

CONFORMED COPY

LOAN NUMBER 3854-IND

LOAN AGREEMENT

(Kalimantan Urban Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 6, 1995

LOAN NUMBER 3854-IND

LOAN AGREEMENT

AGREEMENT, dated April 6, 1995, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) In Section 6.02, sub-paragraph (k) is re-lettered as

sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Affected Person" and "Affected Persons" means individually the person and collectively the persons whose right, title, or interest in any property is acquired or is intended to be acquired or whose property is otherwise possessed or intended to be possessed and who, as a result thereof, has been or would be displaced or dispossessed from his/their habitat or land or precluded from carrying out his/their business, occupation or work on account of the execution of the Project;
- (b) "BAPPENAS" means the National Development Planning Agency of the Borrower, or any successor thereto;
- (c) "BAPPEDA Level I" and "BAPPEDA Level II" mean the provincial and district level development planning agencies of the Borrower;
- (d) "IMG" means the Inter-departmental Management Group established and operating within BAPPENAS for the implementation of the Borrower's Integrated Urban Development Program;
- (e) "Implementation Agencies" means any of the agencies responsible for Project Implementation as set forth in Part B.1 of Schedule 5 to this Agreement;
- (f) "Implementation Units" means any of the units responsible for Project management and coordination as set forth in Part B.2 of Schedule 5 to this Agreement;
- (g) "Kampung" means a neighborhood in a Project City;
- (h) "MPW" means the Ministry of Public Works of the Borrower, or any successor thereto;
- (i) "MHA" means the Ministry of Home Affairs of the Borrower, or any successor thereto;
- (j) "PDAM" means Perusahaan Daerah Air Minum, a local water supply enterprise, established and operating in a Project City pursuant to the provisions of the Borrower's Law No. 5 of 1962, Law No. 5 of 1974, Decree No. 26 of 1975 of MHA, and Joint Decree of MHA No. 3 of 1984 and MPW No.26/KPTS of 1984, as any of the same may be amended from time to time;
- (k) "Project PDAM" means a PDAM operating in any Project City;
- (l) "PJM" means the five-year expenditure program approved by the Borrower for each Project City and Project PDAM;
- (m) "Project City" means any of the Borrower's municipalities of Banjarmasin, Balikpapan, Palangkaraya, Pontianak and Samarinda located in the region of Kalimantan;
- (n) "PIA" means Kesepakatan Pelaksanaan Program, the implementation agreement entered into between the Borrower and each Project City and the respective Project PDAM pursuant to

Section 3.02 and Part A.1 of Schedule 5 to this Agreement;

(o) "PIAs" means collectively all implementation agreements entered into between the Borrower and all Project Cities and all Project PDAMs;

(p) "Resettlement and Rehabilitation Action Plans" means the Samarinda Plan, dated October 22, 1994 and the Banjarmasin Plan, dated September 16, 1994, for carrying out the resettlement and rehabilitation of Affected Persons, as such plans may be amended from time to time by agreement between the Borrower and the Bank, pursuant to the terms and conditions described in Schedule 6 to this Agreement;

(q) "Rp" means Indonesian Rupiah, the currency of the Borrower;

(r) "SLA" means any of the Subsidiary Loan Agreements to be entered into between:

- (i) the Borrower and each Project City; or
- (ii) the Borrower and each Project PDAM and the respective Project City, pursuant to Section 3.03 (b) of this Agreement;

(s) "SLAs" means collectively all Subsidiary Loan Agreements entered into between the Borrower and all Project Cities and Project PDAMs, with the exception of PDAM Banjarmasin;

(t) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(u) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to exchanges of letters dated December 20, 1990, May 10, 1991 and February 24, 1993, between the Borrower and the Bank;

(v) "Fiscal year" or "FY" means the Borrower's fiscal year commencing April 1 and ending March 31; and

(w) "PDAM FY" means any of the Project PDAMs' fiscal year commencing January 1 and ending December 31.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred thirty-six million dollars (\$136,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank 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 out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in United States dollars a special deposit account in Bank Indonesia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of

Schedule 7 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be June 30, 2001, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund:

(A) the Bank's investments; and

(B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of

this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, social and resettlement practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. The Borrower shall enter into an implementation agreement with each Project City and its respective Project PDAM, on terms and conditions satisfactory to the Bank, including those set forth in Part A.1 of Schedule 5 to this Agreement.

