Development Credit Agreement
(Sugar Project)

BETWEEN

REPUBLIC OF INDONESIA

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

DATED JUNE 26, 1973
Development Credit Agreement
(Sugar Project)

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AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

DATED JUNE 26, 1973
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 26, 1973, between 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 Agreement accept all the provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated January 31, 1969, with the same force and effect as if they were fully set forth herein, subject, however, to the deletion of Sections 5.01 and 6.02(h) thereof and to the renumbering of Section 6.02(i) into 6.02(h) thereof (said General Conditions Applicable to Development Credit Agreements of the Association, as so modified, 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 the following additional terms have the following meanings:

(a) "sugar PNPs" means PNP XIV, PNP XV, PNP XVI, PNP XX, PNP XXI, PNP XXII, PNP XXIV and PNP XXV, all being state-owned estate enterprises (Perusahaan Negara Perkebunan) of the Borrower in Java, established and so designated respectively by Government Regulation No. 14 of 1968;

(b) "sugar PT" means any company limited by shares (Perseroan Terbatas Perkebunan) which has been reincorporated pursuant to the provisions of Section 3.05 of this Agreement from one or more sugar PNPs and which owns one or more factories to be rehabilitated under Parts A or B of the Project, and any successor or successors thereto;

(c) "date of incorporation" means the date upon which the approved charter of the sugar PT is registered in the appropriate District Court;

(d) "BBD" means Bank Bumi Daya, a state-owned bank of the Borrower;

(e) "SCS" means the Standing Committee for Sugar to be established pursuant to Section 4.05 of this Agreement;
(f) "Joint Agreement" means the agreement to be entered into initially by the sugar PNPs pursuant to the provisions of Section 3.06 of this Agreement;

(g) "Joint Sugar Projects Unit" means the unit to be established by the Joint Agreement; and

(h) "rupiah" means the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions in the Development Credit Agreement set forth or referred to, an amount in various currencies equivalent to fifty million dollars ($50,000,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule shall be amended from time to time, for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed under the Development Credit Agreement; provided, however, that, except as the Association shall otherwise agree, no withdrawal shall be made on account of expenditures in the territories of any country which is not a member of the Bank (other than Switzerland) or for goods produced in, or services supplied from, such territories.

Section 2.03. Except as the Association shall otherwise agree, the goods and services (other than services of consultants) required for the Project and to be financed out of the proceeds of the Credit, shall be procured on the basis of international competition under procedures consistent with the Guidelines for Procurement under World Bank Loans and IDA Credits, published by the Bank in April 1972, as revised in October 1972, and in accordance with, and subject to, the provisions set forth in Schedule 3 to this Agreement.

Section 2.04. The Closing Date shall be June 30, 1979 or such other date as shall be agreed between the Borrower and the Association.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.
Section 2.06. Service charges shall be payable semi-annually on April 1 and October 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 1 and October 1 commencing October 1, 1983, and ending April 1, 2023, each installment to and including the installment payable on April 1, 1993 to be one-half of one per cent (1/2 of 1%) of such principal amount, and each installment thereafter to be one and one-half per cent (1-1/2%) of such principal amount.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower shall carry out, or cause to be carried out, the Project with due diligence and efficiency and in conformity with appropriate agricultural, engineering and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Except as the Association shall otherwise agree, the Borrower shall relend the proceeds of the Credit relating to Parts A, B and E(i)(b) and (c) of the Project to the sugar PTs pursuant to the terms and procedures set forth in Schedule 4 to this Agreement.

Section 3.02. (a) The Borrower shall employ, or cause to be employed, consultants acceptable to the Association on terms and conditions satisfactory to the Association as follows:

(i) the Joint Sugar Projects Unit shall employ consultants to provide engineering services to assist in preparing and supervising the factory rehabilitations included in Parts A, B, and E(i)(c) of the Project;

(ii) BBD shall employ consultants to assist in the appraisal of sugar factory rehabilitations;

(iii) each sugar PT shall employ within four months of its date of incorporation, or such other date as may be agreed between the
Borrower and the Association, consultants to provide financial, field and factory advice to the management of such sugar PT and to help train the staff of such sugar PT;

(iv) the Borrower shall employ consultants to carry out Part E(ii) of the Project; and

(v) Pasuruan Research Station shall employ consultants to assist in carrying out Part D of the Project.

(b) For each factory rehabilitation included in Parts A and B of the Project, the sugar PT owning such factory shall enter into a separate agreement with the Joint Sugar Projects Unit referred to in paragraph (a)(i) of this Section for the provision of said engineering services.

