annual program which shall include the annual objectives, approach, plans, listing of activities, cost estimates, implementation schedules, operations, and other relevant information such as disbursement procedures for each of the activities.

*Section 5.3. NOTIFICATION.* When A.I.D. has determined that the conditions precedent specified in Sections 5.1 and 5.2 have been met, it will promptly notify the Borrower.

*Section 5.4. TERMINAL DATES FOR CONDITIONS PRECEDENT.* If all of the conditions specified in Section 5.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Borrower.

#### *Article 6. SPECIAL COVENANTS*

*Section 6.1. PROJECT EVALUATION.* The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree

in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

#### Article 7. PROCUREMENT SOURCE

*Section 7.1. FOREIGN EXCHANGE COSTS.* Disbursements pursuant to Section 8.1 will be used exclusively to finance the cost of goods and services required for the Project having their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Loan Standard Provisions Annex, Section C.1(b), with respect to marine insurance.

*Section 7.2. LOCAL CURRENCY COSTS.* Disbursements pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Indonesia ("Local Currency Costs"). To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.

#### Article 8. DISBURSEMENTS

*Section 8.1. DISBURSEMENT FOR FOREIGN EXCHANGE COSTS.* (a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

- (1) By submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or (B) requests for A.I.D. to procure commodities or services in Borrower's behalf for the Project; or
- (2) By requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letter of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

*Section 8.2. DISBURSEMENT FOR LOCAL CURRENCY COSTS.* After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary

supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs. These disbursements may be made by A.I.D.:

- (1) In U.S. dollars equivalent to the local currency cost, or
- (2) In local currency acquired by A.I.D. by purchase or from local currency already owned by the U.S. Government.

*Section 8.3. OTHER FORMS OF DISBURSEMENT.* Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

*Section 8.4. RATE OF EXCHANGE.* If funds provided under the Loan are introduced into Indonesia by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements as may be necessary so that such funds may be converted into currency of Indonesia at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Indonesia.

*Section 8.5. DATE OF DISBURSEMENT.* Disbursements by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order; or (b) on the date on which A.I.D. disburses to the Borrower or its designee local currency acquired in accordance with Section 8.2.

#### *Article 9. MISCELLANEOUS*

*Section 9.1. COMMUNICATIONS.* Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable and will be deemed duly given or sent when delivered to such party at the following address:

To the Borrower:

Mail address:

Departemen Luar Negeri  
Jalan Pejambon No. 6  
Jakarta Pusat, Indonesia

Alternate address for telegrams:

DEPLU Jakarta

To A.I.D.:

Mail address:

United States Agency for International Development  
American Embassy  
Jakarta, Indonesia

Alternate address for telegrams:

USAID AMEMB Jakarta

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

*Section 9.2. REPRESENTATIVES.* For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the Office of Chairman or Vice Chairman, National Development Planning Agency (“BAPPENAS”) and A.I.D. will be represented by the individual holding or acting in the office of Director, United States A.I.D. Mission to Indonesia, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Borrower, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

*Section 9.3. STANDARD PROVISIONS ANNEX.* A “Project Loan Standard Provisions Annex” (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

Republic of Indonesia:

[Signed]

By: Prof. Dr. MOCHTAR KUSUMAATMADJA  
Minister of Foreign Affairs

United States of America:

[Signed]

By: EDWARD E. MASTERS  
Ambassador

## ANNEX 1

### AMPLIFIED DESCRIPTION OF THE PROJECT

#### I. *Project Purpose*

The Provincial Area Development Program (PDP) I is a local government program which seeks to: (i) improve the capabilities of local government within the Provinces of Central Java and Aceh to undertake rural development activities which impact on the productive capacity of the rural poor; (ii) improve the capabilities of key central government agencies to support local government rural development activities which impact on the income of the rural poor; and (iii) increase the incomes of the rural poor within the project areas.

Central Java is one of Indonesia’s most densely populated provinces, giving rise to serious underemployment among landless laborers and a scarcity of opportunities to generate new sources of income that can be retained by its rural and poor population. Within the selected *Kabupaten* of Demak, Kudus, Jepara, Pati and Rembang there are additional problems resulting from serious flooding in the rainy season, severe droughts in the dry season, and generally low productivity of land in a number of locations. Consequently, the Central Java Program will focus attention on the problems of the landless and near-landless as well as those with more moderate-sized holdings but situated on



lands plagued with frequent natural disasters or low productivity. More specifically, it seeks to do this primarily by improving the capability of the province and its associated local levels of government to plan and manage: (i) specially designed agricultural activities which address the problems of land scarcity and unproductiveness of particular areas to allow for broader-based participation by the rural poor; (ii) the promotion of additional employment opportunities through rural industry expansion; (iii) rural credit schemes which are targeted on the rural poor; and (iv) improved mechanisms for the identification and implementation of *kecamatan*-level development activities impacting on the poor.