Section 3.03. (a) The Borrower shall on-lend out of the proceeds of the Loan:

- (i) (A) one million nine hundred fifty thousand dollars (\$1,950,000) equivalent to the Project City of Banjarmasin;
- (B) four million two hundred ninety thousand dollars (\$4,290,000) equivalent to the Project City of Balikpapan;
- (C) three million eight hundred seventy thousand dollars (\$3,870,000) equivalent to the Project PDAM of Balikpapan;
- (D) one million five hundred sixty thousand dollars (\$1,560,000) equivalent to the Project City of Palangkaraya;
- (E) two million eight hundred thirty thousand dollars (\$2,830,000) equivalent to the Project PDAM of Palangkaraya;

- (F) three million and eighty thousand dollars (\$3,080,000) equivalent to the Project City of Pontianak;
- (G) nine million seventy thousand dollars (\$9,070,000) equivalent to the Project PDAM of Pontianak;
- (H) two million one hundred and sixty thousand dollars (\$2,160,000) equivalent to the Project City of Samarinda; and
- (I) four million six hundred and ninety thousand dollars (\$4,690,000) equivalent to the Project PDAM of Samarinda under subsidiary loan agreements whose terms and conditions are satisfactory to the Bank, including the following:
 - (ii) (A) the interest payable on the principal amount of the subsidiary loan withdrawn from time to time shall be fixed at an annual rate of 11.5%;
 - (B) the commitment charge payable on the principal amount of the subsidiary loan not withdrawn from time to time shall be equivalent to the rate determined under Section 2.04 of this Agreement;
 - (C) the terms of each subsidiary loan shall be twenty (20) years, including a grace period of five (5) years;
 - (D) the Borrower shall bear the foreign exchange risk and interest rate variation risk; and
 - (E) financial and other covenants pursuant to the provisions of Parts A.2 and A.3 of Schedule 5 to this Agreement;
 - (iii) the Borrower shall exercise its rights under the PIAs and SLAs in such manner as to:
 - (A) protect the interests of the Bank and the Borrower;
 - (B) comply with its obligations under this Agreement; and
 - (C) achieve the objectives of the Project; and
 - (iv) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the PIAs or SLAs or any provisions thereof.

(b) The Borrower shall make available to the Project Cities and Project PDAMs, on a grant basis, the balance of the remainder of the Loan, in accordance with the amounts allocated to each Project City and Project PDAM under Schedule 1 to this Agreement, with the exception of Categories (1) (e), (2) (e), (3) (e), (4) (e), (5) (e), (6) and (7).

Section 3.04. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.05. Without limitation upon the provisions of

Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan of such scope and in such detail as the Bank shall reasonably request, for the future operation of the Project;

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are

included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) any Project City or any Project PDAM shall have failed to perform any of its respective obligations under the PIA or the SLA, as the case may be, to which it is a party;

(b) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Project City or Project PDAM will be able to perform any of their respective obligations under the PIAs and the SLAs;

(c) the laws and regulations establishing the Project PDAMs shall have been amended, suspended, abrogated, or repealed so as to affect materially and adversely the ability of the Project PDAMs to perform any of their respective obligations under the PIAs; and

(d) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Project PDAMs or for the suspension of their respective operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of ninety (90) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the PIAs and the SLAs have been duly approved by all relevant authorities and executed by the Borrower and Project Cities and Project PDAMs.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the PIAs and the SLAs have been duly authorized or ratified by their respective parties thereto and are legally binding upon said parties in accordance with their respective terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P.O.Box 139
Jakarta 10710
Indonesia

Cable address:

Telex:

FINMINISTRY
Jakarta

45799 DJMLN-IA,
44319 DEPKEU-IA

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF INDONESIA

By /s/ Arifin M. Siregar

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Russell Cheetham

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Part A of the Project (Balikpapan)		
a) Civil works	11,640,000	60%
b) Equipment and supplies (excluding vehicles)	220,000	100% of foreign expenditures, 100% of local expenditures ex- factory cost) and 65% of local expenditures for other items procured locally
c) Consultants' services	2,060,000	91%
d) Training	160,000	91%
e) Goods and works financed under SLAs:		91%
i) Project City	4,290,000	
ii) Project PDAM	3,870,000	
(2) Part B of the Project (Pontianak)		
a) Civil works	15,250,000	60%
b) Equipment and supplies (excluding vehicles)	1,020,000	100% of foreign expenditures, 100% of local ex- penditures (ex- factory cost) and 65% of local ex- penditures for other items procured locally
c) Consultants' services	2,020,000	91%
d) Training	160,000	91%
e) Goods and works financed under SLAs:		91%
i) Project City	3,080,000	
ii) Project PDAM	9,070,000	
(3) Part C of the Project: (Palangkaraya)		

