

CONFORMED COPY

LOAN NUMBER 3845 IND

Loan Agreement

(Second Rural Electrification Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated April 20, 1995

LOAN NUMBER 3845 IND

LOAN AGREEMENT

AGREEMENT, dated April 20, 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;

(B) Part B of the Project will be carried out by the Borrower and Part A of the Project will be carried out by Perseroan Terbatas Perusahaan Perseroan (PERSERO) P.T. Perusahaan Listrik Negara (PLN as herein defined) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PLN a portion of the proceeds of the Loan as provided in this Agreement; 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 and in the Project Agreement of even date herewith between the Bank and PLN;

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) "DGEED" means the Directorate General of Electricity and Energy Development of the Borrower's Ministry of Mines and Energy or any successor or successors thereto.

(b) "Governing Laws" means the Borrower's Law No. 19 of 1960, Law No. 9 of 1969, Law No. 15 of 1985, Government Regulation No. 3 of 1983, Government Regulation No. 28 of 1983, Government Regulation No. 10 of 1989, Government Regulation No. 23 of 1994, Ministry of Justice Decree No. 02-11.519-HT.01.01.TH.94, dated August 1, 1994, and any other laws and regulations in force at the time of this Agreement governing the organization and operations of PLN, as any of them may be amended or supplemented from time to time.

(c) "PLN" means Perseroan Terbatas Perusahaan Perseroan (PERSERO) P.T. Perusahaan Listrik Negara (abbreviated as P.T. PLN (PERSERO)), a limited liability company established and existing under the laws of the Borrower, or any successor or successors thereto.

(d) "PMU" means the Project Management Unit referred to in paragraph 4 of Schedule 2 to the Project Agreement.

(e) "Project Agreement" means the agreement between the Bank and PLN of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(f) "Repelita VI" means the Borrower's five-year development plan for its fiscal years 1994/95 to 1998/99.

(g) "Special Account" means the accounts referred to in Section 2.02 (b) of this Agreement.

(h) "Subprojects" means the subprojects under Parts A.1 and A.3 of the Project.

(i) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and PLN pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement, and the term "Subsidiary Loan" means the loan provided for under the Subsidiary Loan 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, various currencies that shall have an aggregate value equivalent to the amount of three hundred ninety eight million dollars (\$398,000,000), 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 dollars a special deposit account in a bank and on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1998 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 semiannually on May 1 and November 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. (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:

- (i) shall carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Part of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause PLN to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PLN to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend to PLN out of the proceeds of the Loan an amount equivalent to \$395,800,000 under a subsidiary loan agreement to be entered into between the Borrower and PLN, under terms and conditions satisfactory to the Bank, including the following principal terms and conditions: (i) PLN shall pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to

time at a variable rate per annum equal to the sum of the following: the interest rate calculated in accordance with Section 2.05 of this Agreement, plus one half of one percent (1/2 of 1%) per annum; (ii) PLN shall pay to the Borrower a commitment charge on the principal amount of the Subsidiary Loan not withdrawn from time to time at the rate payable by the Borrower pursuant to Section 2.04 of this Agreement; (iii) the principal amount of the Subsidiary Loan shall be repaid over 20 years including five years' grace; and (iv) the foreign exchange risk shall be borne by PLN.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. (a) In order to assist the Borrower in carrying out Part B of 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 (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.

(b) Notwithstanding the provisions of subsection (a) of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (i) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (ii) 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.

Section 3.03. The Bank and the Borrower hereby agree that 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 Part A of the Project shall be carried out by PLN pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall: (a) undertake and complete a study on private power development in accordance with terms of reference satisfactory to the Bank; (b) upon completion of the said study, furnish the same to, and discuss the results and recommendations thereof, with the Bank; and (c) based on the said study's results and recommendations and subsequent review, comments and discussions prepare draft rules and procedures to govern private sector participation including the solicitation and evaluation of all forms of proposals for private power supply, furnish the said draft rules and procedures for review and comments to the Bank, and (d) by

December 31, 1995, finalize, adopt and enforce the same taking into account the comments, if any, thereon by the Bank.

Section 3.05. The Borrower shall: (a) undertake and complete a study on regulatory reform in the power sector in accordance with terms of reference and in a manner satisfactory to the Bank; (b) upon completion of the said study, furnish the same for review and comments to, and discuss the results and recommendations thereof with, the Bank; and (c) based on the said study's results and recommendations and subsequent review, comments and discussions: (i) prepare draft regulations for the power sector; (ii) furnish the said draft regulations for review and comments to the Bank; and (iii) by June 30, 1996, finalize, adopt and enforce the same taking into account the comments, if any, thereon by the Bank.

