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BANK INDONESIA

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**DECISION OF THE BOARD OF EXECUTIVE DIRECTORS OF BANK INDONESIA
NUMBER : 31/164/KEP/DIR : DATED ; DECEMBER 8, 1998**

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FARMERS BUSINESS CREDITS

THE BOARD OF EXECUTIVE DIRECTORS OF BANK INDONESIA

- Considering :**
- a. that in the framework of raising food production to support sustainable food self-sufficiency, the participation of cooperatives and farmers groups must be promoted and expanded and non-government organizations involved;
 - b. that in the framework of expediting channeling of farmers business credits, it is deemed necessary to improve the mechanism for channeling of farmers business credits;
 - c. that in connection with this, it is deemed necessary to improve the provisions on farmers business credits and stipulate this improvement in a letter of decision of the Board of Executive Directors of Bank Indonesia;
- Bearing in mind**
1. Law No. 31/1968 on the Central Bank (State Gazette No. 63/1998, Supplement to State Gazette No. 2865);
 2. Law No. 7/1992 on Banks (State Gazette No. 31/1992, Supplement to State Gazette No. 3472) as already amended by Law No. 10/1998 (State Gazette No. 182/1998, Supplement to State Gazette No. 3790);
 3. Law No. 25/1992 on Cooperatives (State Gazette No. 116/1992, State Gazette No. 3502);
 4. Government Regulation No. 70/1992 on Commercial Banks (State Gazette No. 117/1992, Supplement to State Gazette No. 3503), as already amended several times and the latest by Government Regulation No. 73/1968 (State Gazette No. 163/1998, Supplement to State Gazette No. 3782);
 5. Joint Decree of the Minister of Agriculture and the Minister of Cooperatives and Small- and Medium-Scale Businesses No. 597/KPTS/BM.530/7/1998 and No. 04/SKB/M/VII/1998 dated July 1, 1998 on the Guideline for the Execution of Farmers Business Credits for the Intensification of Rice, secondary crops and horticulture;

6. Decision of the Board of Executive Directors of Bank Indonesia No. 22/81/KEP/DIR dated January 29, 1990 on credit system improvement;
7. Decree of the Minister of Agriculture/Chairman of the Agency for the Control over Mass Guidance No. 07/SK?Mentan/Bimas/X/1997 dated October 28, 1997 on the Program of Mass Guidance for the Intensification of Rice, secondary crops and horticulture for 1998/1999 year;

- Observing :
1. The Limited Cabinet Meeting on Economy, Finance and Industry on December 2, 1998;
 2. Letter of the Minister of Finance No. S-607/MK.017/1998 dated November 24, 1998 on the Stipulation of Banks Executing Farmers Business as Channeling Banks ; and
 3. Letter of the Minister of Finance No. S-628/MK.017/1998 dated December 7, 1998 on the Distribution of the Interest on Farmers Business Credits.

HAS DECIDED :

To stipulate : THE DECISION OF THE BOARD OF EXECUTIVE DIRECTORS OF BANK INDONESIA ON FARMERS BUSINESS CREDITS

**CHAPTER I
GENERAL PROVISIONS
Article 1**

Referred to in this letter of decision as:

- a. A Farmers Business Credit shall be a working capital credit extended through a credit-extending bank to primary cooperative or a non-governmental organization as the party executing the extension of the credit for the farmers associated in farmers groups in order to finance their farming businesses in the framework of the intensification of rice, secondary crops and horticulture, hereinafter referred to as KUT.
- b. A credit-extending bank shall be a Commercial Bank as regulated in Law No. 7/1992 on Banks, as already amended by Law No. 10/1998, and fulfilling the requirements in this letter of decision, hereinafter referred to as the bank.
- c. A primary cooperative shall be a cooperative established by individuals and having them as its members, as regulated in Law No. 25/1992 on Cooperative, including the village unit cooperative (KUD), hereinafter referred to as a cooperative.
- d. A non-governmental organization shall be a non-governmental organization set up by the community and seeking no profit in its operational activities, hereinafter referred to as an LSM.
- e. A farmers group shall be a group of farmers set up on the basis of a common need and located in 1 (one) extent.