a)	Civil works	6,830,000	60%
b)	Equipment and supplies (excluding vehicles)	690,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
c)	Consultants' services	1,310,000	91%
d)	Training	160,000	91%
e)	Goods and works financed under SLAs:		91%
	i) Project City	1,560,000	
	ii) Project PDAM	2,830,000	
(4) Part D of the Project (Samarinda)			
a)	Civil works	9,990,000	60%
b)	Equipment and supplies (excluding vehicles)	100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
c)	Consultants' services	1,750,000	91%
d)	Training	160,000	91%
e)	Goods and works financed under SLAs:		91%
	i) Project City	2,160,000	
	ii) Project PDAM	4,690,000	
(5) Part E of the Project (Banjarmasin)			
a)	Civil works	25,550,000	60%
b)	Equipment and supplies (excluding vehicles)	3,380,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
c)	Consultants' services	1,400,000	91%
d)	Training	160,000	91%

e) Goods and works financed under SLAs for the Project City	1,950,000	91%
(6) Part F of the Project:		
a) Consultants' services	2,000,000	91% under contracts signed before June 1, 1995
b) Consultants' services	8,300,000	80% under contracts signed after June 1, 1995
(7) Refunding of Project Preparation Advance	1,700,000	Amount due pur- suant to Section 2.02 (c) of this Agreement
(8) Unallocated	6,490,000	
TOTAL	\$136,000,000	

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "goods and works financed under SLAs" means the expenditures incurred by the Project Cities and Project PDAMs under the respective SLAs.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,000,000, may be made in respect of Categories (1), (2), (3), (4), (5) and (6) on account of payments made for expenditures before that date but after May 30, 1994.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for:

(a) goods not exceeding two hundred thousand dollars (\$200,000);

(b) works not exceeding one million dollars (\$1,000,000) equivalent;

(c) the employment of consulting firms estimated to cost less than \$100,000;

(d) the employment of individuals, estimated to cost less than \$50,000, under such terms and conditions as the Bank shall specify by notice to the Borrower; and

(e) training.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in the:

(a) improvement of the provision of urban infrastructure services and the efficiency of urban investments;

(b) development and strengthening of the institutional capabilities of the Project Cities and Project PDAMs;

(c) alleviation of poverty through the provision of essential services to the urban poor; and

(d) improvement of the quality of the urban environment.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Balikpapan

1. Increasing the capacity of the municipal water supply system through:

(a) the upgrading of existing water intakes at Gunung Sari and Kampung Damai, construction of reservoirs, installation of distribution, secondary and tertiary pipeworks, house connections and public hydrants; and

(b) the provision of training for PDAM staff and the carrying out of a public education program.

2. Improving sanitation and human waste disposal facilities through:

(a) the construction of communal lavatory facilities and toilets, grey water leaching pits, pilot wastewater and sanitation programs and the provision of sludge collection vehicles;

(b) the carrying out of an operation and maintenance program and a public information campaign to disseminate information on the pilot systems; and

(c) the provision of training for Project City staff.

3. Improving solid waste management systems through:

(a) the construction of disposal sites and a transfer depot; and

(b) the provision of waste containers, hand carts, vehicles, office and workshop equipment.

4. Upgrading of the drainage systems through:

(a) the rehabilitation, improvement and operation and maintenance of existing primary, secondary and tertiary drains, construction of new primary drains and provision of dump trucks; and

(b) the construction of channel normalization and improvement works.

5. Improving the urban road network through:

(a) the construction, improvement and routine maintenance of priority primary and secondary urban roads; and

(b) the carrying out of a traffic management study.

6. Improving urban infrastructure through:

(a) the upgrading of selected kampungs and markets; and

(b) the carrying out of renewal works at Gunung Sari Ilir.

7. Development of an action program to strengthen municipal institutions through:

(a) provision of advisory services and training to strengthen program management and monitoring, municipal management, revenue collection, environmental and resettlement capabilities of Project City and Project PDAM staff and engineering design, procurement, supervision of works' services; and

(b) the preparation of an urban development strategy and a PJM.

Part B: Pontianak

1. Increasing the capacity of the municipal water supply system through:

(a) the replacement of defective, and construction of new secondary and tertiary pipelines, water consumer meters and connections, pump stations and public hydrants;

(b) the construction of a water treatment plant at Imam Bojol;

(c) the carrying out of a water loss reduction program;

(d) the construction of a workshop, main office and a laboratory for the PDAM; and

(e) the provision of training for PDAM staff and the carrying out a public education program.