Section 3.03. In carrying out the factory rehabilitations included in Parts A and B of the Project, the Borrower shall employ, or cause to be employed, qualified and experienced contractors, as required.

Section 3.04. (a) Except as the Association shall otherwise agree, before a plan for any factory rehabilitation included in the Project is prepared, the Borrower shall carry out, or cause to be carried out, a survey to determine to the satisfaction of the Borrower and the Association that sufficient land would be available to provide an adequate supply of cane to such sugar factory after such rehabilitation is completed.

(b) The Borrower shall cause all rehabilitations included in Parts A and B of the Project to be carried out pursuant to a time schedule prepared by the Joint Sugar Projects Unit and approved by the Association.

Section 3.05. (a) Except as the Association shall otherwise agree, the Borrower shall cause the sugar PNPs to be reincorporated into no more than four PTs within thirty months of the date of this Agreement:

(i) under charters acceptable to the Association;

(ii) with their respective Supervisory Boards (Dewan Komisaris) and Boards of Executive Management (Direksi) appointed in accordance with paragraphs (b) and (c) of this Section, respectively; and

(iii) with the opening balance sheets for each such PT having been transmitted to the Association.
(b) The Borrower shall ensure that the positions of members of the respective Supervisory Boards (Dewan Komisaris) of the sugar PTs shall at all times be filled by qualified and experienced persons and that three positions on the Supervisory Board (Dewan Komisaris) of each sugar PT shall be filled preferably by the same persons, one of whom shall serve as chairman, one of whom shall be experienced in financial administration and the last of whom shall be experienced in the sugar industry. Before any appointment is made to the above-mentioned positions of chairman and member with experience in financial administration, the Borrower shall inform the Association of the name, qualifications and experience of the persons being considered for appointment to such positions and afford the Association a reasonable opportunity to exchange views with the Borrower on the qualifications and experience of such persons.

(c) The Borrower shall ensure that the respective Boards of Executive Management (Direksi) of the sugar PTs shall consist of a First Director, Production Director (field), Production Director (factory), Financial Director and Comptroller, that these positions are at all times filled by qualified and experienced persons and that before any appointment is made to any such position, the Association is informed of the name, qualifications and experience of the persons being considered for appointment to such positions and is afforded a reasonable opportunity to exchange views with the Borrower on the qualifications and experience of such persons.

(d) Except as the Association shall otherwise agree, the Borrower shall cause the assets of the sugar PNPs which are reincorporated as PTs pursuant to the provisions of paragraph (a) of this Section or which are transferred to any such PTs to be valued within six months of the date of such reincorporation or transfer in accordance with appropriate commercial accounting principles consistently applied and the laws of the Borrower governing such reincorporations or transfers.

Section 3.06. (a) The Borrower shall cause the sugar PNPs to establish a Joint Sugar Projects Unit, with headquarters in Surabaya, under a Joint Agreement, the terms and conditions of which shall be satisfactory to the Association and which shall include, inter alia, responsibility for the coordination of all factory rehabilitations included in Parts A and B of the Project, for joint procurement therefor and for the employment of the consultants referred to in Section 3.02(a)(i) of this Agreement.

(b) The Borrower shall ensure that each sugar PT to which the assets of a sugar PNP are transferred shall assume the obligations of such sugar PNP under the Joint Agreement upon the transfer of such assets thereto.
Section 3.07. The Borrower shall ensure that, under arrangements satisfactory to the Association, credit and extension services shall be provided to cane farmers supplying cane to the sugar PTs.

Section 3.08. Except as the Association shall otherwise agree, the Borrower shall cause each sugar PT to employ full-time a qualified and experienced person to arrange for the provision of credit and extension services to the smallholder cane farmers who supply cane to such sugar PT with a view to improving the quantity and quality of such cane.

Section 3.09. Until the completion of each sugar PT's respective part of the Project, unless the Association shall otherwise agree, the Borrower shall cause each sugar PT not to undertake any major capital expenditures, other than those included in the Project, which exceed the equivalent of $1,000,000 in any one year.

Section 3.10. (a) Except as the Association shall otherwise agree, the Borrower shall take such action as may be necessary to permit the sugar PTs (i) to lease land for the purpose of sugar production both inside and outside their respective concession areas for consecutive periods of at least 28 months, and (ii) to ratoon sugar cane.

(b) The Borrower shall ensure that the minimum rental levels of the leases referred to in paragraph (a) of this Section are annually set so as to provide sufficient incentives to landowners to lease their land to the sugar PTs.

