

CONFORMED COPY

LOAN NUMBER 2881 IND

(Second Rural Roads Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated December 3, 1987

LOAN AGREEMENT

AGREEMENT, dated December 3, 1987, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS 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;

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

last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

## 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, an amount in various currencies equivalent to one hundred ninety million dollars (\$190,000,000).

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 (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in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 shall, for the purposes of the Project, open and maintain in United States dollars a special account in its Central Bank 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 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1991 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charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on January 1 and July 1 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. 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 highway engineering, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. 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 3.03. The Borrower shall carry out the activities referred to in Part A of the Project in accordance with an action plan and timetable satisfactory to the Bank, and shall review and update such timetable, in consultation with the Bank, by March 31 of 1989, 1990 and 1991.

Section 3.04. The Borrower shall furnish to the Bank before February 29, 1988, December 31, 1988 and December 31, 1989:

(a) proposed programs of rehabilitation/improvement works for Part B.1 of the Project for the following fiscal years, such works to be selected in accordance with procedures for subproject identification and evaluation which are satisfactory to the Bank, provided that, subprojects shall be eligible for selection only if located in a district which has implemented its road maintenance and rehabilitation programs for the preceding year in a satisfactory manner; and

(b) an action plan for on-the-job training of district road staff in planning procedures for rehabilitation/improvement programs.

Section 3.05. The Borrower shall, by September 30, 1988, furnish to the Bank satisfactory training programs for the staff referred to in Part E.1 of the Project.

Section 3.06. The Borrower shall by February 29, 1988, issue technical guidelines, satisfactory to the Bank, relating to planning, design, construction and supervision of district road works.

Section 3.07. The Borrower shall:

(a) by February 29, 1988, furnish to the Bank for approval the detailed countrywide maintenance strategy for district roads, which strategy should include technical and performance standards, and funding formulas based on needs, in the context of a balanced highway sector expenditure plan; and

(b) by February 29, 1988, December 31, 1988 and December 31, 1989, for purposes of Part B.2 of the Project submit proposed maintenance programs, satisfactory to the Bank, for 1988/89, 1989/90 and 1990/91, respectively, which programs (including both physical and budgetary aspects) shall be based on the agreed strategy.

Section 3.08. The Borrower shall restructure and strengthen the Project Management Unit for district roads within its Ministry of Home Affairs by appointing a full-time Unit Chief and by employing additional qualified staff in sufficient numbers to carry out its responsibilities under the Project and other externally-financed projects. Such responsibilities include ensuring the effective implementation of the Project on a day-to-day basis, including overall Project coordination.

Section 3.09. The Borrower shall review existing problems, in planning, constructing, maintaining and administering road

components in development schemes in accordance with terms of reference satisfactory to the Bank, and develop by March 31, 1989, proposals for addressing, or avoiding, such problems, and more efficiently maintaining such roads.

#### 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 nine 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 (k) of the General Conditions, the following additional event is specified, namely, that the Minister of Home Affairs Instruction No. 056.2/923/Bangda, dated May 18, 1987, the associated

Guidelines No. 620/958/Bangda, dated May 25, 1987, and the related telex dated July 27, 1987, shall have been further amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, the event specified in Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Termination

Section 6.01. 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 Director General for  
International Monetary Affairs  
Jalan Lapangan Timur 2-4  
Jakarta, Indonesia

Cable address:

MINISTRY FINANCE  
Jakarta

Telex:

DJMLN JKT 45799  
DJMDN JKT 46415  
DEPKEU JKT 44319

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)

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/ Soesilo Soedarman  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Russell J. Cheetham  
Acting Regional Vice President  
Asia

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) Civil works:		
(a) Rehabilitation/ improvement		
(i) Phase I (fiscal year 1988/89)	19,000,000	40% for expendi- tures incurred before April 1, 1989
(ii) Phase II (fiscal year 1989/90)	19,500,000	40% for expendi- tures incurred before April 1, 1990
(iii) Phase III (fiscal year 1990/91)	20,200,000	40% for expendi- tures incurred before April 1, 1991
(b) Periodic main- tenance		
(i) Phase I (fiscal year 1988/89)	1,900,000	40% for expendi- tures incurred before April 1, 1989
Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(ii) Phase II (fiscal 1989/90)	3,900,000	40% for expendi- tures incurred before April 1, 1990
(iii) Phase III (fiscal year 1990/91)	3,900,000	40% for expendi- tures incurred before April 1, 1991
(c) Routine Maintenance		
(i) Phase I	4,000,000	75% for expendi-

