

CONFORMED COPY

LOAN NUMBER 3219 IND

(Second Jabotabek Urban Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 6, 1990

LOAN NUMBER 3219 IND

LOAN AGREEMENT

AGREEMENT, dated July 6, 1990, 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) the Borrower intends to contract from the Overseas Economic Cooperation Fund (Japan) (OECF) a loan (the OECF Loan) in an amount of Japanese Yen 6,446,000,000 to assist in financing Part A.1 (ii), and a portion of Parts A.2 and A.3 of the Project on the terms and conditions set forth in an agreement (the OECF Loan Agreement) to be entered into between the Borrower and OECF;

(C) the Ministry of Foreign Affairs of the Kingdom of the Netherlands (hereinafter referred to as the "Ministry") intends to make available to the Borrower a grant in an amount of Dutch Guilder 7,300,000 (hereinafter referred to as the "Dutch Grant") to assist in financing a portion of Part F.1 of the Project on the terms and

conditions set forth in an agreement (hereinafter referred to as the "Dutch Grant Agreement") to be entered into between the Borrower and the Ministry;

(D) part of the Project will be carried out by Daerah Khusus Ibukota Jakarta (DKI Jakarta) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to DKI Jakarta part of the proceeds of the Loan as provided in this Agreement;

(E) part of the Project will be carried out by Perusahaan Daerah Air Minum Jaya (PDAM Jaya) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PDAM Jaya part of the proceeds of the Loan as provided in this Agreement; and

(F) part of the Project will be carried out by Perusahaan Daerah Air Minum Tangerang (PDAM Tangerang) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PDAM Tangerang part of the proceeds of the Loan as provided in this Agreement;

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.

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) "Governing Laws" means Law No. 5 of 1962, Law No. 5 of 1974, Decree No. 26 of 1975 of the Borrower's Ministry of Home Affairs, Joint Decree Nos. 3, 4 and 5 of January 23, 1984, of the Borrower's Ministry of Home Affairs and Ministry of Public Works, Letter Ref. No. 3297/1.778.100, dated September 14, 1989, from PDAM Jaya to Tim Koordinasi Pembangunan Perkotaan (relating to distribution of profits), Letter Ref. No. 4262/1.778.1. dated October 2, 1989, from DKI Jakarta to BAPPENAS (relating to retention of profits), Letter Ref. No. 560/1167/PDAM 190, dated April 2, 1990, from Bupati KDH.TK.II Tangerang to Direktur Bina Program-DGHS (relating to retention of profits), Letter Ref. No. 3057/1.792.1, dated July 14, 1989, from DKI Jakarta to DGWRD (relating to responsibility for operation and maintenance for drainage), and any other provisions in force at any time governing the organization and operations of PDAM Jaya or PDAM Tangerang, as any of them may be amended or supplemented from time to time;

(b) "DKI Jakarta Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and DKI Jakarta 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 such subsidiary loan agreement;

(c) "PDAM Jaya Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and PDAM Jaya 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 such subsidiary loan agreement;

(d) "PDAM Tangerang Subsidiary Loan Agreement" means the

agreement to be entered into between the Borrower and PDAM Tangerang 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 such subsidiary loan agreement;

(e) "JUPCO" means the Jabotabek Urban Project Coordination Office, established within the Regional Development Planning Board/BAPPEDA of DKI Jakarta;

(f) "Jabotabek" means the region comprising the Jakarta, Bogor, Tangerang and Bekasi local government administrative areas;

(g) "POJ" means Perum Otorita Jatiluhur (the Jatiluhur Authority) established under Government Regulation No. 20/1979 JO 35/1980;

(h) "DKI Jakarta" means Jakarta Special Capital Province;

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

(j) "Subsidiary Loan Agreements" means the DKI Jakarta Subsidiary Loan Agreement, the PDAM Jaya Subsidiary Loan Agreement and the PDAM Tangerang Subsidiary Loan Agreement;

(k) "BPAL" means Badan Pengelola Air Limbah (Waste Water Management Body) established within the Directorate General of Human Settlements of the Borrower's Ministry of Public Works;

(l) "PDAL" means Perusahaan Daerah Air Limbah (Jakarta Sewerage Enterprise) to be established pursuant to Section 3.04 (a) of this Agreement;

(m) "Distribution Zones" means the geographical areas established within DKI Jakarta for clean water distribution;

(n) "BAPPEDA" means the DKI Jakarta Regional Development Planning Board;

(o) "DGHS" means the Directorate General of Human Settlements in the Borrower's Ministry of Public Works;