Section 3.11. The Borrower shall take all necessary measures, including but not limited to setting appropriate marketing policies, to provide consumers with sugar at stable and equitable prices.

Section 3.12. (a) The Borrower undertakes to insure or cause to be insured, or make or cause to be made adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Credit against 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 for the Borrower or the sugar PTs to replace or repair such goods.

(b) Except as the Association shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Credit to be used exclusively for the Project.

Section 3.13. (a) The Borrower shall furnish, or cause to be furnished, to the Association, promptly upon their preparation, the plans, specifications, reports,
contract documents and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Association shall reasonably request.

(b) The Borrower shall, and shall cause the sugar PTs and the Pasuruan Research Station to: (i) maintain separate records adequate to record the progress of their respective Parts of the Project (including the cost thereof) and identify the goods and services financed out of the proceeds of the Credit, and to disclose the use thereof in their respective Parts of the Project; (ii) enable the Association's accredited representatives to examine their respective Parts of the Project, the goods financed out of the proceeds of the Credit and any relevant records and documents; and (iii) furnish to the Association all such information as the Association shall reasonably request concerning their respective Parts of the Project, the expenditure of the proceeds of the Credit and the goods and services financed out of such proceeds.

Section 3.14. The Borrower shall make available, or cause to be acquired, any additional land as may be required for the construction and operation of the facilities included in Parts A and B of the Project.

ARTICLE IV

Other Covenants

Section 4.01. The Borrower shall cause the sugar PTs at all times to maintain their financial positions and carry on their operations in accordance with appropriate agricultural, commercial, engineering and financial practices under the supervision of competent and experienced management assisted by adequate and competent staff.

Section 4.02. (a) The Borrower shall cause the sugar PTs, and with respect to the relending arrangements referred to in Schedule 4 to this Agreement, BBD, to maintain separate records adequate to reflect in accordance with consistently maintained appropriate commercial accounting practices the respective operations and financial conditions of such sugar PTs and BBD.

(b) The Borrower shall cause the sugar PTs, the Pasuruan Research Station and, with respect to the relending arrangements referred to in Schedule 4 to this Agreement, BBD to: (i) have their accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association and for the sugar PTs, such
auditors to be initially appointed by each such sugar PT within 3 months of its
date of incorporation; (ii) furnish to the Association as soon as available, but in
any case not later than four months after the end of each year (A) certified copies
of their financial statements for such year as so audited and (B) the report of
such audit by said auditors, of such scope and in such detail as the Association
shall have reasonably requested; and (iii) furnish to the Association such other
information concerning the above-mentioned accounts and financial statements of
the sugar PTs, the Pasuruan Research Station and BBD and the audits thereof
as the Association shall from time to time reasonably request.

(c) The Borrower shall cause the sugar PTs, the Pasuruan Research Station,
and, with respect to the relending arrangements referred to in Schedule 4 to this
Agreement, BBD to: (i) promptly submit quarterly to the Association summary
accounts and progress reports in a form satisfactory to the Association, and (ii)
submit annually to the Association unaudited accounts no later than three months
after the end of each fiscal year.

Section 4.03. The Borrower shall cause the sugar PTs to take out and maintain
with responsible insurers, or to make other provision satisfactory to the Association
for, insurance against such risks and in such amounts as shall be consistent with
appropriate practice.

Section 4.04. The Borrower shall set, or permit to be set, the ex-factory
price of sugar in accordance with appropriate business, commercial and financial
practices.

Section 4.05. Unless the Association shall otherwise agree, the Borrower shall
establish, no later than January 1, 1974, a standing committee for sugar (SCS)
to coordinate the activities of the Borrower’s sugar industry under terms of
reference satisfactory to the Association.

ARTICLE V

Consultation, Information and Inspection

Section 5.01. The Borrower and the Association shall cooperate fully to
assure 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:

(a) exchange views through their representatives with regard to the
performance of their respective obligations under the Development Credit
Agreement, the administration, operations and financial condition of the sugar PTs and, in respect of the Project, of the departments or agencies of the Borrower responsible for carrying out any part of the Project, and other matters relating to the purposes of the Credit; and

(b) furnish to the other all such information as it shall reasonably request with regard 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, including its balance of payments, and the external debt of the Borrower, of any of its political subdivisions and of any agency of the Borrower or of any such political subdivision.

