

CONFORMED COPY

LOAN NUMBER 3579 IND

(Eastern Indonesia Kabupaten Roads Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 26, 1993

LOAN NUMBER 3579 IND

LOAN AGREEMENT

AGREEMENT, dated May 26, 1993, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; 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;

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) "BAPPENAS" means the National Development Planning Agency, an agency of the Borrower, and includes any successor or successors thereto.

(b) "DGH" means the Directorate General of Highways of MPW and includes any successor or successors thereto.

(c) "DPUK" and "DPUKs" mean singularly the Office (Dinas) of Public Works of a Kabupaten and collectively the Offices (Dinas) of Public Works of Kabupatens, selected for participation in the Project in accordance with the provisions of this Agreement, and includes any successor or successors thereto.

(d) "DPUP" and "DPUPs" mean singularly a Provincial Office (Dinas) of Public Works of the Borrower and collectively the Provincial Offices (Dinas) of Public Works of the Borrower and includes any successor or successors thereto.

(e) "Indigenous Peoples" means those social groups in Indonesia that (i) have a distinct social and cultural identity, and (ii) are susceptible to being disadvantaged in the development process induced by the Project or any part thereof.

(f) "Kabupaten" means a district, an administrative sub-division, of the Borrower.

(g) "MHA" means the Ministry of Home Affairs of the Borrower and includes any successor or successors thereto.

(h) "MOF" means the Ministry of Finance of the Borrower and includes any successor or successors thereto.

(i) "MPW" means the Ministry of Public Works of the Borrower and includes any successor or successors thereto.

(j) "Project Kabupatens" means the Kabupatens selected for participation in the Project by the Borrower as agreed by the Bank.

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

(l) "Sub-project" and "Sub-projects" means singularly a sub-project and collectively the sub-projects included in Part A.1 of the Project.

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 fifty five million dollars (\$155,000,000), 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 United States Dollars a special deposit account in the Bank of 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 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 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 February 1 and August 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, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, economic, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) 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.

(b) Without limitation to the foregoing, goods required for the Project and to be financed out of the proceeds of the Loan shall be procured from a list satisfactory to the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail

as the Bank shall have reasonably requested; and

- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account 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.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. 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 2458
Jakarta 10710, Indonesia

Cable address:

FINMINISTRY
Jakarta

Telex:

45799 DJMLN-IA
44319 DEPKU-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/ Abdul Rachman Ramly

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gautam S. Kaji

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) Civil works:		
(a) under Part A.1 (a) of the Project	48,800,000	37%
(b) under Part A.1 (b) of the Project	42,000,000	37%
(c) under Part A.2(a) of the Project	1,200,000	37%
(2) Supervision of civil works under Part A.4	19,500,000	100%
(3) Equipment, spare parts and supplies	19,500,000	100% of foreign expenditures, 100% of local expenditures

Category	Amount of the Loan Allocated Expressed in Dollar Equivalent)	% of Expenditures to be Financed	(ex-factory cost) and 65% of local expenditures for other items procured locally
(4) Consultants' services	8,000,000	100%	
(5) Training:			
(a) professional training under Part C.1 (c) and C.1 (d) of the Project	300,000	100%	
(b) in-house training delivery under Part C.1 (e) of the Project	1,400,000	50%	
(6) Unallocated	14,300,000		
	<hr/>		
TOTAL	155,000,000		

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, except that withdrawals, in an aggregate amount not to exceed \$15,000,000, may be made in respect of Categories 1, 2, 3 and 4 on account of payments made for expenditures before that date but after January 1, 1993; (b) under Category 1 (a), unless the Bank has received evidence that the Borrower has complied with its obligation under paragraph 10 of Schedule 5 to this Agreement; and (c) by a Project Kabupaten under Category 1 (a), unless its annual road maintenance program, referred to in paragraph 3 of Schedule 5 to this Agreement, for each previous fiscal year has been implemented to the satisfaction of the Bank.

SCHEDULE 2

Description of the Project

The objectives of the Project are to (i) increase access for the Borrower's population living in Project Kabupatens to economic centers, and (ii) enhance planning and implementation capacity of the Borrower's agencies in charge of Kabupaten roads.