(p) "DGWRD" means the Directorate General of Water Resources Development in the Borrower's Ministry of Public Works;

(q) "JSSP" means the Jakarta Sewerage and Sanitation Project Unit in DGHS;

(r) "PSJ" means the Proyek Serbaguna Jatiluhur in DGWRD;

(s) "PBJR" means the Proyek Banjir Jakarta Raya in DGWRD;

(t) "CJC" means the Cisadane Jakarta Cibeet Project Unit in the Direktorat Bina Program of DGWRD; and

(u) "DBP" means Direktorat Bina Program within DGHS.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred ninety million dollars (\$190,000,000), 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 shall, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank Indonesia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1996, 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 March 1 and September 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 shall carry out, or cause to be carried out under the overall responsibility and supervision of DGHS: (i) Parts A.1, A.2 and a portion of F.2 (i) of the Project through PDAM Jaya; (ii) Parts B and a portion of F.2 (i) of the Project through PSJ; (iii) Parts C and a portion of F.2 (i) of the Project through PDAM Tangerang; (iv) Parts D and a portion of F.2 (i) of the Project through JSSP; (v) Parts E and a portion of F.2 (i) of the Project through PBJR; (vi) Part F.1 of the Project through CJC; (vii) Parts F.2 (ii), F.2 (iii) and F.2 (iv) of the Project through DBP; (viii) Part A.3 of the Project through DKI Jakarta; and (ix) Part F.3 of the Project through JUPCO, all with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall out of the proceeds of the Loan relend, or cause to be relend, to (i) DKI Jakarta an amount equivalent to \$19,000,000 under the DKI Jakarta Subsidiary Loan Agreement to be entered into between the Borrower and DKI Jakarta; (ii) PDAM Jaya an amount equivalent to \$92,000,000 under the PDAM Jaya Subsidiary Loan Agreement to be entered into between the Borrower and PDAM Jaya; and (iii) PDAM Tangerang an amount equivalent to \$13,000,000 under the PDAM Tangerang Subsidiary Loan Agreement to be entered into between the Borrower and PDAM Tangerang, all under terms and conditions satisfactory to the Bank.

(c) The Borrower shall exercise its rights under each 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 either Subsidiary Loan Agreement or any provisions thereof.

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 or cause to be carried out: (a) implementation arrangements, satisfactory to the Bank, for carrying out each Part of the Project; and (b) Action Programs satisfactory to the Bank to strengthen PDAM Jaya, PDAM Tangerang and POJ.

Section 3.04. (a) The Borrower shall cause to be established by April 1, 1991, an enterprise to manage and operate the DKI Jakarta sewerage system, PDAL.

(b) Until such time as PDAL has been established and is operating, the Borrower shall ensure that: (i) BPAL shall continue to have the authority to charge tariffs, make connections and retain revenues for its operational purposes; and (ii) BPAL shall, by March 31, 1991, and thereafter, financially break even. For purposes of sub-paragraph (b) (ii) of this Section, the Borrower shall, or shall cause BPAL/PDAL to review the sewerage tariffs and adjust

them, as required. For purposes of this Section, the term "financially break even" means recovery of, full operating and maintenance costs before depreciation.

(c) The Borrower shall cause the sewage ponds under the jurisdiction of BPAL/PDAL to be operated and maintained in a manner satisfactory to the Bank.

Section 3.05. The Borrower shall cause DKI Jakarta to establish in JUPCO a Division responsible for the overall coordination of the Project, headed by a qualified and experienced officer, and assigned, at all times, with such staffing, resources, facilities and responsibilities as shall be required to enable JUPCO to undertake the overall coordination of the Project.

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; and
- (ii) furnish to the Bank as soon as available, but in any case not later than (nine) 9 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.

(c) For all expenditures with respect to which withdrawals from the Loan Account for the Project 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. The Borrower shall cause:

(a) (i) PDAM Jaya to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of PDAM Jaya; (ii) PDAM Tangerang to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of PDAM Tangerang; and (iii) BPAL/PDAL to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of BPAL/PDAL.

(b) PDAM Jaya, PDAM Tangerang and BPAL/PDAL each to:

- (i) have the records and accounts referred to in paragraph (a) of this Section 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) 9 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; provided however, that the audits for the calendar years ending 1989 and 1990 shall be made available not later than (fifteen) 15 months after the end of each such year, and that the audit for calendar year 1991 shall be made available not later than (twelve) 12 months after the end of such year; 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, including a report by JUPCO within three months of the completion of any audit, of the actions taken to carry out the recommendations, if any, by the auditors.