- f. The intensification of rice, secondary crops and horticulture shall be a cultivation undertaking on the commodities of rice, secondary crops and horticulture aimed at raising productivity, as stipulated annually in a Decree of the Minister of Agriculture as the chairman of the Agency for the Control over Mass Guidance.
- g. Secondary crop commodities shall be :
1. tuber, including but not limited to taros, cassava and sweet potatoes;
 2. legumes, including but not limited to peanut, soybean and mung bean ; and
 3. cereals, including but not limited to corns, sorghum and wheat;
- as stipulated annually in a Decree of the Minister of Agriculture.
- h. Horticultural commodities shall be :
1. fruit plants, including but not limited to pineapples, bananas, papayas, passion fruit, oranges and the Zalacca plum fruit.
 2. vegetable plants, including but not limited to ordinary chili, potatoes, onions and garlic; and
 3. medicinal plants, including but not limited to ginger;
- as stipulated annually in a Decree of the Minister of Agriculture.
- i. A definitive plan of a farmers group shall be a working plan on a farmers business and a farmers group for a particular period, formulated through deliberation and containing details of activities and joint agreement in the management of a farmers business on the same extent of area belonging to the farmers group such as : the planting area target, the planting pattern, movements, a schedule of activities, job distribution and so forth, hereinafter referred to as RDK.
- j. A definitive plan on the need of a farmers group shall be a plan on the need of a farmers group for one particular period, formulated through deliberation of the members of the farmers group, encompassing the need for seedlings, fertilizer, pesticide and working capital to support the execution of RDK needed by farmers and constituting orders placed by the farmers group with a cooperative or an LSM or another institution, hereinafter referred to as RDKK.
- k. Savings of a farmers group shall be the savings established by a farmers group the amount of which shall be adjusted to the capacity of the farmers group concerned and kept in a bank.
- l. A field agricultural counselor shall be a civilian civil servant from the central government assisting a regional administration and assigned the main task of guiding and promoting the capability of farmers/farmers group in applying a recommended technology, hereinafter to as PPL.
- m. A planting season shall be a period in which the intensification of rice, secondary crops and horticulture is implemented in a particular season, the wet season or the dry season, hereinafter referred to as MT.
- n. A supply year shall be a period of credit supplies which shall be equal to 2(two) MT, hereinafter referred to as TP.

- o. Bank Indonesia Liquidity Credit Ceiling for KUT shall be the maximum amount of Bank Indonesia liquidity credit which can be drawn by a bank, hereinafter referred to as KLBI ceiling.
- p. KUT Liquidity Credit Initial Ceiling shall be a KUT liquidity credit ceiling approved by the office of Bank Indonesia at the initial period of TP based on what is put forward by the regional office or the branch office of the bank concerned, hereinafter referred to as the Initial Ceiling.

**CHAPTER II
UNDERTAKINGS WHICH ARE FINANCED
Article 2**

- (1) KUT shall be utilized to finance the intensifications of rice, secondary crops and horticulture.
- (2) KUT for the intensification of horticulture shall be extended:
 - a. selectively on the basis of the region or the commodity with account being taken of the horticulture financing pattern already prevailing in the region concerned ; and
 - b. if there is a marketing prospect.
- (3) KUT for horticultural commodities in the form of pineapples, bananas, papayas, passion fruit, oranges and the Zalacca palm fruit shall be extended only on the framework of taking care of fruit -bearing plants.

**CHAPTER III
REQUIREMENTS FOR AND TASKS OF BANKS
Article 3**

Banks which can extend KUT shall be :

- a. banks fulfilling the requirement set for being program credit executing banks as regulated in the Letter of Decision of the Board of Executive Directors of Bank Indonesia No. 31/156/KEP/DIR dated November 23, 1998 on the Requirement for Program Credit Executing Banks; and
- b. those already gaining an approval from Bank Indonesia to act as KUT-extending banks.

Article 4

The tasks of the banks in extending KUT shall be :

- a. channeling, supervising the use of an collecting the repayment of KUT and running KUT administration; and
- b. examining fulfillment of KUT requirements.

CHAPTER IV
FUNCTIONS, TASKS AND REQUIREMENTS OF COOPERATIVES/LSM
Article 5

- (1) Cooperatives/LSM shall perform the function of an executing agent for the extension of KUT.
- (2) The tasks of cooperatives/LSM shall be as follows:
 - a. selecting prospective participants of KUT on the basis of the criteria set forth and on the basis of the information obtained from farmers groups;
 - b. verifying the RDKK put forward by farmers groups;
 - c. filing applications for KUT to the bank in the form of the recapitulation of the RDKK drawn up by farmers groups;
 - d. receiving and channeling KUT from the bank to the farmers through the farmers groups;
 - e. executing the administration of KUT in accordance with the guideline and the regulation stipulated by the bank;
 - f. supervising the use of KUT by farmers and undertaking KUT collection;
 - g. fostering farmers and farmers groups;
 - h. developing farmers groups into representatives of cooperatives/LSM where the services of cooperatives/LSM in the said vilages may be rendered;
 - i. providing agricultural production facilities in accordance with the necessity and punctually; and
 - j. marketing agricultural production output and implementing the activities of savings and lending among the members.