Section 5.02. (a) The Borrower shall furnish or cause to be furnished to the Association all such information as the Association shall reasonably request concerning the administration, operations and financial condition of the sugar PTs, the lease rental levels and the ex-factory sugar prices which are to be set pursuant to Sections 3.10 and 4.04 of this Agreement respectively and, in respect of the Project, of the departments or agencies of the Borrower responsible for carrying out any part of the Project.

(b) The Borrower and the Association shall promptly inform each other of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Credit, the maintenance of the service thereof or the performance by either of them of its obligations under the Development Credit Agreement.

Section 5.03. 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.

ARTICLE VI

Taxes and Restrictions

Section 6.01. The principal of, and service charges on, the Credit shall be paid without deduction for, and free from, any taxes imposed under the laws of the Borrower or laws in effect in its territories.

Section 6.02. The Development Credit Agreement shall be free from any taxes on or in connection with the execution, delivery or registration thereof, imposed under the laws of the Borrower or laws in effect in its territories.
Section 6.03. The payment of the principal of, and service charges on, the Credit shall be free from all restrictions, regulations, controls and moratoria of any nature imposed under the laws of the Borrower or laws in effect in its territories.

ARTICLE VII

Remedies of the Association

Section 7.01. If any event specified in Section 7.01 of the General Conditions or in Section 7.03 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 any such declaration such principal and service charges shall become due and payable immediately, anything to the contrary in the Development Credit Agreement notwithstanding.

Section 7.02. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified:

(a) Any of the sugar PTs shall have been unable to pay its debts as they mature or any action or proceeding shall have been taken by any of the sugar PTs or by others whereby any property of any of the sugar PTs shall or may be distributed among its creditors.

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any of the sugar PTs or for the suspension of all or part of the operations of any of the sugar PTs unless arrangements satisfactory to the Association shall have been made for the assumption and performance of all the obligations of such sugar PT upon such dissolution, disestablishment or suspension.

(c) The legislation and charters establishing the sugar PNPs or the sugar PTs, the provisions of the Joint Agreement or the terms of reference of SCS shall have been amended, suspended, abrogated, repealed or waived in such a way as to materially and adversely affect the ability of the Borrower, the sugar PNPs or the sugar PTs to carry out the covenants, agreements and objectives set forth in this Agreement.

Section 7.03. For the purposes of Section 7.01 of the General Conditions, the following additional event is specified, namely, that any event specified in Section 7.02 of this Agreement shall occur.
ARTICLE VIII

Effective Date; Termination

Section 8.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 10.01(b) of the General Conditions:

(a) the sugar PNPs with factories at Srangi, Pesantren and Gempolkrep have been reincorporated into two PTs under charters acceptable to the Association, the persons selected to serve on the Supervisory Boards (Dewan Komisaris) and the Boards of Executive Management (Direksi) thereof have been appointed pursuant to Section 3.05 of this Agreement and have taken up their posts, and the opening balance sheets for such PTs have been transmitted to the Association;

(b) the execution and delivery of the Joint Agreement on behalf of the sugar PNPs have been duly authorized or ratified by all necessary corporate and governmental action; and

(c) the consultants referred to in Section 3.02(a)(i) of this Agreement have been appointed.

Section 8.02. 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) the two PTs reincorporated from the sugar PNPs with factories of Srangi, Pesantren and Gempolkrep are legal entities duly organized and operating under the laws of the Borrower; and

(b) the Joint Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the sugar PNPs and constitutes a valid and binding obligation of the sugar PNPs in accordance with its terms.

Section 8.03. The date December 7, 1973 is hereby specified for the purposes of Section 10.04 of the General Conditions.

Section 8.04. The obligations of the Borrower under Sections 3.07, 3.08, 3.10, 3.11 and Article IV, and the provisions of Sections 7.02 and 7.03 of this Agreement, shall cease and determine on the date on which the Development Credit Agreement shall terminate or on a date eighteen years after the date of this Agreement, whichever shall be the earlier.
ARTICLE IX

Representative of the Borrower; Addresses

Section 9.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 9.03 of the General Conditions.