Section 3.06. The Borrower shall jointly with PLN: (a) furnish to the Bank: (i) such periodic reports concerning the reorganization of PLN as reasonably requested by the Bank; and (ii) a draft time bound corporate reorganization and restructuring action plan, based on terms of reference agreed with the Bank, for PLN to operate according to best utility practices (including an action plan for restructuring specific to rural electrification); (b) discuss the said report(s) and draft action plan with the Bank; (c) finalize the said action plan taking into account the comments, if any, thereon by the Bank; and (d) by June 30, 1995, take appropriate steps to implement the said action plan taking into consideration the comments, if any, thereon by the Bank.

Section 3.07. The Borrower shall, by June 30, 1995, establish a Directorate of Regulation within DGEED with adequate staff and funds and necessary functions and powers to administer and oversee compliance with regulations (including pricing and technical regulations) regarding the electricity sector.

Section 3.08. (a) prepare and, by June 30, 1995, adopt a policy regarding implementation of the power purchase tariff and bulk supply tariff satisfactory to the Bank including policies governing the granting of any subsidies related to implementation of the bulk supply tariff, rules and procedures for determining such subsidies and how such subsidies are to be financed and directed in a transparent manner; and (b) draft and, by December 31, 1995, promulgate rules and regulations concerning oversight of the power purchase tariff and bulk supply tariff implementation, in form and substance, acceptable to the Bank.

Section 3.09. Without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall provide financing (including local cost financing) for Part A.6(e) of the Project from its funds.

Section 3.10. 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.

## 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 Part B 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 or payment out of the Special 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.

Section 4.02. Except as the Borrower and the Bank shall otherwise agree, the Borrower shall:

(a) by December 31 each year commencing in 1995: (i) review with the Bank: (1) its power sector development program, (2) the least cost planning analysis used to formulate the said program; (3) the roles of PLN and the private sector in the said program; and (4) the transparency and appropriateness of the business environment for private power participation; (ii) review with the Bank and PLN, PLN's development and investment

programs with respect to: (1) their consistency with the Borrower's power sector development program; (2) the balance among generation, transmission and distribution investments; and (3) the balanced development of regions;

(b) by January 31 every year commencing in 1995, until completion of the Project, furnish to the Bank, for its review and comments prior to their finalization, annual targets for each province of the Borrower for village electrification for the following fiscal year of the Borrower; and

(c) ensure that PLN has access to sufficient funds to finance capital expenditures for its investment programs pursuant to the said reviews.

Section 4.03. The Borrower shall take all such actions as shall be necessary to ensure that payments, including deferred payments, if any, from PLN to the Overall Development Fund (Dana Pembangunan Semesta) does not prevent PLN from implementing its agreed investment program referred to in Section 4.02 (b) of this Agreement.

#### 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) PLN shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that PLN will be able to perform its obligations under the Project Agreement.

(c) Any of the Governing Laws shall have been amended, suspended, abrogated, or repealed so as to affect materially and adversely the ability of PLN to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PLN or for the suspension of its operations.

(e) PLN shall have become unable to pay its debts as they mature or any action or proceeding shall have been taken by PLN or by others whereby any of the property of PLN shall or may be distributed among its creditors.

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

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

(b) any event specified in paragraphs (c), (d), or (e) 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 Subsidiary Loan Agreement has been executed on behalf of the Borrower and PLN.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Project Agreement has been duly authorized or ratified by PLN, and is legally binding upon PLN in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and PLN and is legally binding upon the Borrower and PLN in accordance with its 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:

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

Cable address:

FINMINISTRY  
Jakarta

Telex:

44319 DJMLN IA  
45799 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:

INTBAFRAD  
Washington, D.C.

Telex:

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

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) Drilling services under Part A.3(b) of of the Project	10,800,000	100% of foreign expenditures
(2) Goods under Part A.3(a) of the Project	8,600,000	100% of foreign expenditures
(3) Goods under Part A (excluding Part A.3) of the Project:		
(a) Equipment and materials local expenditures	263,600,000	100% of foreign expenditures, 100% of (excluding concrete power (ex-factory) and 65% line poles) of other items procured locally
(b) Concrete power line poles	54,100,000	80% of local expenditures
(4) Consultants' services and training under		
(a) Part A of the Project	26,600,000	100%
(b) Part B of the Project	2,200,000	100%
(5) Unallocated	32,100,000	
TOTAL	398,000,000	

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: (a) prior to the date of this Agreement; and (b) under Categories (1) and (2), unless the Bank has approved the Subprojects under Part A.3 of the Project pursuant to paragraph 3 (b) of Schedule 2 to the Project Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statement of expenditure for expenditures under contracts for goods and drilling services not exceeding \$200,000 equivalent, contracts for the employment of consulting firms not exceeding \$100,000 equivalent, contracts for the employment of individual consultants not exceeding \$50,000 equivalent and training, under such terms and conditions as the Bank shall specify by notice to the Borrower.