Specimens of RDKK and the recapitulation of RDKK shall be as set forth in Attachments 1 and 2 to this letter of decision.

- (3) Cooperatives/LSM shall be responsible for the implementation of the tasks as meant in paragraph (2) and for full repayment of KUT by farmers groups/farmers to the bank.
- (4) The executive boards of cooperatives/LSM and the bank shall sign the agreement on KUT extension.

Article 6

- (1) The requirements for cooperative serving as executing agents in the extension of KUT shall be that the cooperatives;
 - a. are already statutory bodies; and
 - b. have active executive board;
- (2) In addition to the requirement as meant in paragraph (1), other requirements shall be stipulated further by the Ministry of Cooperatives and Small and Medium Scale Businesses.
- (3) For the 1999 MT and the next MT the amount of the arears set as requirement shall take into account the condition in the year concerned.

Article 7

- (1) The requirements set for an LSM which can serve as an executing agent in the extension of KUT shall be that the LSM must:
 - a. already be a statutory body; and
 - b. have an active executive board.
- (2) In addition to the requirement as meant in paragraph (1), other requirements shall be stipulated further by the Ministry of Cooperatives and Small-and-Medium-Scale Businesses.
- (3) For the 1999 MT and the next MT the amount of the arrears as set as requirements shall take into account the condition in the year concerned.

CHAPTER V REQUIREMENTS AND TASKS OF FARMERS GROUPS Article 8

Farmers groups which may receive KUT shall be farmers groups which fulfill the following requirements;

- a. the executive board members and the members of the farmers groups are members of cooperatives or members of farmers groups fostered by LSM.
- b. farmers groups have members undertaking the cultivation of commodities which may be financed by KUT;
- c. farmers groups have an organization with an active executive board made up at least of a chairman and a treasurer;
- d. farmers groups have regulation agreed upon by all members; -
- e. farmers groups hold regular meetings; and
- f. farmers groups have at least simple book-keeping.

Article 9

The tasks of the executive board of a farmers group in the extension of KUT shall be as follows;

- a. selecting farmers who are members of a farmers group;
- b. drawing up the KUT needs of members of a farmers group in the RDKK;
- c. collecting the repayment of KUT;
- d. managing the activities of savings and lending ; and
- e. fostering cooperation and unity among members.

**CHAPTER VI
REQUIREMENTS FOR KUT**

Article 10

- (1) The amount of KUT ceiling shall be determined on the basis of the actual needs of farmers per TP in the framework of the intensification of rice, secondary crops and horticulture.
- (2) The KUT ceiling as meant in paragraph (1) may be realized per Mt.
- (3) The amount of the financing need per hectare shall be stipulated by the Minister of Agriculture as the Chairman of the Agency for Control over Mass Guidance as regulated in a Decree of the Minister of Agriculture issued every year.

Article 11

The period of KUT is stipulated to be a maximum of 1 (one) year as from the signing of the agreement on KUT extension.

Article 12

- (1) The interest rate of KUT is set at 10.5% (ten and a half percent) a year and shall not incur a compound interest.
- (2) The interest rate of KUT as meant in paragraph (1) may be reviewed by Bank Indonesia.
- (3) In the event that there is a change in the interest rate of KUT as meant in paragraph (2), this change shall be introduced on the basis of an approval of the Board of Executive Directors of Bank Indonesia and notified by means of a circular of Bank Indonesia.
- (4) The interest rate as meant in paragraph (1) shall encompass:
 - a. a fee for the bank amounting to 2% (two percent);
 - b. emoluments for PPL amounting to 1% (one percent);
 - c. emoluments for cooperatives/LSM amounting to 5% (five percent) ;
 - d. payment of premium to Perum PKK amounting to 1.5% (one and a half percent) and
 - e. funds deposited by the government at Perum PKK amounting to 1% (one percent).
- (5) The implementation of the payment of the fee, emoluments, premium and deposited funds as meant in paragraph (4) shall be regulated in a circular of Bank Indonesia.

Article 13

- (1) Farmers groups shall be advised to establish savings the amount of which shall be adjusted to the capability of the farmers groups concerned for farmers groups savings and which shall be deposited in the bank.

- (2) The savings as meant in paragraph (1) shall be utilized by farmers groups to promote the welfare of the members of the farmers groups.