Aceh, on the other hand, is one of Indonesia's least populated provinces with relatively abundant agricultural resources and land availability yet agriculture in Aceh is characterized by low productivity. For the most part, farmers continue to use traditional agricultural practices and they remain poor. Within the selected *Kabupaten* of Aceh Besar and Aceh Barat, most of the rural populace are farmers who cultivate rice with very low yields per hectare and who do not exploit secondary food crops and other agricultural opportunities. Infrastructure, institutions and programs required to deliver necessary services to these farmers to improve their earning capacities remain scattered and are not fully effective. Consequently, in Aceh the program will focus primarily on improving technical and planning agencies of the regional government; upgrading agricultural support services and infrastructure facilities; introducing modern agricultural techniques, inputs and technologies; diversifying agriculturally productive activities; and promoting rural handicraft and processing industries.

## II. *Project Outputs, Inputs and Financial Plan*

PDP I will help to finance activities which primarily are: (i) targeted on increasing the incomes of the rural poor as directly and immediately as possible; (ii) relatively small-scale, of a pilot nature, and capable of execution within a reasonable time frame; (iii) technically, economically, financially, socially, environmentally and administratively sound; (iv) capable of replication; (v) focussed spatially to maximize the likelihood of beneficial linkages between activities under auspices of the PDP as well as other governmental efforts undertaken (e.g., an INPRES road), to the extent possible; and (vi) within the framework, or major objectives, of the individual provincial programs described above.

Loan funds will be utilized primarily for commodities and activity execution while grant assistance will be utilized to finance technical advisory services and training, as specified in the companion Project Agreement No. 77-13 dated September 29, 1977. On page 7 is the PDP I Financial Plan for both loan and grant elements. Although the maximum A.I.D. and the minimum Borrower contributions specified in Article 3 of this Loan Agreement remain fixed, changes in amounts of funds allocated to individual project inputs may be made during implementation of the project without formal change of this Amplified Description of the project.

It is agreed that in event any of the grant funds planned for funding a portion of the project should not be made available to A.I.D., Borrower would not be responsible for providing such funds for the Project. Under such circumstances it is agreed between Borrower and A.I.D. that the scope of the overall project would be reduced to correlate with the reduction of available funds.

Financial mechanisms to be applied for the A.I.D. local currency contributions for subproject implementation may include Fixed Amount Reimbursement (FAR), including the possibility of utilizing FAR with advances, and direct disbursement of local currency. The most appropriate mechanisms for each activity as well as the amount of the A.I.D. and Borrower contribution will be decided at the joint review of provincial plans and agreed to in writing.

## III. *Project Direction and Organization*

The Provincial Area Development Program will be under the overall direction and guidance of the national level Steering and Technical Committees representing primarily

the Ministry of Home Affairs, BAPPENAS, and the Ministry of Public Works and Electric Power established by the Ministry of Home Affairs Decree No. 309 of 1976, and the Ministry of Finance. The Directorate-General for General Administration and Regional Autonomy (PUOD) of the Ministry of Home Affairs will be responsible for overall execution of PDP I for the central government. The operating level PDP I project management unit will be located within PUOD's Directorate for Regional Development. In the Provinces of Central Java and Aceh, the governors and their provincial planning boards (Bappeda) will be the primary counterpart responsible for guiding, directing and co-ordinating the participating technical service agencies and *kabupatens*.

#### IV. Implementation Plan

The Program will function within the context of the Government budget cycle for planning, preparation of annual budgets and implementation. It is anticipated that four full years of programming, implementation, monitoring and evaluation will prove sufficient for making the substantive improvements in local government administration sought and therefore PDP I will be most concerned with Indonesian fiscal years (IFY) 1978/79, 1979/80, 1980/81, and 1981/82, although preliminary activities (particularly technical assistance and training) may take place during IFY 1977/78.

Implementation will follow along the lines of the major, nationally financed rural development/local government programs (INPRES) with annual instructions/guidelines being sent to the provinces and *kabupatens*; annual programs being developed at these local levels; a joint national Steering/Technical Committee and USAID review following submission of these provincial plans; and actual execution being a responsibility of the appropriate technical agency in the field.

PROJECT FINANCIAL PLAN  
(source and application of funding—\$ thousands)

A.I.D.						
Project inputs	Loan	Grant		Borrower/ Grantee	Total	
		FY 1977 obligation	Future years anticipated			
<b>1. National level support</b>						
a. Technical assistance . . . . .		135	135	117	387	
b. Training . . . . .		36	36		72	
<b>2. Central Java Program</b>						
a. Technical assistance . . . . .		373	372	324	1,069	
b. Training . . . . .		53	53		106	
c. Commodities . . . . .	150			21	171	
d. Subproject activity financing . . . . .	2,850			1,810	4,660	
<b>3. Aceh Program</b>						
a. Technical assistance . . . . .		292	293	249	834	
b. Training . . . . .		111	111		222	
c. Commodities . . . . .	359			60	419	
d. Subproject activity financing . . . . .	2,641			1,719	4,360	
<b>4. Totals . . . . .</b>	<b>6,000</b>	<b>1,000</b>	<b>1,000</b>	<b>4,300</b>	<b>12,300</b>	