2. Improving sanitation and human waste disposal facilities through:

(a) the rehabilitation of communal lavatory and toilet facilities, wastewater drains, construction of a sludge disposal site and provision of sludge collection vehicles; and

(b) the carrying out of a sanitation program.

3. Improving solid waste management systems through the construction of waste transfer stations, a final waste disposal site, interim waste disposal sites, closure of the existing landfill and provision of vehicles and containers.

4. Upgrading of the drainage and flood control systems through:

(a) the widening of main drainage channels, rehabilitation and operation and maintenance of primary, secondary and tertiary drains, construction of four hydraulic gates and provision of vehicles and equipment; and

(b) the carrying out of channel improvement, lining and dredging works on the Raya, Jawi and Tokaya rivers.

5. Improving the urban road network through:

(a) the construction, rehabilitation, improvement and routine maintenance of primary, secondary and tertiary roads; and

(b) the carrying out of a traffic management study.

6. Improving urban infrastructure through:

(a) the upgrading of selected kampungs and markets; and

(b) the provision of support to the low-cost housing project at Siantar Hulu.

7. Implementation of an action program to strengthen municipal institutions through:

(a) the provision of advisory services and training to strengthen the program management and monitoring, municipal management, revenue collection, environmental and resettlement capabilities of Project City and Project PDAM staff and engineering design, procurement, supervision of works' services; and

(b) the preparation of an urban development strategy and a PJM.

Part C: Palangkaraya

1. Increasing the capacity of the municipal water supply system through:

(a) the construction of a new water treatment plant, new pipelines, rehabilitation of water treatment plant filters, replacement and expansion of intake pumps, installation of a new bulk water meter, service connections and public hydrants;

(b) the construction of an office and a workshop for the Project PDAM; and

(c) the provision of training for PDAM staff and the carrying out of a public awareness campaign.

2. Improving sanitation and human waste disposal facilities through:

(a) the construction of communal lavatory and toilet facilities, a sludge disposal site and provision of sludge collection vehicles; and

(b) the carrying out of a sanitation program and a public information campaign to improve sanitation practices.

3. Improving solid waste management systems through:

(a) the construction of a final disposal site and an access road; interim disposal sites, transfer stations; and

(b) the provision of equipment, vehicles and office equipment.

4. Upgrading of the drainage system through the improvement, rehabilitation and maintenance of primary, secondary and tertiary drains and culverts.

5. Improving the road network through the improvement, rehabilitation and maintenance of primary and secondary roads.

6. Improving urban infrastructure through:

(a) the upgrading of selected kampungs and markets; and

(b) the provision of support to a low-cost housing project north of the City.

7. Implementation of an action program to strengthen municipal institutions through:

(a) the provision of advisory services and training to strengthen the program management and monitoring, municipal management, revenue collection, environmental and resettlement

capabilities of Project City and Project PDAM staff and engineering design, procurement, supervision of works' services; and

(b) the preparation of an urban development strategy and a PJM.

Part D: Samarinda

1. Increasing the capacity of the municipal water supply system through:

(a) the rehabilitation, replacement and construction of service and transmission pipelines, service reservoirs, a water treatment plant, consumer meters, water service connections and public hydrants;

(b) the carrying out of a water loss reduction program and public awareness campaigns;

(c) provision of training for PDAM staff; and

(d) the carrying out of a study to identify new water sources.

2. Improving sanitation and human waste disposal facilities through:

(a) the construction of a wastewater interceptor aeration pond, including the resettlement and rehabilitation of Affected Persons displaced by the construction of said pond;

(b) the construction of public toilet facilities, a septic sludge disposal site and provision of sludge collection vehicles; and

(c) the carrying out of a sanitation program and a public awareness campaign on sanitation.

3. Improving solid waste management systems through:

(a) the construction of a final waste disposal site and an access road, interim disposal sites, transfer stations, collection facilities, container bases; and

(b) the provision of equipment and waste collection vehicles.

4. Upgrading of the drainage systems through the rehabilitation and maintenance of primary, secondary and tertiary drains, culverts and drainage channels.

5. Improving the urban road network through the improvement and maintenance of primary, secondary and tertiary roads.

6. Improving urban infrastructure through:

(a) the upgrading of selected kampungs and markets;

(b) the construction of roads for the low-cost housing projects at Sambutan and Bengkuring; and

(c) the provision of community infrastructure for the renewal project along the Karang Mumus river.

