

CONFORMED COPY

LOAN NUMBER 3040 IND

(Industrial Restructuring Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

PRIVATE DEVELOPMENT FINANCE COMPANY OF INDONESIA  
USAHA PEMBIAYAAN PEMBANGUNAN INDONESIA

Dated June 1, 1989

LOAN NUMBER 3040 IND

NON-COMMERCIAL BANKS PROJECT AGREEMENT

AGREEMENT, dated June 1, 1989 between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and PRIVATE DEVELOPMENT FINANCE COMPANY OF INDONESIA (PDFCI) AND USAHA PEMBIAYAAN PEMBANGUNAN INDONESIA (UPPINDO).

WHEREAS (A) by the Loan Agreement of even date herewith between the Republic of Indonesia (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount in various currencies equivalent to two hundred eighty-four million dollars (\$284,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that PDFCI and UPPINDO each agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

(B) by on-lending agreements to be entered into between BI and PDFCI and UPPINDO, part of the proceeds of the Loan provided for under the Loan Agreement will be made available to PDFCI and UPPINDO on terms and conditions set forth in the PDFCI and UPPINDO

On-lending Agreements; and

WHEREAS PDFCI and UPPINDO, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and in the General Conditions as so defined have the respective meanings therein set forth.

#### ARTICLE II

##### Execution of the Project; Management and Operations of PDFCI and UPPINDO

Section 2.01. PDFCI and UPPINDO declare their commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part A of the Project and conduct their operations and affairs, in accordance with sound financial standards and practices, with qualified and experienced management and staffing in adequate number and qualifications, and in accordance with their Charters, as the case may be, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

Section 2.02. (a) PDFCI and UPPINDO each undertake that, unless the Bank shall otherwise agree, Sub-loans shall be made in accordance with the procedures and on the terms and conditions set forth or referred to in the Schedule to this Agreement.

(b) PDFCI and UPPINDO each shall exercise its rights in relation to each Restructuring Investment in such manner as to: (i) protect the interests of the Bank and of the relevant Participating Financial Institution; (ii) comply with its obligations under this Agreement and the relevant On-lending Agreement; and (iii) achieve the purposes of the Project.

Section 2.03. PDFCI and UPPINDO each shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Part A of the Project.

Section 2.04. PDFCI and UPPINDO each shall duly perform all its obligations under the relevant On-lending Agreement. Except as the Bank shall otherwise agree, PDFCI and UPPINDO shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving their respective On-lending Agreement or any provision thereof.

Section 2.05. (a) PDFCI and UPPINDO each shall, at the request of the Bank, exchange views with the Bank with regard to the progress of the Project, the performance of their obligations under this Agreement and under their respective On-lending Agreement and other matters relating to the purposes of the Loan.

(b) PDFCI and UPPINDO shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditures of the proceeds of the Sub-loans, the Industrial Enterprises, the Restructuring Investments and the administration, operations and financial condition of PDFCI and UPPINDO.

(c) PDFCI and UPPINDO shall promptly inform the Bank of any

condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the Loan, or the performance by PDFCI and UPPINDO of their respective obligations under this Agreement and under their On-lending Agreement.

Section 2.06. Except as the Bank and PDFCI and UPPINDO shall otherwise agree, PDFCI and UPPINDO each: (a) shall not sell, lease, transfer or otherwise dispose of any of its property or assets, except in the ordinary course of business; and (b) shall take all action necessary to maintain its corporate existence and right to carry on its operations and to acquire, maintain and renew all rights, powers, privileges and franchises necessary or useful in the conduct of its business.

Section 2.07. Except as the Bank shall otherwise agree, PDFCI and UPPINDO shall use the proceeds accrued to them from the repayment of the principal of Sub-loans for further relending to Industrial Enterprises for Sub-loans on the terms and conditions set forth in the Schedule to this Agreement (except for those relating to the Bank's approval of Sub-loans) and with due consideration to their respective obligations under the PDFCI On-lending Agreement and UPPINDO On-lending Agreement.

### ARTICLE III

#### Financial Covenants

Section 3.01. (a) PDFCI and UPPINDO each shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Restructuring Investment (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of PDFCI and UPPINDO.

(b) PDFCI and UPPINDO each shall:

- (i) have their records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available but in any case not later than nine months after the end of each such year: (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as 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, PDFCI and UPPINDO each shall:

- (i) maintain, in accordance with paragraph (a) of this Section, separate 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 separate accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by said auditors as to whether the proceeds of the Loan withdrawn in respect of such expenditures were used for the purposes for which they were provided.

Section 3.02. PDFCI and UPPINDO each shall, in their term lending operations, take such steps as shall be necessary to cover themselves against foreign exchange risk.

Section 3.03. PDFCI and UPPINDO each shall, commencing on their fiscal year 1989 and thereafter, maintain a collection ratio of not less than 80% on all Sub-loans and other lending operations made by PDFCI and UPPINDO under Prior Loan Agreements. For purposes of this Section the terms: (a) "collection ratio" means total cash collection in the last twelve month period as a percentage of amounts past due at the start of the period plus billings of current amounts due, net of amounts due but rescheduled; and (b) "Prior Loan Agreements" means the Loan Agreements entered into between the Republic of Indonesia and the Bank of even date herewith (Loan No. 3041-IND), as well as those dated January 28, 1977 (Loan No. 1363-IND), and August 24, 1988 (Loan No. 2979-IND), and the Development Credit Agreement entered into between the Republic of Indonesia and the International Development Association dated November 2, 1973 (Credit No. 436-IND), as the case may be.