Section 4.03. By April 1, 1991, and thereafter by January 1 in each third year, the Borrower shall cause DKI Jakarta together with PDAM Jaya: (a) to adjust its tariffs, on the basis of realistic forecasts, after reviewing the adequacy of the tariffs of PDAM Jaya to meet the requirements set forth in Sections 4.04 and 4.05 of this Agreement for the next three fiscal years; and (b) to furnish to the Bank the results of such review upon completion.

Section 4.04. Except as the Bank shall otherwise agree, the Borrower shall ensure that: (a) PDAM Jaya shall not incur any debt unless a reasonable forecast of the revenues and expenditures of PDAM Jaya shows that the projected net revenues of PDAM Jaya 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 PDAM Jaya in such year on all debt of PDAM Jaya including the debt to be incurred; and (b) PDAM Jaya's debt shall be no more than 70% of its total capitalization. For the purposes of this Section:

- (i) the term "debt" means any indebtedness of PDAM Jaya 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 further 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 "net revenues of PDAM Jaya" means gross

revenues of PDAM Jaya from all sources, adjusted to take account of PDAM Jaya'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 PDAM Jaya, 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;

- (iv) 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;
- (v) the term "reasonable forecast" means a forecast prepared by PDAM Jaya in the fiscal year in which the debt in question is to be incurred, which both the Bank and PDAM Jaya accept as reasonable and as to which the Bank has notified PDAM Jaya 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 PDAM Jaya;
- (vi) the term "total capitalization" means debt plus equity;
- (vii) the term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of PDAM Jaya not allocated to cover specific liabilities; and
- (viii) whenever for the purposes of this Section it shall be necessary to value, in terms of currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the pre-vailing 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 4.05. (a) Except as the Bank shall otherwise agree, for investment purposes the Borrower shall cause: (i) PDAM Jaya to produce funds from internal sources, for each of its fiscal years commencing on its fiscal year January 1, 1990, equivalent to not less than thirty percent (30%) of the annual average of its expenditures incurred, or expected to be incurred, for that year, the previous fiscal year and the next fiscal year; and (ii) DKI to provide new equity to PDAM Jaya which will be approximately equal to 10% of the total of its capital expenditures during the period 1990-1996.

(b) 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, new non-operating income and any reduction in working capital other than cash; and
 - (B) the sum of all expenses related to operations, including administration, adequate

maintenance and taxes and payments in lieu of taxes (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, including taxes and payments in lieu of taxes, 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 month, including accounts receivable, marketable securities, inventories and pre-paid 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 expenditures incurred on account of fixed assets, related to operations, including interest charged to construction of those assets, but excluding the expenditures incurred for the construction of, and interest and commitment charges accrued during construction of the Buaran II Water Treatment Plant to be located in Jakarta; and
- (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.

Section 4.06. By January 1, 1993, and thereafter by January 1 in each third year, the Borrower shall cause the local government of Tangerang together with PDAM Tangerang: (a) to adjust its tariffs, on the basis of realistic forecasts, after reviewing the adequacy of the tariffs of PDAM Tangerang to meet the requirements set forth in Sections 4.07 and 4.08 of this Agreement for the next three fiscal years; and (b) to furnish to the Bank such review upon its

completion.

Section 4.07. Except as the Bank shall otherwise agree, the Borrower shall ensure that: (a) PDAM Tangerang shall not incur any debt unless a reasonable forecast of the revenues and expenditures of PDAM Tangerang shows that the projected net revenues of PDAM Tangerang 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 PDAM Tangerang in such year on all debt of PDAM Tangerang including the debt to be incurred; and (b) PDAM Tangerang's debt shall be no more than 70% of its total capitalization. For the purposes of this Section the terms and phrases have the same meanings, mutatis mutandis, as in Section 4.04 of this Agreement.

Section 4.08. (a) Except as the Bank shall otherwise agree, the Borrower shall cause PDAM Tangerang to produce, for investment purposes, funds from internal sources, for each of its fiscal years commencing on its fiscal year January 1, 1990, equivalent to not less than thirty percent (30%) of the annual average of its total capital expenditures, incurred, for that year, the previous fiscal year and the next fiscal year.

(b) For the purposes of this Section the terms and phrases have the same meanings, mutatis mutandis, as in Section 4.05 (b) of this Agreement, provided, however, that the term "capital expenditures" means expenditures incurred on account of fixed assets related to operations, including interest charged during construction of those assets, but excluding the expenditures incurred for the construction of, and interest and commitment charges accrued during construction of the Cisadane Water Treatment Plant to be located in Tangerang.