7. Implementation of an action program to strengthen municipal institutions through:

(a) the provision of advisory services and training to strengthen the program management and monitoring, municipal management, revenue collection, environmental and resettlement capabilities of Project City and Project PDAM staff and

engineering design, procurement, supervision of works' services; and

(b) the preparation of an urban development strategy and a PJM.

Part E: Banjarmasin

1. Improving the capacity of the municipal water supply system through:

(a) the installation of pipelines, pumps, house connections and public hydrants; and

(b) the extension of the water distribution network.

2. Improving sanitation and human waste disposal facilities through:

(a) the implementation of pilot sanitation systems and a sanitation program and the provision of sludge collection vehicles;

(b) the improvement of sanitation wastewater facilities;

(c) strengthening of the municipal capabilities to monitor and evaluate the implementation of said pilot systems; and

(d) the carrying out of a public awareness campaign on sanitation.

3. Improving solid waste management systems through:

(a) the construction and improvement of waste disposal sites, transfer stations and container bases; and

(b) the provision of vehicles.

4. Upgrading of the drainage and flood control systems through:

(a) the improvement and maintenance of primary, secondary and tertiary drains, construction of hydraulic gates;

(b) the provision of equipment and vehicles;

(c) the carrying out of a public awareness campaign against illegal dumping into drains; and

(d) the construction of steel piling to protect a section of the river bank at Martapura.

5. Improving the urban road network through:

(a) the rehabilitation, improvement and routine maintenance of primary and secondary urban roads; and

(b) the construction of a section of the southern ring road and bridge at the Martapura river, including the resettlement and rehabilitation of Affected Persons displaced by carrying out said construction works.

6. Improving urban infrastructure through:

(a) the upgrading of selected kampungs and markets; and

(b) the construction of roads for selected low-cost housing projects.

7. Implementation of an action program to strengthen municipal institutions through:

(a) the provision of advisory services and training to strengthen the program management and monitoring, municipal management, revenue collection, environmental and resettlement capabilities of Project City and Project PDAM staff, and engineering design, procurement and supervision of works' services; and

(b) the preparation of an urban development strategy and a PJM.

Part F: Project Implementation Support, Institutional Development and Training

1. Strengthening of the Borrower's Project implementation capabilities, including the provision of training on project management techniques for staff of the Implementing Agencies.

2. Provision of advisory services in the following areas:

(a) water system development;

(b) infrastructure maintenance;'

(c) sanitation and wastewater systems;

(d) urban management support; and

(e) preparation of future /urban projects for Kalimantan cities to be selected by the Borrower.

* * * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
December 15, 2000	2,615,000
June 15, 2001	2,710,000
December 15, 2001	2,805,000
June 15, 2002	2,905,000
December 15, 2002	3,005,000
June 15, 2003	3,115,000
December 15, 2003	3,225,000
June 15, 2004	3,335,000
December 15, 2004	3,455,000
June 15, 2005	3,580,000
December 15, 2005	3,705,000
June 15, 2006	3,835,000
December 15, 2006	3,970,000
June 15, 2007	4,115,000
December 15, 2007	4,260,000
June 15, 2008	4,410,000
December 15, 2008	4,565,000
June 15, 2009	4,730,000
December 15, 2009	4,895,000
June 15, 2010	5,070,000
December 15, 2010	5,250,000
June 15, 2011	5,435,000
December 15, 2011	5,630,000
June 15, 2012	5,825,000
December 15, 2012	6,035,000
June 15, 2013	6,250,000
December 15, 2013	6,470,000

June 15, 2014	6,700,000
December 15, 2014	6,935,000
June 15, 2015	7,165,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of Paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price

shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D.1 of this Section, the Bank's prior approval will be required for:

- (i) a first extension of the bid validity period, if the period of extension exceeds sixty (60) days; and
- (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. Bidders for civil works estimated to cost the equivalent of \$1,000,000 or more per contract shall be pre-qualified as provided in paragraph 2.10 of the Guidelines.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Indonesia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Local Competitive Bidding

(a) Civil works, estimated to cost the equivalent of \$3,000,000 or less per contract, up to an aggregate amount of \$113,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures acceptable to the Bank.

(b) Goods, estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$6,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures acceptable to the Bank.