Section 9.02. 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
Jakarta, Indonesia

Cable address:

Ministry Finance
Jakarta

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.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed
in their respective names and 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 /s/ Abdul Habir

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ I.P.M. Cargill

Regional Vice President
Asia
## SCHEDULE 1

**Withdrawal of the Proceeds of the Credit**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of amounts of the Credit to each Category and the percentage of eligible expenditures so to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in Dollar Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>21,000,000</td>
<td>100% of foreign expenditures (c.i.f.), 95% of local expenditures (ex-factory) and 83% of other local expenditures</td>
</tr>
<tr>
<td>I.</td>
<td>16,500,000</td>
<td>100% of foreign expenditures (c.i.f.), 95% of local expenditures (ex-factory) and 83% of other local expenditures</td>
</tr>
<tr>
<td>III.</td>
<td>3,700,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>IV.</td>
<td>200,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>V.</td>
<td>1,800,000</td>
<td>100% of foreign expenditures</td>
</tr>
</tbody>
</table>

- I. Machinery and equipment for the major rehabilitations in Part A of the Project
- II. Machinery and equipment for the minor rehabilitations in Part B of the Project
- III. Engineering services for Parts A, B and E(i)(c) of the Project
- IV. Consultants' services to assist BBD appraisal capacity
- V. Consultants' services to provide management advice to sugar PTs (including staff training)
### Amount of the Credit Allocated

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in Dollar Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>VI.</td>
<td>Consultants' services to carry out feasibility studies</td>
<td>500,000</td>
</tr>
<tr>
<td>VII.</td>
<td>Consultants' services, training and equipment for the Pasuruan Research</td>
<td>1,300,000</td>
</tr>
<tr>
<td>VIII.</td>
<td>Unallocated</td>
<td>5,000,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>50,000,000</td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures for goods produced in, or services supplied from, the territories, and in the currency, of any country other than the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower, or for goods produced in, or services supplied from, the territories of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures prior to the date of this Agreement;

(b) expenditures under Category VII until consultants are appointed pursuant to the provisions of Section 3.02(a)(v) of this Agreement;

(c) expenditures under Category II for any sugar PNP owning a factory to be rehabilitated out of the proceeds of the Credit until evidence satisfactory
to the Association shall have been furnished to the Association that such PNP is either (i) liquidated and reincorporated into a PT pursuant to the provisions of Section 3.05 of this Agreement, or (ii) liquidated and the assets thereof transferred to an existing sugar PT or existing sugar PTs pursuant to arrangements satisfactory to the Association. In the event that such sugar PNP is reincorporated into a PT, the Borrower shall also ensure that an opinion or opinions satisfactory to the Association of counsel acceptable to the Association shall be furnished to the Association showing that such PT is a company limited by shares (Perseroan Terbatas Perkebunan), duly organized and operating under the laws of the Borrower, and that the appointments to such PT's Supervisory Board (Dewan Komisaris) and Board of Executive Management (Direksi) have been validly made; and

(d) payments for taxes imposed directly under the laws of the Borrower or laws in effect in its territories on goods or services, or on the importation, manufacture, procurement or supply thereof. To the extent that the amount represented by the percentage set forth in the third column of the table in paragraph 1 above in respect of any Category would exceed the amount payable net of all such taxes, such percentage shall be reduced to ensure that no proceeds of the Credit will be withdrawn on account of payments for such taxes.

4. Notwithstanding the allocation of an amount of the Credit set forth in the second column of the table in paragraph 1 above:

(a) if the estimate of the expenditures under any Category shall decrease, the amount of the Credit then allocated to such Category and no longer required therefor will be reallocated by the Association by increasing correspondingly the unallocated amount of the Credit;

(b) if the estimate of the expenditures under any Category shall increase, the percentage set forth in the third column of the table in paragraph 1 above in respect of such expenditures shall be applied to the amount of such increase, and a corresponding amount will be allocated by the Association, at the request of the Borrower, to such Category from the unallocated amount of the Credit, subject, however, to the requirements for contingencies, as determined by the Association, in respect of any other expenditures; and

(c) if the Association shall have reasonably determined that the procurement of any item in any Category is inconsistent with the procedures set forth or referred to in Section 2.03 of this Agreement, no expenditures for such item shall be financed out of the proceeds of the Credit and the Association may, without in any way restricting or limiting any other right, power or remedy of
the Association under the Development Credit Agreement, by notice to the Borrower, cancel such amount of the Credit as in the Association's reasonable opinion, represents the amount of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Credit.
SCHEDULE 2

Description of the Project

The Project is part of a program to develop the Borrower's sugar industry. It consists of the following:

Part A: Major rehabilitation of the sugar factories at Sragi in Central Java and at Pesantren and Gempolkrep in East Java by the sugar PTs which own such factories, and the provision of related agricultural and cane transportation improvements, so as to increase the annual capacity of said factories by a total of about 1.1 million tons of sugar cane.

Part B: Minor rehabilitation of about six sugar factories in Java by the sugar PTs which own such factories, and the provision of related agricultural and cane transportation improvements, so as to increase the annual capacity of said factories by a total of about eight hundred thousand tons of sugar cane.