Article 14

Credit commission fees and other charges shall not be collected.

Article 15

KUT guaranty shall be stipulated pursuant to the provision in Article 8 of Law No. 7/1992 on banks.

**CHAPTER VII
REQUIREMENTS FOR BANK INDONESIA LIQUIDITY CREDITS**

Article 16

The source of KUT financing shall be 100% of Bank Indonesia Liquidity Credit (KLBI).

Article 17

- (1) The interest rate of KLBI shall be set at 0% (nil percent) a year.
- (2) The interest rate of KLBI as meant in paragraph (1) shall be reviewed by Bank Indonesia.
- (3) In the event that there is a change in the interest rate of KLBI as meant in paragraph (2), this change shall be introduced on the basis of the approval of the board of executive directors of Bank Indonesia and notified by means of a Bank Indonesia circular.

Article 18

- (1) The period of time of KLBI shall be stipulated to be a maximum of 2 (two) years from the date of the letter of approval of KLBI (SPK, KLBI) to the bank.
- (2) The extension of the period of time of KLBI shall be notified by the bank to Bank Indonesia before the KLBI period of time expires, along with details of the remaining credit.

**CHAPTER VIII
PROCEDURE FOR KUT EXTENSION**

Article 19

- (1) A KUT application shall be filed by a farmers group in the form of an RDKK to a cooperative or LSM.
- (2) The cooperative or LSM shall convey the KUT application to the local office of the bank in the form of the recapitulation of RDKLLK along with the RDKK of each farmers group.

- (3) The cooperative/LSM shall draw the credit in accordance with the plan for the drawing of KUT presented on the basis of the RDKK.
- (4) To draw the KUT as meant in paragraph (3), the cooperative/LSM must present a letter of acceptance signed by the executive board of the cooperative/LSM.

CHAPTER IX
PROCEDURE FOR FILING OF APPLICATION FOR KLBI CEILING
Article 20

- (1) An application for a KLBI ceiling shall be filed as follows:
 - a. as for a bank with a head office in DKI Jakarta and the districts/municipalities of Serang, Pandeglang, Lebak, Tangerang, Bogor, Karawang and Bekasi the application shall be filed to the head office of Bank Indonesia, and
 - b. as for a bank with a head office outside the areas referred to in letter a, the application shall be filed to the local office of Bank Indonesia.
- (2) The filing of an application for KLBI ceiling as meant in paragraph (1) shall have as its attachment a statement from the Ministry of Cooperatives and Small-and-Medium-Scale Businesses or the local regional office stating that it shall be responsible for the channeling of KUT up to the farmers and for the collection of KUT repayment from the farmers to the bank:

Article 21

- (1) The filing of an application for KLBI ceiling as meant in Article 20 shall be conducted on the basis of an application for KUT filed by a cooperative/LSM to finance the needs for 1 (one) TP.
- (2) If the application for KLBI ceiling as meant in paragraph (1) is approved by Bank Indonesia, Bank Indonesia shall make available the KLBI ceiling by means of making a KLBI letter of approval (SPK KLBI) and an agreement of KUT extension which shall be signed by the bank on a revenue stamp pursuant to the prevailing provision and returned to Bank Indonesia.
- (3) The provision of KLBI ceiling as meant in paragraph (2) shall be allocated to the office of Bank Indonesia overseeing a relevant area.

Article 22

- (1) On the basis of the allocation as meant in Article 21 paragraph (3) the regional office or the branch office of the bank shall file an application for initial ceiling and advance money of KLBI to the local office of Bank Indonesia.
- (2) If the application for initial ceiling as meant in paragraph (1) is approved, the office of Bank Indonesia shall delegate the advance money of KLBI amounting to 15% (fifteen percent) of the initial ceiling approved by means of book transfer.

- (3) Further delegation of KLBI shall be conducted by means of reimbursement after the office of the bank has realized payment to farmers groups.
- (4) The delegation of liquidity credit by means of reimbursement as meant in paragraph (3) may be conducted by the office of the bank by using letters, cables or faxes to the office of Bank Indonesia.
- (5) The office of Bank Indonesia shall delegate KLBI as meant in paragraph (3) at the latest 3 (three) working days as from the receipt of the letter of application of the regional office or branch office of the bank.

Article 23

- (1) In the event of KLBI ceiling shortage, the office of the bank may file an application for additional ceiling to the local office of Bank Indonesia.
- (2) The application for additional ceiling as meant in paragraph (1) may be decided upon by the local office of Bank Indonesia.
- (3) The additional ceiling as meant in paragraph (2) shall not increase the amount of the advance money.