2. Shopping

Goods, estimated to cost the equivalent of \$20,000 or less per contract, up to an aggregate amount equivalent to \$2,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of pre-qualification:

With respect to the pre-qualification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for: (i) civil works, estimated to cost the equivalent of \$1,000,000 or more; and (ii) goods, estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect to such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix I to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding sub-paragraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ or cause the relevant Implementing Agencies to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, shortlists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to:

(a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or

(b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to:

- (i) the terms of reference for such contracts;
- (ii) single-source selection of consulting firms;
- (iii) assignments of a critical nature, as reasonably determined by the Bank;
- (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or

- (v) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

Part A: Subsidiary Agreements

1. Project Implementation Agreements (PIAs)

(a) Except as the Bank shall otherwise agree, the Borrower shall ensure that PIAs shall include, inter alia, provisions whereby:

- (i) The Project Cities and the Project PDAMs shall declare their commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and to that end, they shall agree to carry out their respective Parts of the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and resettlement practices and criteria, and to provide, promptly as needed, the funds, facilities, services and other resources required therefor.
- (ii) The Project Cities and the Project PDAMs agree that procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan under this Agreement shall be governed by the provisions of Schedule 4 to this Agreement.
- (iii) The Project PDAM in Banjarmasin shall agree to perform the obligations described under Part A.3 of this Schedule.

(b) The Project Cities and the Project PDAMs shall agree to use the goods and services financed out of the proceeds of the Loan exclusively for the purposes of the Project.

(c) The Project Cities and the Project PDAMs shall agree that the Borrower or the Bank may from time to time inspect the goods, works and services under the Project including all records and documents relating thereto.

(d) The Borrower may suspend or terminate the right of the Project Cities and the Project PDAMs to use the proceeds of the Loan made available under the SLAs upon their failure to perform any of their respective obligations under the PIAs or upon notice by the Bank to the Borrower that it intends to exercise its remedies under Section 6.02 of the General Conditions.

(e) The Project Cities and the Project PDAMs, shall agree to promptly inform the Borrower and the Bank of any condition which interferes or threatens to interfere with the progress of their respective Parts of the Project, the accomplishment of the purposes of the Loan under this Agreement, or the performance of their respective obligations under the PIAs.

(f) The Project Cities and the Project PDAMs shall agree to cooperate fully with the Borrower and the Bank to assure that the purposes of the Loan will be accomplished. To that end the Project Cities and the Project PDAMs shall agree to:

- (i) from time to time, at the request of either the Borrower or the Bank, exchange views with the Borrower and/or the Bank regarding the progress in carrying out their respective Parts of the Project or the performance of their respective obligations under the PIAS, and other matters relating to the purposes of the Loan; and
- (ii) furnish all such information and documents related thereto as may reasonably be requested. The Project Cities and the Project PDAMs shall further agree to provide such information and documents as may be required by the Borrower to fulfill its supervision, monitoring, recording and reporting obligations to the Bank.

(g) The Project Cities and the Project PDAMs shall agree to comply and assist the Borrower in complying with the audit and accounting covenants in respect of their respective Parts of the Project.

(h) The Project Cities shall promptly after the Effective Date and thereafter, until the completion of the Project, provide sufficient counterpart funds to fully finance the costs of operation and maintenance of urban roads and drainage referred to under their respective Parts of the Project.

2. Subsidiary Loan Agreements between the Borrower and the Project Cities

Except as the Bank shall otherwise agree, and for the purposes of the provisions of Section 3.03 (a) of this Agreement, the SLAs shall, inter alia, include the following covenants:

(a) the Project Cities shall take all necessary measures during Project implementation to implement their respective local institutional development action programs (LIDAPs), revenue improvement action plans (RIAPs) and PJMs.

(b) the Project Cities shall periodically review and adjust their charges for solid waste disposal, with a view to obtaining and thereafter maintaining throughout Project implementation, full recovery of the costs of operation and maintenance of their respective solid waste and sanitation programs.

3. Subsidiary Loan Agreements between the Borrower and the Project PDAMs

(a) Except as the Bank shall otherwise agree, the SLAs shall, inter alia, include the following financial covenants:

- (i) the Project PDAMs shall produce, for each of their fiscal years after their fiscal year ending on December 31, 1994, annual gross revenues from all sources to fully cover their operating expenses; and promptly thereafter, take the necessary measures to fully cover their operating expenses and depreciation by their fiscal year ending on December 31, 1999;
- (ii) before September 30 in each of their fiscal years, the Project PDAMs shall, on the basis of forecasts prepared by said PDAMs and satisfactory to the Borrower and the Bank, review whether they would meet the requirements set forth in paragraph (i) in respect of such year and the next fiscal year and shall furnish to the Borrower and the Bank a copy of such review upon its completion;