Part C: Provision of extension services and credit facilities to cane farmers supplying cane to the factories included in Parts A and B of the Project.

Part D: Expansion and improvement of sugar research at the Pasuruan Research Station by the provision of technical assistance, training and equipment.

Part E: (i) Consultant's services: (a) to assist BBD in the appraisal of sugar factory rehabilitations, (b) to provide financial, field and factory advice to the management of the sugar PTs, and the training of sugar PT staff, and (c) to carry out engineering studies for additional sugar factory rehabilitations in Java.

(ii) Feasibility studies: to determine the scope of further phases of the Borrower's program to develop its sugar industry.

*   *   *   *   *

The Project is expected to be completed by December 31, 1978.
SCHEDULE 3

Procurement

1. The Borrower shall cause the sugar PTs to procure the machinery and equipment referred to in Categories I and II of Schedule 1 to this Agreement and therefore all references in this Schedule to the Borrower shall be deemed to include the sugar PTs as well.

2. With respect to any contract for machinery or equipment under Categories I and II of paragraph 1 of Schedule 1 to this Agreement estimated to cost the equivalent of $200,000 or more:

   (a) If bidders are required to prequalify, the Borrower shall, before qualification is invited, inform the Association in detail of the procedure to be followed and shall introduce such modifications in said procedure as the Association shall reasonably request. The list of prequalified bidders, together with a statement of their qualifications and of the reasons for the exclusion of any applicant for prequalification, shall be furnished by the Borrower to the Association for its comments before the applicants are notified and the Borrower shall make such additions to or deletions from the said list as the Association shall reasonably request.

   (b) Before bids are invited, the Borrower shall furnish to the Association, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedure as the Association shall reasonably request. Any further modification to the bidding documents shall require the Association's concurrence before it is issued to the prospective bidders.

   (c) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, inform the Association of the name of the bidder to whom it intends to award the contract and shall furnish to the Association, in sufficient time for its review, a detailed report by the consultants referred to in Section 3.02(a)(i) of this Agreement, on the evaluation and comparison of the bids received, together with the recommendations for award of such consultants, and the reasons for the intended award. The Association shall, if it determines that the intended award would be inconsistent with the procedures set forth or referred to in Section 2.03 of this Agreement, promptly inform the Borrower and state the reasons for such determination.
(d) The terms and conditions of the contract shall not, without the Association's concurrence, materially differ from those on which bids were asked.

(e) Two conformed copies of the contract shall be furnished to the Association promptly after its execution and prior to the delivery to the Association of the first application for withdrawal of funds from the Credit Account in respect of any such contract.

3. With respect to any other contract for machinery or equipment under Categories I and II, or any contract for equipment under Category VII, of paragraph 1 of Schedule 1 to this Agreement, the Borrower shall furnish to the Association, promptly after its execution and prior to the delivery to the Association of the first application for withdrawal of funds from the Credit Account in respect of any such contract, two conformed copies of such contract, together with the analysis of bids, recommendations for award and such other information as the Association shall reasonably request. The Association shall, if it determines that the award of the contract is not consistent with the procedures set forth or referred to in Section 2.03 of this Agreement, promptly inform the Borrower and state the reasons for such determination.

4. For the implementation of Parts A and B of the Project, identical or similar items to be procured shall be grouped together to the extent practicable for the purpose of inviting bids.

5. Notwithstanding the provisions of Section 2.03 and paragraphs 2 and 3 of this Schedule, the Borrower may award, or may cause to be awarded, contracts for machinery and equipment not exceeding the equivalent of $25,000 without resort to international competition, provided that such contracts are awarded in accordance with appropriate business and procurement practices. Two conformed copies of any such contract shall be furnished to the Association promptly after its execution and prior to the delivery to the Association of the first application for withdrawal of funds from the Credit Account in respect of any such contract.

Supplemental Rules on Bid Evaluation and Comparison

6. For the purpose of evaluation and comparison of bids, customs duties and other import taxes on imported goods, and sales and similar taxes on locally produced goods, shall be excluded, except to the extent hereinafter provided, and bidders shall be required to state in their bid the c.i.f. (port of entry) price for imported goods, or the ex-factory price for locally produced goods. The cost to the Borrower of inland freight and other expenditures incidental to the delivery of goods to the place of their use or installation shall be taken into account in
the evaluation of bids in accordance with paragraph 4.7 of the Guidelines for Procurement referred to in Section 2.03 of this Agreement.