The Project consists of the following parts, subject to such

modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Road Network Maintenance and Improvement

1. Increasing the quality of Kabupaten road maintenance system and elevating the standard of Kabupaten road network through sub-projects comprising (a) rehabilitation and improvement of approximately 3,000 kilometers of roads, and (b) maintenance of approximately 12,500 kilometers of roads in fifty-one Project Kabupatens.

2. (a) Construction of about fifteen new workshops and twenty laboratories in Project Kabupatens, and (b) provision of equipment for the said workshops and laboratories.

3. Provision of road construction and maintenance equipment, spare parts, and supplies to Project Kabupatens.

4. Provision of supervision services for road works programs.

Part B: Technology Adaptation and Dissemination

1. Introduction and dissemination of innovative technologies for use in Kabupaten road works.

2. Improvement and dissemination of labour-based technologies for use in Kabupaten road works.

Part C: Training and Technical Assistance

1. Implementation of priority parts of a nation-wide Kabupaten Roads Master Training Plan (KRMTTP) prepared by the Borrower, including: (a) preparation of training programs including course design and materials development; (b) provision of equipment and supplies for training programs preparation and delivery; (c) training of trainers; (d) professional staff training by specialized institutions; (e) in-house delivery of training programs; and (f) strengthening of the institutions involved in training including the setting up of systems for training needs analysis and monitoring and evaluation.

2. Provision of technical assistance to the departments and agencies of the Borrower concerned with the Project through: (a) technical support and liaison for engineering aspects including evaluation of implementation of technical guidelines and specifications, and for technical audits; (b) general assistance in planning including further development of the planning methodologies, carrying out of special studies of road works needs in under-developed areas, analyzing the current situation and issues regarding village roads, assessing the size of the road network that Project Kabupatens can economically and financially maintain and rehabilitate, and assessing the long-term indirect impact of road rehabilitation and improvement on the environment; (c) assistance in the monitoring and coordination of project activities, including the coordination of the separate teams of field consultants for implementation (FCI) and training consultants, the monitoring of project environmental impact, and the preparation of consolidated project implementation reports; (d) support in the preparation of annual road works programs including, inter alia, the environmental screening of proposed sub-projects, the carrying out of site-specific environmental assessments when required, the systematic review of sub-projects' economic viability, and the extension of planning methodologies to non-project Kabupatens; (e) support preparation of environmental assessments for future projects; and (f) strengthen the central and provincial environmental assessment capacity of the Borrower.

* * *

The Project is expected to be completed by December 31, 1997.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
August 1, 1998	2,900,000
February 1, 1999	3,005,000
August 1, 1999	3,115,000
February 1, 2000	3,235,000
August 1, 2000	3,355,000
February 1, 2001	3,480,000
August 1, 2001	3,605,000
February 1, 2002	3,740,000
August 1, 2002	3,880,000
February 1, 2003	4,025,000
August 1, 2003	4,175,000
February 1, 2004	4,330,000
August 1, 2004	4,490,000
February 1, 2005	4,655,000
August 1, 2005	4,830,000
February 1, 2006	5,010,000
August 1, 2006	5,195,000
February 1, 2007	5,385,000
August 1, 2007	5,590,000
February 1, 2008	5,795,000
August 1, 2008	6,010,000
February 1, 2009	6,235,000
August 1, 2009	6,465,000
February 1, 2010	6,705,000
August 1, 2010	6,955,000
February 1, 2011	7,215,000
August 1, 2011	7,480,000
February 1, 2012	7,760,000
August 1, 2012	8,045,000
February 1, 2013	8,335,000

* 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

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C.2 hereof, goods 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 1992 (the Guidelines). For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Indonesia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. (a) Except as provided in sub-paragraph (b) hereof, civil works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures (including prequalification procedures and contract packaging criteria) satisfactory to the Bank.

(b) Civil works for road routine maintenance, up to an aggregate amount equivalent to \$19,000,000, may be carried out by force account.

