

CONFORMED COPY

LOAN NUMBER 2891 IND

Loan Agreement

(Railway Technical Assistance Project)

between

REPUBLIC OF INDONESIA

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated January 7, 1988

LOAN NUMBER 2891 IND

LOAN AGREEMENT

AGREEMENT, dated January 7, 1988, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires,

the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional term has the following meaning, namely, "PJKA" means Perusahaan Jawatan Kereta Api, the Borrower's State Railway established and operating under Government Regulation No. 61 of 1971, and such term shall include any successor or successors to which PJKA or any substantial part thereof will have been transferred for management or operation.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to twenty eight million dollars (\$28,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in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.

Section 2.03. The Closing Date shall be June 30, 1992 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 ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

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

Section 2.06. Interest and other charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through PJKA with due diligence and efficiency and in conformity with appropriate administrative, engineering, financial and railway practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project. The proceeds of the Loan shall be made available to PJKA in the form of equity contributions.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods 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 program satisfactory to the Bank, to reduce the number of employees of PJKA to about 41,000 by March 31, 1991; and shall provide funds to PJKA for payment of staff in excess of its requirements.

Section 3.04. The Borrower shall prepare or cause to be prepared, at least two months prior to the start of the relevant budget year, a detailed training program under the Project for training of PJKA staff, satisfactory to the Bank.

Section 3.05. The Borrower shall carry out a program, satisfactory to the Bank, for the conversion of PJKA into a "perusahaan umum" by March 31, 1989.

Article IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause PJKA to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of PJKA.

(b) The Borrower shall cause PJKA to:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such year:
 - (A) certified copies of its financial statements for such year as so audited;
 - and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably request.

- (iii) Furnish to the Bank such other information concerning such records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records, (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditures 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 take, or cause to be taken all action necessary to enable PJKA to achieve the operational and financial targets set out in Schedule 5 to this Agreement.

Section 4.03. Until completion of the Project, the Borrower shall, at least three months before the relevant budget year, furnish, or cause to be furnished, to the Bank for comment a draft of PJKA's annual investment plan, and thereafter, the final plan.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause PJKA:

- (a) to take out and maintain with responsible insurers or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;
- (b) to carry on its operations and conduct its affairs in accordance with sound administrative, engineering, financial, and railway practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and
- (c) at all times to operate and to maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and railway practices.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, Government Regulation No. 61 of 1971 shall have been amended, terminated, repealed or waived so as to affect materially and adversely the ability of PJKA to perform any of its obligations under this Agreement.

ARTICLE VII

Termination

Section 7.01. 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 contract to assist in carrying out the Project shall have been signed with a consulting firm in accordance with the provisions of Section 3.02 of this Agreement.

Section 7.02. 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 VIII

Representative of the Borrower; Addresses

Section 8.01. 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 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance
c/o Director General for
International Monetary Affairs
Jalan Lapangan Banteng Timur 2-4
Jakarta, Indonesia

Cable address: Telex:

45799	MINISTRY OF FINANCE	DJMLN JKT
	Jakarta	DJMDN JKT 46415 DEPKEU JKT 44319

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: Telex:

	INTBAFRAD	440098 (ITT)
	Washington, D.C.	248423 (RCA)

or

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF INDONESIA

By /s/ Soesilo Soedarman
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu
Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Equipment and materials	14,700,000	100% of foreign expenditures; 95% of local expenditures (ex-factory cost); 65% of local expenditures for other items procured locally
(2) Consultants' services and training	8,800,000	100% of foreign expenditures
(3) Unallocated	4,500,000	
TOTAL	28,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to raise the efficiency of PJKA's operations and maintenance, to improve the utilization of existing fixed assets, locomotives and rolling stock, and to strengthen its marketing capacity.

Subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives, the Project consists of the following:

Strengthening PJKA in the areas of management information, costing, procurement and inventory control, train scheduling, and rationalization of mechanical and track maintenance, by inter alia, providing technical assistance, training of PJKA staff in all areas (especially train operations, marketing and sales), computer hardware and software, handling equipment, and minor physical improvements to facilitate container and inter modal traffic.

* * *

The Project is expected to be completed by June 30, 1991.

SCHEDULE 3

Amortization Schedule

Date Payment Due dollars)*	Payment of Principal (expressed in dollars)
On each January 15 and July 15 beginning July 15, 1993 through July 15, 2007	935,000
On January 15, 2008	885,000

* 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.

Premium on Prepayment

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

Time of Prepayment	Premium
--------------------	---------

The interest rate
(expressed as a
percentage per annum)
applicable to the balance
outstanding on the Loan
on the day of prepayment
multiplied by:

Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part C 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 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

Computer and data processing equipment up to an aggregate amount not to exceed the equivalent of \$2,500,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, 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 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.

(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.

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

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

Section II. Employment of Consultants

In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

OPERATIONAL AND FINANCIAL TARGETS FOR PJKA

Operational Targets

	88/89	89/90	PJKA FY		
			90/91	91/92	92/93
1. Availability (%)					
a. Loco (train)	80	82	84	85	85.5
b. Coaches (mainline)	80	82	84	85	85.5
c. Wagon	80	83	86	87	87.5
2. Utilization (Km/day)					
a. Loco	340	360	390	400	410
b. Coaches	350	380	410	415	420
c. Wagon	50	65	80	85	90
3. Productivity					
Net ton/train (freight)	200	250	280	300	310
Wagon Turn-round (days)	8	7	6	5	4.5

Financial Targets

PJKA FY	Working Ratio %	Operating Ratio %
1987/88	125	147
1988/89	121	142
1989/90	118	140
1990/91	115	133
1991/92	111	132