Section 4.09. With respect to Part B of the Project, the Borrower shall charge tariffs for raw water, in accordance with terms satisfactory to the Bank, beginning with the completion of the first pipeline (estimated to be in calendar 1991); and thereafter shall review and adjust, if necessary, such tariff every three years until full cost recovery is achieved. For the purpose of this Section, the term "full cost recovery" has the same meaning as provided for in the "Agreement on Provision and Utilization of Raw Water for Drinking Water Delivered from the West Tarum Canal," entered into between the POJ and the PDAM Jaya dated March 28, 1985.

Section 4.10. The Borrower shall cause DKI Jakarta, by April 1, 1993, and by April 1 every three years thereafter, to review the ground water abstraction fee and adjust such fee, based on the relevant results of the groundwater study which is expected to be completed by September 30, 1992, which groundwater study is part of the overall Jabotabek Water Resources Management Study.

Section 4.11. The Borrower shall provide all the financing for the Buaran II Treatment Plant in DKI Jakarta and for the Cisadane Treatment Plant in Tangerang, and shall modify all of its existing agreements with PDAM Jaya and PDAM Tangerang to extend the existing grace period to December 31, 2000, to provide for the accumulation of interest and commitment fee during the grace period, and to review the financial position of each PDAM Jaya and PDAM Tangerang in the year 2000 in order to determine their capability of paying the respective accumulated interest.

ARTICLE V

Remedies of the Bank

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

(a) any of the Governing Laws shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of DKI Jakarta, PDAM Jaya, or PDAM Tangerang to efficiently carry out their respective activities;

(b) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PDAM Jaya or PDAM Tangerang or for the suspension of their respective operations;

(c) either the Dutch Grant Agreement or the OECF Loan Agreement shall have failed to become effective by December 31, 1990, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(d) (i) Subject to subparagraph (ii) of this paragraph:

- (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or
- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:

- (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
- (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that any of the events specified in paragraphs (a), (b), (c) or (d) (i) (B) (subject to the proviso of paragraph (d) (ii) of that Section) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the DKI Jakarta Subsidiary Loan Agreement, the PDAM Jaya Subsidiary Loan Agreement and the PDAM Tangerang Subsidiary Loan Agreement have each been executed on behalf of the Borrower and DKI Jakarta, PDAM Jaya and PDAM Tangerang, respectively, and

(b) the Division in JUPCO referred to in Section 3.05 of this Agreement shall have been established and that the position of Division Manager, Financial Accountant and Monitoring Officer shall have been filled.

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 DKI Jakarta Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and DKI Jakarta, and is legally binding upon the Borrower and DKI Jakarta in accordance with its terms;

(b) that the PDAM Jaya Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and PDAM Jaya, and is legally binding upon the Borrower and PDAM Jaya in accordance with its terms; and

(c) that the PDAM Tangerang Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and PDAM Tangerang, and is legally binding upon the Borrower and PDAM Tangerang 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

Representatives of the Borrower; Addresses

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

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

For the Borrower:

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

Cable address:

FINMINISTRY
Jakarta

Telex:

44319 DEPKEU-IA
45799 DJMLN-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)
64145 (WUI)
82987 (FTCC) 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/ Abdul Rachman Ramly
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gautam S. Kaji
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)	Percentage of Expenditures to be Financed
(1) Civil works carried out by contract	109,500,000	62%
(2) Civil works carried out by force account	2,500,000	50% of unit cost
(3) Goods	35,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(4) Training and Technical Assistance	28,000,000	100%
(5) Unallocated	15,000,000	
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;

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

(c) the term "unit cost" means the unit cost for force account works eligible for reimbursement (standard house connection, public taps and low cost sewer works) which shall be established from time to time by the Bank on the basis of average quantities and prevailing unit rates.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$2,000,000, may be made in respect of any Category on account of payments made for

expenditures before that date but after February 28, 1990.

SCHEDULE 2

Description of the Project

The objectives of the Project are to develop and implement a coordinated program of physical investments, human resource development, technical assistance and policies for urban water supply, waste water disposal, drainage and water resource/quality management in the Jabotabek area.