	(fiscal year 1988/89)		tures incurred before April 1, 1989
(ii)	Phase II (fiscal year 1989/90)	4,400,000	50% for expenditures incurred before April 1, 1990
(iii)	Phase III (fiscal year 1990/91)	5,000,000	25% for expenditures incurred before April 1, 1991
(d)	Workshops	200,000	40%
(2)	Equipment	47,000,000	100% of foreign expenditures; 95% of local expenditures (ex-factory); 65% of local expenditures for other items procured locally

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Consultants' services (including related equipment)	38,000,000	100%
(4) Training	4,000,000	100%
(5) Unallocated	19,000,000	
TOTAL	190,000,000	

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; and

(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.

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.

#### SCHEDULE 2

##### Description of the Project

The objectives of the Project are to improve the management of the Borrower's district roads program, including planning and monitoring, design and construction standards, supervision and maintenance and to improve existing labor-based construction and maintenance techniques for district roads.

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: Improvement and clarification of the roles and responsibilities of the Borrower's agencies at national, provincial and district levels concerned with the Borrower's district roads program.
- Part B: 1. Improving approximately 6,000 km of district roads in about 78 districts through rehabilitation/improvement works over a period covering fiscal years 1988/89 through 1990/91.
2. Maintaining approximately 19,000 km of district roads in about 78 districts through improved maintenance practices.
- Part C: 1. Improving capacities of workshops in about 78 districts, including provision of fully-equipped workshops and basic soils and materials laboratories where none exist, and additional facilities, tools and equipment for existing district workshops and laboratories.
2. Improving capacities of about 78 districts to carry out efficiently routine works and maintenance by providing equipment and spare parts.
- Part D: Introducing improved techniques, supervision and organization for labor-based construction and maintenance of district roads, by carrying out pilot schemes in four districts with the intention of replicating such schemes throughout Indonesia, and by providing equipment and tools for such pilot schemes.
- Part E: 1. Improving skills in planning, monitoring, design, construction, supervision and maintenance of district roads and in project management through: (a) in-country training (formal and on-the-job) of about 2,000 provincial and district staff concerned with district roads; and (b) advanced training of about 100 middle and higher level provincial and district officials concerned with district roads through the provision of overseas training.
2. Strengthening the Borrower's capabilities to carry out institutional improvements and associated training programs, in preparation of annual work programs and project implementation, in training technical and administrative staff to carry out such functions through the provision of technical assistance.
3. Carrying out a study to recommend measures to address the problems of small contractors used for work on district roads, and a study to improve arrangements for handling road components that are part of development schemes through the provision of technical assistance.
- Part F: Strengthening the Borrower's rehabilitation and maintenance capabilities by the provision in a timely fashion, of about 305 dump trucks (5 tons), about 145 pickups (1 ton, 2 wheel-drive), and about 235 motorcycles (125 cc).

\* \* \*

The Project is expected to be completed by March 31, 1991.

### SCHEDULE 3

#### Amortization Schedule



Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 1 and July 1 beginning July 1, 1993 through July 1, 2007	6,335,000
On January 1, 2008	6,285,000

\* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on 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 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

#### SCHEDULE 4

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

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 1985 (the Guidelines).

###### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A 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. (a) Civil works for road rehabilitation/improvement, periodic maintenance and workshops may be carried out by contracts awarded in accordance with the Borrower's local competitive bidding procedures in effect at the date of this Agreement.

(b) Civil works shall be tendered using standard bidding documents satisfactory to the Bank.

(c) Civil works tenders shall specify that only contractors registered as "class B1" or above are eligible to submit bids.

2. Civil works for road rehabilitation/improvement (up to an aggregate amount of \$17,000,000 equivalent), periodic road maintenance (up to an aggregate amount of \$10,000,000 equivalent) and routine road maintenance may be carried out by the Borrower through force account.

3. Equipment for the labor intensive pilot scheme (up to an aggregate amount of \$300,000 equivalent) may be procured in accordance with the Borrower's local procedures in effect at the date of this Agreement.

#### Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for goods, 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 of 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 1 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 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c)(ii) of this Agreement.

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

#### Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall 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.

## Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (1) 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 Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$8,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made 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 Category, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) 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; or
- (ii) the total unwithdrawn amount of the Loan allocated to the eligible Category, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Category 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 any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account.

