

CONFORMED COPY

LOAN NUMBER 3182 IND

Project Agreement

(Third Telecommunications Project)

between

INTERNATIONAL BANK FOR RECONSTRUCT
AND DEVELOPMENT

and

PERUSAHAAN UMUM TELEKOMUNIKASI

Dated April 30, 1990

LOAN NUMBER 3182 IND

PROJECT AGREEMENT

AGREEMENT, dated April 30, 1990, between
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(the Bank) and PERUSAHAAN UMUM TELEKOMUNIKASI (PERUMTEL).

WHEREAS (A) by the Loan Agreement of even date
herewith between Republic of Indonesia (the Borrower) and
the Bank, the Bank has agreed to make available to the
Borrower an amount in various currencies equivalent to
three hundred fifty million dollars (\$350,000,000), on
the terms and conditions set forth in the Loan Agreement,
but only on condition that PERUMTEL agree to undertake
such obligations toward the Bank as are set forth in this
Agreement;

(B) by a subsidiary loan agreement to be entered
into between the Borrower and PERUMTEL, part of the
proceeds of the loan provided for under the Loan
Agreement will be made available to PERUMTEL on the terms
and conditions set forth in said Subsidiary Loan
Agreement; and

WHEREAS PERUMTEL, in consideration of the Bank's
entering into the Loan Agreement with the Borrower, has
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 the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) PERUMTEL declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Parts B, C and D of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and telecommunications practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts B, C and D of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and PERUMTEL shall otherwise agree, PERUMTEL shall carry out Parts B, C and D of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Parts B and C of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. PERUMTEL 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, respectively) in respect of Parts B, C and D of the Project.

Section 2.04. PERUMTEL shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, PERUMTEL shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) PERUMTEL shall, at the request of the Bank, exchange views with the Bank with regard to progress of Parts B, C and D of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) PERUMTEL shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Parts B, C and D of the Project, the accomplishment of the purposes of the Loan, or the performance by PERUMTEL of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of PERUMTEL

Section 3.01. PERUMTEL shall carry on its operations

and conduct its affairs in accordance with sound administrative, financial and telecommunications practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. PERUMTEL shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and telecommunications practices.

Section 3.03. PERUMTEL shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) PERUMTEL shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including separate accounts for Parts B, C and D of the Project.

(b) PERUMTEL shall:

- (i) have its 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, including without limitation on the foregoing copies of the unaudited accounts referred to in paragraph (a) of this Section, as soon as available, but not later than four months after the end of each such fiscal year.

Section 4.02. Except as the Bank shall otherwise agree, PERUMTEL shall not incur any debt unless a reasonable forecast of the revenues and expenditures of PERUMTEL shows that the projected net revenues of PERUMTEL for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the projected debt service requirement of PERUMTEL in such year on all debt of PERUMTEL including the debt to be incurred. For the purposes of this Section:

(a) The term "debt" means any indebtedness of PERUMTEL maturing by its terms more than one year after the date on which it is originally incurred.

(b) Debt shall be deemed to be incurred: (i) under a loan contract or agreement or other instrument providing for such debt or further modification of its terms of payment, on the date of such contract, agreement or instrument; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(c) The term "net revenues of PERUMTEL" means gross revenues of PERUMTEL from all sources, adjusted to take account of PERUMTEL's tariffs in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate, less all operating expenses of PERUMTEL, including expenses accountable to administration, maintenance and taxes (or payments in lieu of taxes), but before provision for depreciation of assets and interest and other charges on debt.

(d) The term "debt service requirement" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(e) The term "reasonable forecast" means a forecast prepared by PERUMTEL in the fiscal year in which the debt in question is to be incurred, which both the Bank and PERUMTEL accept as reasonable and as to which the Bank has notified PERUMTEL of its acceptability, 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 PERUMTEL.

(f) Whenever for the purposes of this Section it shall be necessary to value, in terms of currency of PERUMTEL, 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, with absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.03. (a) Except as the Bank shall otherwise agree, PERUMTEL shall produce, for each of its fiscal years after its fiscal year ending on December 31, 1990, funds from internal sources equivalent to not less than thirty percent (30%) of the annual average of PERUMTEL's capital expenditures incurred, or expected to be incurred, for that year and the next following fiscal year.

(b) Before November 15 in each of its fiscal years, commencing on November 15, 1990 and thereafter, PERUMTEL shall, on the basis of forecasts prepared by PERUMTEL and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) of this Section in respect of such year and the next following fiscal year and shall furnish to the Bank a copy of such review upon its completion.

(c) If any such review shows that PERUMTEL would not meet the requirements set forth in paragraph (a) of this Section for PERUMTEL's fiscal years covered by such review, PERUMTEL shall promptly take all necessary measures (including, but not limited to, furnishing to

the Borrower proposed adjustments of the structure or levels of its tariffs) in order to meet the 30% requirement set forth in paragraph (a) of this Section.