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: PDAM Jaya Water Supply System Improvements

1. Improvement of the PDAM Jaya water supply system, including construction, repair or replacement of primary mains and distribution facilities, rehabilitation of meters, secondary and tertiary mains for about 70% of service area of DKI Jakarta and infill and extension of service mains system, for: (i) the Distribution Zones 1, 2, 4 and 5; and (ii) for the Distribution Zones 3 and 6.
2. Strengthening PDAM Jaya's operation and maintenance, water treatment capabilities, management of its water supply distribution system, its finances and personnel, and training managers, engineers, and accounting staff, all through the provision of technical assistance and related equipment.
3. Construction of microdrainage in selected poorly drained areas being provided with additional water supply under the Project.

Part B: Pejompongan Raw Water Pipeline

1. Laying of twin 1,600mm pipelines about 11 km long from the West Tarum Canal to the Pejompongan water treatment plants, including construction of a pumping station and provision of related measures to protect the quality of water.
2. Strengthening the management of POJ, including staff training, through the provision of technical assistance.

Part C: Cisadane Treated Water Transmission Main

1. Construction of about 14.5 km pressure pipeline (1,500mm) from the Cisadane I Water Treatment Plant, including two branch lines, to the southwestern boundary of DKI Jakarta and about 2.5 km of primary distribution mains to the town of Serpong.
2. Strengthening the management of PDAM Tangerang, including staff training, through the provision of technical assistance.

Part D: Jakarta Sewerage and Sanitation Extension

1. Construction and installation of a sewage pumping station, main sewers, house and building service connections, and drains in DKI Jakarta.
2. Carrying out a low cost sewerage pilot project in DKI Jakarta.
3. Strengthening the management of BPAL/PDAL, including staff training, through the provision of technical assistance.

Part E: Drainage and Flood Control

Dredging and upgrading about 37 km of major canals and drains, dredging of the Pluit storm water retention basin and rehabilitation of its inlet system and pumping station, and construction of three

tidal gates and a diversion channel on the Ancol Canal, all in DKI Jakarta.

Part F: Technical Assistance

1. Provision of technical assistance to assist in: (i) carrying out a water resources management study; (ii) strengthening institutional arrangements for water resources management for Jabotabek; and (iii) establishing a Jabotabek Water Data Center and carrying out monitoring activities at Pasarbaru Barrage in Tangerang.

2. Provision of technical assistance to assist in: (i) carrying out Parts A through F.1 of the Project; (ii) providing support for management training of DGHS; (iii) carrying out human resource development in the Borrower's urban infrastructure sector; and (iv) preparing future projects for integrated urban infrastructure development.

3. Overall coordination of the Project implementation, including provision of technical assistance therefor.

* * *

The Project is expected to be completed by June 30, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
March 1, 1996	3,460,000
September 1, 1996	3,595,000
March 1, 1997	3,730,000
September 1, 1997	3,875,000
March 1, 1998	4,025,000
September 1, 1998	4,185,000
March 1, 1999	4,345,000
September 1, 1999	4,515,000
March 1, 2000	4,690,000
September 1, 2000	4,870,000
March 1, 2001	5,060,000
September 1, 2001	5,255,000
March 1, 2002	5,460,000
September 1, 2002	5,670,000
March 1, 2003	5,890,000
September 1, 2003	6,120,000
March 1, 2004	6,355,000
September 1, 2004	6,600,000
March 1, 2005	6,855,000
September 1, 2005	7,125,000
March 1, 2006	7,400,000
September 1, 2006	7,685,000
March 1, 2007	7,985,000
September 1, 2007	8,295,000
March 1, 2008	8,615,000
September 1, 2008	8,950,000
March 1, 2009	9,295,000
September 1, 2009	9,655,000
March 1, 2010	10,030,000
September 1, 2010	10,410,000

* 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.

1. 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

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D 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).

2. Bidders for major civil works such as reservoirs, pumping stations sewers and laying large diameter pipes shall be pre-qualified as provided in paragraph 2.10 of the Guidelines.

3. To the extent practicable, contracts for major civil works shall be grouped into bid packages estimated to cost the equivalent of \$3,000,000 or more.

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: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Items or groups of items for civil works estimated to cost the equivalent of \$3,000,000 or less per contract and items or groups of items for goods estimated to cost the equivalent of \$200,000 or less per contract may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Items or groups of items for miscellaneous goods estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$1,500,000 may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Installation of house connections, public taps and low cost sewerage works up to an aggregate amount equivalent to \$4,500,000, may be carried out through force account procedures.

4. Pumping equipment for Part E of the Project 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 the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

Part E: 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 civil works estimated to cost the equivalent of \$1,500,000 or more, and with respect to each contract for goods estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect 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 subparagraph (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.

3. 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.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means all categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

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

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less 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 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; (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.