#### SCHEDULE 2

##### Description of the Project

The objective of the Project is to assist the Borrower in the implementation of its long-term power sector policy agenda aimed, inter alia, at: (a) reducing the unit cost burden of rural electrification through least cost planning, lowering equipment and construction costs, and by restructuring PLN's organizational structure and management processes specific to its rural electrification mission; (b) enhancing the efficiency of rural electrification delivery by increasing and strengthening local participation; (c) maximizing the economic benefits of rural electrification by promoting productive uses of electricity in rural areas; (d) expanding the coverage and supply of electricity to rural areas through a time slice investment program; (e) establishing incentives for private sector and local cooperatives to take an increasingly larger share of rural electrification distribution and alternative energy development within the framework of a least cost rural electrification master plan; (f) continuing PLN's institutional development to undertake rural electrification planning and implementation, especially at the regional level; and (g) undertaking pilot distribution programs that have the potential for further reducing the costs of rural electrification extensification and intensification with a view to introducing them as regular components in the government's rural electrification program.

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:

1. Carrying out of subprojects comprising electrification of about 7000 rural villages and about 2.1 million new consumers in the second and third years of Repelita VI (1995/96 to 1996/97) through the construction of an estimated 28,000 kilometer-circuit (kmc) of medium-voltage (MV) lines and 35,000 kmc of low-voltage (LV) lines, 1.3 million poles and 833 megavolt-ampere (MVA) of distribution transformer capacity.

2. Development and implementation of economic sub-transmission schemes aimed at promoting private sector participation in small scale generation by interconnecting captive power plants, cogeneration plants and other small power producers willing to

sell power to a PLN regional or mini-grid serving a rural area.

3. Carrying out of subprojects comprising: (a) the installation of mini-hydro schemes at five sites in Sulawesi and Eastern Indonesia ranging in size from 0.86 megawatt (MW) to 2.6 MW with an aggregate capacity of about 7.5 MW using a run-of-river design and requiring minimal pondage; and (b) the testing of two mini-geothermal fields at Sembalun in Lombok and Tulehu in Ambon through test well drilling, well monitoring and testing.

4. Carrying out of pilot projects to test the adaptability of low cost equipment designs, low cost network reticulation designs, and more efficient construction management methods.

5. Expansion of the rural small business services component under the Rural Electrification Project (LN. 3180-IND) to promote productive uses of electricity by businesses in rural areas including participation by non-governmental organizations.

6. Provision of technical assistance for: (a) enhancing the rural electrification planning systems capability within PLN and transferring it to PLN regions and branches; (b) organizational restructuring of PLN's rural electrification management and operational units; (c) preparation of a renewable energy development master plan for rural electrification in areas not likely to be covered by PLN's major regional grids within the next ten years; (d) capacity building of PMU; (e) expansion of Pola schemes; and (f) implementation of Parts A.1-A.5 of the Project.

7. Preparation of environmental assessment and management plan, detailed feasibility and design studies, and the work plan and cost estimates for field development and power plant construction for mini-geothermal fields at Sembalun in Lombok and Tulehu in Ambon.

Part B:

1. Provision of technical assistance for: (a) implementation and expansion of the management services agreements and Schemes I and II (Pola I and II) for local participation by village level cooperatives and organizations in power distribution related activities; and (b) development of up to two geographic areas for possible conversion to Scheme III (Pola III).

\* \* \*

The Project is expected to be completed by June 30, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
November 1, 2000	7,645,000
May 1, 2001	7,920,000
November 1, 2001	8,200,000
May 1, 2002	8,490,000
November 1, 2002	8,790,000
May 1, 2003	9,105,000
November 1, 2003	9,425,000
May 1, 2004	9,760,000
November 1, 2004	10,110,000
May 1, 2005	10,465,000
November 1, 2005	10,840,000
May 1, 2006	11,225,000
November 1, 2006	11,620,000
May 1, 2007	12,035,000

November 1, 2007	12,460,000
May 1, 2008	12,905,000
November 1, 2008	13,360,000
May 1, 2009	13,835,000
November 1, 2009	14,325,000
May 1, 2010	14,835,000
November 1, 2010	15,365,000
May 1, 2011	15,910,000
November 1, 2011	16,475,000
May 1, 2012	17,060,000
November 1, 2012	17,665,000
May 1, 2013	18,290,000
November 1, 2013	18,940,000
May 1, 2014	19,610,000
November 1, 2014	20,310,000
May 1, 2015	21,025,000

\* 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 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

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2, 3, and 4 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 \$20,000,000 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 \$8,000,000 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 \$100,000,000.

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 deposit into the Special Account of an amount or amounts 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.