(d) For the purposes of this Section:

- (i) The term "funds from internal sources" means the difference between:
 - (A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income, any reduction in working capital other than cash, plus cash surpluses from previous years; and
 - (B) the sum of all expenses related to operations, including administration, adequate maintenance (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.
- (ii) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses incurred in the generation of revenues in (A) above.
- (iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
- (iv) The term "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 prepaid expenses properly chargeable to operating expenses within the next fiscal year.
- (v) The term "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 payments in lieu of taxes, and dividends.
- (vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vii) The term "capital expenditures" means all expenditures incurred on

account of fixed assets, including interest charged to construction, related to operations.

- (viii) 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.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of PERUMTEL thereunder shall terminate on the date on which Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify PERUMTEL thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. 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 address 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:

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

For PERUMTEL:

Jalan Cisanggarung 2
Bandung 40114
Indonesia

Telex:

28220 DIRUTTEL BD
28227 BIRKUGTEL BD

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of PERUMTEL may be taken or executed by the President Director or such other person or persons as PERUMTEL's Board of Directors shall designate in writing, and PERUMTEL shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. 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/ R. J. Cheetham
Acting Regional Vice President
Asia

PERUSAHAAN UMUM TELEKOMUNIKASI

By /s/ A. R. Ramly
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Services

Part A: International Competitive Bidding

Except as provided in Part D hereof, goods and services therefor 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 and services therefor 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. Training equipment, test equipment and tools estimated to cost in the aggregate an amount not to exceed the equivalent of \$7,200,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Proprietary items for interface equipment estimated to cost in the aggregate an amount not to exceed the equivalent of \$12,000,000, may be procured by direct negotiations with original suppliers eligible under the Guidelines.

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 estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply; provided, however, that with respect to the first three contracts estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(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.

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 PERUMTEL in carrying out Parts B and C of the Project, PERUMTEL 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 and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 2

1. PERUMTEL shall, on November 15 of each year commencing on November 15, 1990 and thereafter until the completion of the Project, prepare and furnish to the Bank, for its review and comments, its institutional development plans and investment program for the following fiscal year, and thereafter, taking into account Bank's comments, if any, carry out such development plans and investment program, and PERUMTEL shall consult with the Bank prior to undertaking any investment costing the equivalent of \$50,000,000 or more in any one year not included in the investment programs furnished to the Bank pursuant to this paragraph.

2. PERUMTEL shall, by October 31, 1990, prepare and furnish to the Bank, for its approval, its proposed management training program, and, thereafter, implement such training program as approved.
3. PERUMTEL shall, on October 31, of each year, commencing on October 31, 1990 and thereafter until the completion of the Project, prepare and furnish to the Bank, for its review and comments, its proposed technical assistance and counterpart training program for the forthcoming fiscal year, such program to include objectives to be achieved, and, thereafter, taking into account Bank's comments, if any, carry out such program.
4. PERUMTEL shall, not later than October 31, 1990, enter into arrangements satisfactory to the Bank, with a twinning agency for purposes of enhancing its management skills.
5. PERUMTEL shall take all such action as shall be necessary to carry out an action plan, satisfactory to the Bank, for strengthening PERUMTEL's capabilities in the areas of: (a) accounting and financial management; (b) operations; (c) current idle capacity utilization; (d) human resource development; and (e) training of staff and managers in management techniques and new technology.
6. PERUMTEL shall maintain the Project Implementation Unit headed by a qualified and experienced officer, and assigned, at all times, with such power, responsibilities, funds, staffing, facilities and other resources as shall be required to undertake its responsibilities in the carrying out of Parts B and C of the Project.
7. PERUMTEL shall, by December 31, 1993, furnish to the Bank, for its review and comments, the consultants' final reports under Part B of the Project, such reports to include recommendation(s) on action(s) to be taken by PERUMTEL to further improve its managerial, financial and technical capabilities, and, thereafter, taking into account the Bank's comments, if any, carry out such recommendations.
8. PERUMTEL shall take all such action as shall be necessary, including implementation of the procedures for collection of overdue telephone bills adopted by PERUMTEL on May 26, 1988, to collect such overdues from all subscribers in accordance with a time-table satisfactory to the Bank.
9. PERUMTEL shall on November 15 of each year, commencing on November 15, 1990 and thereafter until the completion of the Project, review the level and structure of its tariffs, and, thereafter, furnish to the Bank, for its review and comments, the results of such review and its proposed tariff changes, if any; subsequently, taking into account the Bank's comments, if any, furnish to the Borrower, for its consideration, any proposed tariffs adjustment.
10. PERUMTEL shall, in consultation with the Borrower, prepare physical and financial performance targets for the agreed indicators, satisfactory to the Bank, for its fiscal years 1990-93, and shall furnish to the Bank such targets by November 15, 1990 for fiscal year 1992, and by November 15, 1991 for fiscal year 1993. PERUMTEL shall take all such action as shall be necessary to meet such targets, and shall within six months of the end of each fiscal year, report to the Borrower and the Bank on the results of its actions.