2. (a) Except as provided in sub-paragraphs (b) and (c) hereof, items or groups of items for goods, estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$1,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

(b) Except as provided in sub-paragraph (c) hereof, items or groups of items for goods estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$400,000, 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.

(c) Contracts for spare parts, up to an aggregate amount equivalent to \$300,000, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for civil works and goods estimated to cost the equivalent of \$2,000,000 and \$200,000 or more respectively, 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 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

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

Implementation Program

1. The Borrower shall, under the general supervision and guidance of a Coordinating Committee chaired by BAPPENAS, carry out the Project as follows:

(a) Part A.1 and A.2 (a) of the Project shall be carried out by DPUKs with the assistance of concerned DPUPs.

(b) Parts A.2 (b), A.3, A.4, and B of the Project shall be carried out by DGH.

(c) Part C of the Project shall be carried out by DGH and MHA and the concerned DPUKs.

2. The Borrower shall maintain (a) the Project Secretariat established under the Third Kabupaten Roads Development Project (Loan Number 3490 IND) in the same form and for the similar purpose of assisting the Coordinating Committee referred to in paragraph 1 hereof; and (b) the Project Implementation Unit in DGH and supported by MHA, established under the said project, to assist, and monitor

progress, in project implementation including preparation of annual programs, procurement, physical achievements, and expenditures.

3. The Borrower shall cause each Project Kabupaten to (a) prepare and, by December 31, 1993 and December 31, 1994, submit, for the Bank's review and comments, its annual road maintenance program for the fiscal years 1994-95 and 1995-96 respectively in accordance with criteria and methodology agreed to by the Bank, and (b) finalize and implement the said annual road maintenance program taking into account the comments, if any, by the Bank.

4. The Borrower shall cause each Project Kabupaten to (a) prepare and, by December 31, 1993 and December 31, 1994, submit, for the Bank's review and comments, its annual rehabilitation and improvement works program in respect of the Project for the fiscal years 1994-95 and 1995-96 respectively in accordance with criteria and methodology agreed to by the Bank, and (b) finalize and implement the said annual rehabilitation and improvement works program taking into account the comments, if any, by the Bank.

5. The Borrower shall select, design and implement Sub-projects for the Project Kabupatens in accordance with criteria and procedures satisfactory to the Bank, including environmental assessments therefor and, inter alia, baseline data of the social structure and income sources of the concerned Indigenous Peoples, if any.

6. (a) The Borrower shall carry out Part C.1 of the Project in accordance with procedures satisfactory to the Bank.

(b) Notwithstanding the generality of the foregoing, the Borrower shall, (a) prepare and, by December 31, 1994 and December 31, 1995, submit for the Bank's review and comments, its annual program for in-house delivery of training programs for the fiscal years 1995-96, and 1996-97 respectively, and (b) finalize and implement the said annual program taking into account the comments, if any, by the Bank.

7. The Borrower is committed to the protection of interests of Indigenous Peoples and hereby agrees to ensure that the benefits they receive under the Project are in harmony with their economic, social, and cultural preferences. Notwithstanding the generality of the foregoing, the Borrower shall (i) through a process of informed participation, involve the concerned Indigenous Peoples in the preparation and implementation of the relevant Sub-projects as agreed with the Bank, and (ii) mitigate or avoid adverse effects on Indigenous Peoples caused or likely to be caused by the Project.

8. The Borrower shall: (i) by December 31, 1993, establish a team comprising independent and experienced social science professionals, as agreed with the Bank, to monitor the effects of the Project on Indigenous Peoples and to ensure compliance with or implementation of the Borrower's obligations hereunder, and (ii) by December 31 of each year, commencing 1994, submit to the Bank an annual report in respect thereof in a form satisfactory to the Bank.

9. The Borrower shall, by October 31, 1993, appoint consultants for strengthening the central and provincial environmental capacity of the Borrower under terms of reference satisfactory to the Bank.

10. The Borrower shall allocate adequate funds for purchase of vehicles, as agreed with the Bank, in its 1993-94 budget for use by Project Kabupatens in the implementation of the Project.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2, 3, 4 and 5 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 \$11,000,000 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; 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.