- (iii) the Project PDAMs shall not undertake any proposed investment additional to their respective PJM and estimated to cost Rp 2,000,000,000 (two billion Rupiah) equivalent or more, unless the PDAM has submitted the proposed investment to the Borrower and the Bank for their review and comments;
 - (iv) the Project PDAMs shall not make any distribution with respect to their net income, unless, after such distribution has been made, funds from internal sources are equivalent to not less than 20% of the annual average of capital expenditures incurred for that year and the previous year and expected to be incurred the next following fiscal year; and
 - (v) the Project PDAMs shall periodically review and adjust their tariffs on the basis of realistic forecasts of revenues and expenditures, by not later than January 1, 1996, January 1, 1998 and January 1, 2000 with a view to meeting the financial targets set forth under this Schedule.
- (b) For the purposes of this Schedule, the following terms have the following meanings:
- (i) "Gross revenues from all sources" means the sum of revenues from all sources related to water operation, house connections, and cash consumer contributions in aid of construction, but excluding non-operating income and any other cash inflows;
 - (ii) "Operating expenses" means the sum of all expenses related to water operation, including maintenance and administration and interest on loans, but excluding depreciation.
 - (iii) "Depreciation" means the annual provision charged against revenues to depreciate, on a basis acceptable to the Bank, the current value of the fixed assets in operation as valued from time to time in accordance with methods of valuation satisfactory to the Bank.
 - (iv) "Debt" means any indebtedness of the Project PDAMs maturing by its terms more than one year after the date on which it is originally incurred. Debt shall be deemed to be incurred:
 - (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and
 - (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
 - (v) "Net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in

lieu of taxes, incurred in the generation of revenues in (A) above.

- (vi) "Debt service requirement" means the aggregate amount of repayments (including sinking fund payments, if any), and interest and other charges on, debt.
- (vii) "Reasonable forecast" means a forecast prepared by the Project PDAMS not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and the respective Project PDAMS accept as reasonable and as to which the Bank has notified the respective Project PDAMS accept-ability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the respective PDAM.
- (viii) "Current assets excluding cash" means all assets, other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pro-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (ix) "Current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and dividends.
- (x) "Capital expenditures" means all expenditures on account of fixed assets, including interest charged to construction, related to operations.

Part B: Implementation Agencies and Units

1. The Borrower shall maintain throughout Project implementation, the following agencies including, inter alia, Municipal Public Agency (Dinas PU), Municipal Cleansing Agency (Dinas Kebersihan), Municipal Housing Agency (Dinas Perumahan) or other agency designated by the Borrower, Market Agency (Dinas Pengelola Pasar), and BAPPEDA Levels I and II.
2. Each Project City shall establish and thereafter maintain throughout Project implementation units responsible for Project management and coordination staffed with technical and administrative personnel in sufficient numbers and with qualification and experience satisfactory to the Bank including, inter alia, Local Project Monitoring Office (PMO), Project Management Unit (PMU), Project Finance Office (PFO), including a Project Manager (PIMPRO).
3. The Directorate General for Human Settlements under MPW shall be responsible for overall technical supervision and management of Project implementation.

Part C: Implementation Actions

1. The Borrower shall cause the IMG to review, by not later than November 30, of each year the following:
 - (a) jointly with the Bank, the expenditures incurred during the previous fiscal year, and the allocations proposed for the

upcoming fiscal year, to finance the costs of operation and maintenance for the infrastructure sector; and

(b) all budget requests submitted for its approval by the Implementation Agencies.

2. The Borrower shall, throughout Project implementation:

(a) issue the respective budget approvals, by not later than January 15 of each year, for the Project PDAMs and by not later than May 1 of each year, for the Project Cities; and

(b) ensure that all Resettlement and Rehabilitation Action Plans are carried out in a manner satisfactory to the Bank.

3. The Borrower shall:

(a) carry out every year during the implementation of the Project, commencing not later one year after the Effective Date, annual technical audits, in a manner acceptable to the Bank, for Project quality assurance, including, inter alia, performance of civil works; and consultants' contracts, provision of compensation under the Resettlement and Rehabilitation Plans, procurement of goods and implementation of training programs financed under Project; and

(b) promptly after completing said audits, furnish to the Bank, the recommendations submitted as part of said audits.

4. The Borrower shall:

(a) not later than April 30, 1998, furnish to the Bank, a report in such detail as the Bank shall reasonably request, including an evaluation of progress achieved by the Borrower in Project implementation; and

(b) not later than June 30, 1998, and on the basis of the above report, carry out jointly with the Bank, a mid-term Project implementation review to, inter alia:

- (i) evaluate progress achieved by the Borrower, in general, and by the Implementing Agencies, in particular, in carrying out the Project, including the carrying out of the Resettlement and Rehabilitation Plans;
- (ii) update the PJMs, PIAs and SLAs, if necessary;
- (iii) discuss and exchange views on all other related activities financed by other donor agencies; and
- (iv) exchange information among Implementing Agencies and Units and propose solutions to any current implementation issues; and

(c) promptly after completing the mid-term review, carry out those recommendations arising out of said review, as agreed between the Borrower and the Bank.