7. For purposes of the provisions hereinafter set forth, the following terms shall have the following meanings:

   (a) Preferred Domestic Bid means a bid offering goods manufactured in Indonesia if the bidder shall have established to the satisfaction of the Borrower and the Association that the manufacturing cost of such goods includes a value added in Indonesia of not less than 20% of the ex-factory bid price.

   (b) Non-preferred Domestic Bid means any other bid offering goods manufactured in Indonesia.

   (c) Foreign Bid means any bid other than those specified in (a) or (b) above.

8. For goods included in Categories I, II and VII of the table set out in paragraph 1 of Schedule 1 to this Agreement, a margin of preference may be granted by the Borrower to Preferred Domestic Bids. Such preference shall be granted by adding to each Foreign Bid, for the purpose only of comparison with Preferred Domestic Bids, an amount (hereinafter called "Domestic Preference Margin") equal to the smaller of (i) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the goods offered in the bid, or (ii) 15% of the c.i.f. bid price of such goods.

9. If Preferred Domestic Bids are received, the comparison among all evaluated bids for each contract shall be made in the stages and with the preferences indicated below:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Bids to be Compared</th>
<th>Preference</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>All Preferred Domestic Bids and Non-preferred Domestic Bids.</td>
<td>None</td>
</tr>
<tr>
<td>II.</td>
<td>(a) Lowest evaluated bid under Stage 1, if Preferred Domestic Bid, with all Foreign Bids;</td>
<td>Add Domestic Preference Margin to Foreign Bids</td>
</tr>
<tr>
<td></td>
<td>or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Lowest evaluated bid under Stage 1, if Non-preferred Domestic Bid, with all Foreign Bids.</td>
<td>None</td>
</tr>
<tr>
<td>III.</td>
<td>If lowest evaluated bid under Stage II is not the lowest evaluated bid under Stage I, all Foreign Bids.</td>
<td>None</td>
</tr>
</tbody>
</table>
10. The bidding documents shall clearly indicate any preference which will be granted to Preferred Domestic Bids, the information required to establish the eligibility of a bid for such preference and the methods and stages that will be followed in the evaluation and comparison of bids to give effect to such preference.
SCHEDULE 4

Terms and Procedures of Relending Arrangements to Sugar PTs

1. Relending Terms

The Borrower will relend the proceeds of the Credit relating to Parts A and B (including the services of the consultants referred to in Section 3.02(a)(i) of this Agreement) and Parts E(i)(b) and (c) of the Project, and will lend such other funds as may be required for the carrying out of Parts A, B, and E(i)(b) and (c) of the Project and which are to be provided through BBD by the Borrower, to the sugar PTs under a loan agreement between BBD, acting on behalf of the Borrower, and each respective sugar PT for each factory rehabilitation and its related agricultural and cane transportation improvements. The loan agreement will require the sugar PT to repay the principal amount of the loan to BBD within a period of 15 years from the date of such agreement, including a grace period of 5 years, at an interest rate of 12% per annum on the amount withdrawn and outstanding, payable as well during the grace period. Early repayment of the loan will not be subject to any penalty. For executing and administering the loan agreements with the sugar PTs and for reviewing and appraising the rehabilitations under the Project, the Borrower will pay to BBD an annual fee of not more than 1% of the total principal amount of the loans made and outstanding to the sugar PTs. BBD will promptly repay to the Borrower the principal and interest received from the sugar PTs under such loan agreements, less the annual fee referred to above. The foreign exchange risk will be borne by the Borrower and the security to be provided by the sugar PTs under such loan agreements will be as BBD shall reasonably request.

2. Relending Procedures

Before any factory rehabilitation included in the Project is planned, the survey referred to in Section 3.04(a) of this Agreement must be carried out for such factory and the results thereof transmitted to the Board of Executive Management (Direksi) of the relevant sugar PT and the Association for their respective approval. If such Board of Executive Management (Direksi) and the Association determine that sufficient land would be available to provide an adequate supply of cane to such factory after the rehabilitation is completed, the Borrower will cause the sugar PTs to proceed in the following manner.