Article 24

- (1) With respect to the payment of the installments of the interest and repayment of KUT received from a cooperative/ LSM, the office of the bank shall be obligated to repay the said KLBI to Bank Indonesia at the latest at the end of the month concerned.
- (2) In the event that a cooperative/LSM fails to repay KUT when it becomes due for repayment, the said cooperative/LSM must file a statement on postponement of payment along with its reasons to the office of the bank at the latest 7 (seven) working days before the credit becomes due for repayment.
- (3) The office of the bank shall be obligated to pass on the statement on postponement of payment as meant in paragraph (2) to Bank Indonesia at the latest 3 (three) working days before KLBI becomes due for repayment.

CHAPTER X SANCTIONS Article 25

- (1) KLBI advance money as meant in Article 22 paragraph (2) shall be evaluated every calendar quarter, namely in January, April, July, and October with respect to the realization in the previous calendar quarter.
- (2) In the event that the realization in the said calendar quarter is smaller than the amount of KLBI advance money, the bank shall, with respect to the said difference, be subject to the imposition of the highest deposit interest rate prevailing at the office of the bank concerned, and this interest shall be calculated from the beginning of the quarter up to the end of the quarter concerned.

- (3) The highest deposit interest rate as meant in paragraph (2) shall be the highest deposit interest rate prevailing at the bank concerned at the end of the quarter.
- (4) In the event that the office of the bank fails to deposit KUT repayment already received from the cooperative/LSM within the period as meant in Article 24 paragraph (1), the amount of KLBI the office of the bank has deposited late shall be subject to the imposition of the highest deposit interest rate prevailing at the office of the bank concerned, and the interest shall be calculated from the date when the office of the bank receives KUT repayment up to the date when KLBI is repaid to Bank Indonesia.

**CHAPTER XI
TASKS AND FUNCTION OF PPL
Article 26**

The tasks and function of PPL in the extension of KUT shall be :

- a. promoting the participation of farmers in every stage of the intensification activities, namely in planning, preparation, implementation, monitoring and problem-solving;
- b. fostering the dynamism and leadership of members of farmers groups through the activities of deliberation, discussion and the drawing up of RDK/RDCK;
- c. recommending the adoption of efficient technology to farmers and nurture their application in the framework of improving the quality of intensification;
- d. fostering and encouraging the development of farmers' organization and capability in applying 5(five) points of farmers groups' capability;
- e. bolstering the realization of institutionalized relationship between farmers groups and cooperatives;
- f. Fostering the implementation of the construction design and engineering of intensification farmers businesses in accordance with the local condition; and
- g. preparing materials for the drawing up of an agricultural counseling program and drawing up a working plan in the fostering areas.

**CHAPTER XII
REPORTING
Article 27**

- (1) The office of the bank shall be obligated to convey reports to the local office of Bank Indonesia with copies to be addressed to the head office of the bank concerned regarding the debit balance of the estension of KUT per MT, the receipt of interest from farmers groups and the emoluments already given to the cooperatives/LSM and PPL.
- (2) The report as meant in paragraph (1) must be conveyed at the end of every month and at the latest on 15th of the next month.

- (3) The head office of the bank shall be obligated to compile the monthly report received from the branch offices and present the said compilation to the heads office of Bank Indonesia at the end of every month.

**CHAPTER XIII
TRANSITIONAL PROVISIONS
Article 28**

- (1) KUT already granted prior to the enforcement of this letter of decision shall continue to comply with the provisions regulated in each SPK KLBI concerned.
- (2) KUT for which an application is being filed and which has not gained the approval of the bank shall comply with the provisions in this letter of decision.

**CHAPTER XIV
C L O S I N G
Article 29**

With the enforcement of this letter of decision, Letters of Decision of the Board of Executive Directors of Bank Indonesia No. 31/24A/KEP/DIR dated May 7, 1998 on farmers business credits and nO. 31/58/KEP/DIR dated July 2, 1998 on the amendment to Letter of Decision of the Board of Executive Directors of Bank Indonesia No. 31/24A/KEP/DIR dated May 7, 1998 on farmers business credits shall be revoked and declared null and void.

Article 30

This letter of decision shall take effect as from December 1, 1998.

For public cognizance this letter of decision shall be announced by publishing it in the State Gazette of the Republic of Indonesia.

Stipulated in Jakarta
On December 8, 1998

BOARD OF EXECUTIVE DIRECTORS OF BANK INDONESIA

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MIRANDA S. GOELTOM

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ACHJAR ILJAS

Note : the attachments are not enclose

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