5. The Borrower shall, throughout Project Implementation:

(a) furnish to the Bank, for its review and comments all proposed new Project activities to be financed under the Loan;

(b) promptly after exchanging views with the Bank, submit to the Bank a final proposal covering the technical, financial, economic, institutional and environmental aspects for the proposed activities. Such proposals shall be prepared by the respective Project City in accordance with criteria and procedures agreed between the Borrower and the Bank and as set

forth in the respective PIA, including an environmental assessment and a management and monitoring plan if necessary; and

(c) take all necessary measures to avoid or minimize involuntary resettlement of Affected Persons and where resettlement is unavoidable, the Borrower shall, before carrying out the works which would result in such resettlement:

- (i) prepare a resettlement and rehabilitation action plan in accordance with policies, planning principles, institutional arrangements and design criteria agreed with the Bank and the provisions set forth in Schedule 6 to this Agreement;
- (ii) furnish the resettlement and rehabilitation plan referred to in sub-paragraph (i) hereof to the Bank for approval; and
- (iii) ensure that said Affected Persons shall be resettled in accordance with the resettlement and rehabilitation plan approved by the Bank.

6. The Borrower shall, throughout Project implementation, ensure that the State Treasury office in the respective Project City (KPKN), except for the Project City of Balikpapan, takes all necessary measures to timely issue payment orders required under contracts for goods, works and consultants' services locally procured in accordance with the provisions of Schedule 4 to this Agreement.

7. The Borrower shall:

(a) not later than six months after the Effective Date, prepare in accordance with technical and academic requirements agreed between the Borrower and the Bank, and furnish to the Bank for its approval, a training program designed to strengthen the contract management and procurement capabilities of staff of the PIUs; and

(b) promptly after receiving the Bank's approval, implement said training program in accordance with terms of reference and an implementation timetable agreed between the Borrower and the Bank.

SCHEDULE 6

Resettlement and Rehabilitation Action Plans (RRAPs)

Part A: Institutional Responsibilities

1. For the purposes of Parts D.2 (a) and E.5 (b) of the Project, the Borrower shall:

(a) take all necessary measures to cause the Project Cities to carry out their respective RRAP, with due diligence and efficiency and in a manner satisfactory to the Borrower and the Bank;

(b) cause the Project Cities to monitor and evaluate the implementation of the RRAPs and ensure that consultations with Affected Persons are carried out in a manner satisfactory to the Bank; and

(c) the Borrower shall cause the National Land Agency (BPN), MPW and other relevant agencies and Departments of the Borrower to assist the Project Cities in the carrying out of the RRAPs.

Part B: Main Features of the RRAPs

1. The Borrower shall cause the Project Cities to carry out their respective RRAP in accordance with terms agreed between the Borrower and the Bank.

2. The Borrower shall cause the Project Cities to make available to Affected Persons either cash compensation, serviced plots, or serviced plots with core houses in adequate numbers and in accordance with the provisions of the respective RRAP, the informed preference of the Affected Persons, and on terms and conditions satisfactory to the Bank, including, without limitation, the following:

(a) cash compensation to Affected Persons for the land and the residential or non-residential structures acquired or possessed therefrom, calculated at replacement value in accordance with the provisions of the respective RRAP; or

(b) a new serviced plot:

- (i) the total area of the plot shall be at least that of the plot acquired, but not less than sixty square meters;
- (ii) the plot shall be made available to the Affected Persons, at least thirty (30) days prior to their displacement from their original plot;
- (iii) each plot shall be made available to the Affected Persons under the right to use (hak guna bangunan). For this purpose, the Borrower undertakes to issue, through its BPN, registered certificates of the aforesaid legal rights to Affected Persons, not later than one year after the completion of the relocation of said Persons;
- (iv) all plots shall have access to community facilities and services, road access, and transportation services, as necessary; and
- (v) Affected Persons selecting a new plot shall receive an amount equivalent to the difference between the cash compensation stipulated for the Affected Person and the cost of the new serviced plot and core house, if any.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5) and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered

into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$6,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the

right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account:

(i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or

(ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank:

(A) provide such additional evidence as the Bank may request; or

(B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