Section 3.04. (a) Except as the Bank shall otherwise agree, UPPINDO and PDFCI, each, commencing on their fiscal year 1989 and thereafter, shall not incur any debt, if after the incurrence of such debt their respective ratio of debt to equity shall be greater than 7 to 1.

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of UPPINDO and PDFCI maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) 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.
- (iii) The term "equity" means the sum of the total unimpaired paid-up capital, subordinated loans under terms and conditions satisfactory to the Bank, retained earnings and reserves of UPPINDO and PDFCI not allocated to cover their specific liabilities.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 3.05. In order to monitor and evaluate semi-annually the performance criteria set forth in Sections 3.03 and 3.04 of this Agreement, PDFCI and UPPINDO each shall maintain adequate

procedures and records satisfactory to the Bank.

#### ARTICLE IV

##### Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of PDFCI and UPPINDO thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify PDFCI and UPPINDO thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE V

##### Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

For PDFCI:

Private Development Finance  
Company of Indonesia  
Jl. Abdul Muis 60  
Jakarta, Indonesia

Cable address

BEASWASTA

Telex:

46778 PDFCI IA

For UPPINDO:

Usaha Pembiayaan Pembangunan Indonesia  
Jl. H. R. Rasuna Said Kav C-19  
Jakarta, Indonesia

Telex:

46343 UPPINDO IA

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this

Agreement on behalf of PDFCI and UPPINDO or by PDFCI and UPPINDO on behalf of the Borrower under the Loan Agreement, may be taken or executed by its President Director, or by such other person or persons as their Board of Managing Directors shall designate in writing, and PDFCI and UPPINDO shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

By /s/ Attila Karaosmanoglu  
Regional Vice President  
Asia

PRIVATE DEVELOPMENT FINANCE COMPANY OF  
INDONESIA

By /s/ Abdul Rachman Ramly  
Authorized Representative

USAHA PEMBIAYAAN PEMBANGUNAN INDONESIA

By /s/ Abdul Rachman Ramly  
Authorized Representative

SCHEDULE

Terms and Conditions of Sub-loans

1. Sub-loans shall have a maximum repayment period of 15 years; including grace period, if any, and interest rate at the prevailing market rate for similar lending operations in Indonesia.

2. Without limitation to the proviso set forth in paragraph 3 (a) of Schedule 1 to the Loan Agreement, no expenditures for goods, civil works or services required for a Restructuring Investment shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Restructuring Investment shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 4 (a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan for such Restructuring Investment shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required

under paragraph 4 (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of the Loan Agreement and this Agreement, a free-limit Sub-loan shall be a Sub-loan for a Restructuring Investment in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$1,500,000 equivalent when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan for such Restructuring Investment; provided, however, that regardless of their amount, the first two Sub-loans made or proposed to be made by PDFCI and UPPINDO shall be subject to the Bank's approval.

3. Except as the Bank shall otherwise agree, PDFCI and UPPINDO each shall not make any Sub-loan in an amount: (a) below the equivalent of \$250,000, and (b) exceeding the equivalent of \$10,000,000, or in an amount which would exceed such limit when added to the amount of all other Sub-loans made for the same Restructuring Investment out of the proceeds of the Loan.

4. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, PDFCI and UPPINDO each shall furnish to the Bank an application, in a form satisfactory to the Bank, together with: (i) a description of the Industrial Enterprise and an appraisal of the Restructuring Investment, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; (iii) an environmental impact analysis of the Restructuring Investment together with a survey to identify existing environmental impact and proposed solutions to ameliorate such impact; and (iv) such other information as the Bank shall reasonably request.

(b) Each request by PDFCI and UPPINDO for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Industrial Enterprise and the Restructuring Investment, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before June 30, 1992.

5. Sub-loans shall be made on terms whereby PDFCI and UPPINDO each shall obtain, by written contract with the Industrial Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and PDFCI and UPPINDO, including, in the case of any Sub-loan the right to:

(a) require the Industrial Enterprise to carry out and operate the Restructuring Investment with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods, civil works and services to be financed out of the proceeds of the Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as, in the case of goods, time of delivery, reliability and availability of maintenance facilities and spare parts therefor, and, in the case of civil works and services, of their quality and the competence of the parties rendering them; and (ii) such goods, civil works and services shall be used exclusively in the carrying out of the Restructuring Investment;

(c) inspect, by itself or jointly with representatives of the Bank, if the Bank shall so request, such goods, works, plants and constructions and installations, as the case may be, included in the Restructuring Investment, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Industrial Enterprise shall take

out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Industrial Enterprise to replace or repair such goods;

(e) obtain all such information as the Bank or PDFCI and UPPINDO shall reasonably request relating to the foregoing and to the administration, operations and financial conditions of the Industrial Enterprise and to the benefits to be derived from the Restructuring Investment; and

(f) suspend or terminate the right of the Industrial Enterprise to the use of the proceeds of the Loan upon failure by such Industrial Enterprise to perform its obligations under its contract with PDFCI and UPPINDO.

6. Except as the Bank shall otherwise agree, to qualify for obtaining a Sub-loan, an Industrial Enterprise shall demonstrate:

(a) that its long-term debt:equity ratio shall not exceed 70:30; that the current ratio shall not be less than 1.2; and that the debt-service cover ratio shall not be less than 1.5; and

(b) that the Restructuring Investment for which the Sub-loan is being requested shall:

- (i) be in the engineering, pulp and paper, and textiles subsectors and conform with the definition of a Restructuring Investment provided for in Section 1.02 (oo) of the Loan Agreement;
  - (ii) be financed, by not less than 30% of its total cost, from the own resources of such Industrial Enterprise;
  - (iii) have a financial and economic rate of return of not less than 15%; and
  - (iv) satisfy environment guidelines and regulations existing in Indonesia.
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