For both major and minor rehabilitations, sugar PTs owning a factory or factories included in Parts A or B of the Project will initially sign an agreement
with consultants pursuant to the provisions of Section 3.02(a)(i) of this Agreement for the provision of engineering services for the rehabilitation of a specified factory. The detailed proposal prepared by such consultants for such factory rehabilitation will be submitted to the sugar PT's Board of Executive Management (*Direksi*) for its approval, and after obtaining such approval, the sugar PT will attach the detailed proposal to a formal application to **BBD** for a loan, in such form as BBD shall require. **BBD** will then:

(a) for major rehabilitations included in Part A of the Project, review the application. After approving such application, **BBD** will transmit the proposals to the Association for its approval and after receiving the Association's approval, **BBD** will enter into a loan agreement to provide funds for the rehabilitation of such specified factory with such sugar PT (i) for a principal amount as determined by **BBD** on the basis of such application, as approved, and (ii) pursuant to the provisions of paragraph 1 of this Schedule; or

(b) for minor rehabilitations included in Part B of the Project, appraise the application with the assistance of the consultants referred to in Section 3.02(a)(ii) of this Agreement. After approving such application, **BBD** will transmit the proposals to the Association for its approval, together with **BBD**'s appraisal report and its recommendations thereon. After receiving the Association's approval, **BBD** will enter into a loan agreement to provide funds for the rehabilitation of such specified factory with such sugar PT (i) for a principal amount as determined by **BBD** on the basis of such application, as approved, and (ii) pursuant to the provisions of paragraph 1 of this Schedule.

3. **BBD Appraisal Procedures**

In appraising proposals for the factory rehabilitations included in Part B of the Project, **BBD** will, in particular, satisfy itself that:

(a) the application and the proposed rehabilitation is acceptable to the sugar PT's Board of Executive Management (*Direksi*), approved by the consultants referred to in Section 3.02(a)(i) of this Agreement and included in a program accepted by SCS;

(b) conditions for sugar cane growing in the proposed factory supply area are satisfactory, and irrigation and drainage facilities are, or can reasonably be expected to become, adequate for the proposed cane supply;
(c) adequate labor will be available for the rehabilitation work and for the cultivation and harvesting of the forecast crop;

(d) the factory has been inspected and the proposals are reasonable having regard to its condition and the cane supply available to it;

(e) there are no plans for amalgamation of the factory with other units;

(f) adequate staff will be provided by the sugar PT to carry out the rehabilitation, with assistance from the consultants referred to in Section 3.02(a)(i) of this Agreement;

(g) adequate contracting facilities are available for removal of old plant and installation of new;

(h) costs are reasonably calculated and confirmed by enquiries made by the consultants;

(i) forecasts in the proposals are satisfactory and based on realistic assumptions;

(j) the financial rate of return (before tax) on the proposed investment, calculated on a discounted incremental cash flow basis, comparing cash flow with and without rehabilitation, over 15 years, would be at least 25% per year;

(k) financial control and auditing arrangements would be satisfactory; and

(l) procurement arrangements are satisfactory and will ensure competitive bidding.

4. **BBD Appraisal Reports**

The BBD appraisal report will be based on the following outline:

(a) summary and recommendations;

(b) background, agricultural and industrial, including recent performance and characteristics of the unit (factory and field), reasons for selection, outcome of cane supply survey, supported by Annexes containing a summary of recent production reports; a list of directors of the Supervisory Board (*Dewan Komisaris*) and Board of Executive...
Management (*Direksi*), senior staff and their qualifications; staff and labor available for rehabilitation work;

(c) recent financial performance of the factory and the sugar PT, supported by summarized balance sheets and profit and loss accounts, which in the case of the factory shall be over at least a three-year period;

(d) description of rehabilitation work proposed, supported by Annexes containing an inventory of the factory and transportation equipment and its condition; items to be replaced or repaired, and reasons; phasing of work proposed; possible bottlenecks and proposals for overcoming them;

(e) summary cost estimates with explanations, supported by Annexes detailing items to be purchased in rupiah and dollar equivalents, divided into estimated local and foreign costs, and distinguishing between factory, field and transportation equipment, installation and consultancy costs, and working capital requirements; physical and price contingencies separately stated;

(f) forecast production, with and without the rehabilitation, supported by Annexes detailing expected cane area, yields, rendement, factory outturn, unit costs;

(g) proposed financing (by years): self-generated, from BBD, long-term and short-term, foreign and local;

(h) proposed repayment plan, showing expected surpluses;

(i) financial implications for the sugar PT, supported by Annexes showing five-year forecast balance sheets, profit and loss accounts and cash flow;

(j) financial rate of return, with sensitivity analysis, e.g. to price and cost changes;

(k) accounts and audit, including any proposed changes in the accounting system and restrictions or conditions proposed; and

(l) proposed procurement, local or foreign; preference for domestic suppliers; procedures; expected origin of goods, if clearly indicated.