

CONFORMED COPY

LOAN NUMBER 3732 IND

LOAN AGREEMENT

(Fifth Kabupaten Roads Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 8, 1994

LOAN NUMBER 3732 IND

LOAN AGREEMENT

AGREEMENT, dated June 8, 1994, 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 Kabupaten" and "Project Kabupatens" means singularly a Kabupaten and collectively the Kabupatens selected for participation in the Project by the Borrower with the concurrence of 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 one million five hundred thousand dollars (\$101,500,000), 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 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 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1999 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 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. (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 six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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:

Telex:

FINMINISTRY
Jakarta

45799 DJMLN-IA
44319 DEPKEU-IA

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

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

/s/ Arifin M. Siregar
By

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

/s/ Gautam S. Kaji
By

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	36,500,000	37%
(b) under Part A.1 (b) of the Project	17,200,000	37%
(c) under Part A.2(a) of the Project	300,000	37%
(2) Supervision of civil works under Part A.4	13,200,000	100%
(3) Vehicles, equipment, spare parts, supplies and inland transpor- tation thereof	18,200,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost), 65% of local expendi- tures for other

			items procured locally, and 65% of local expenditures for incidental costs to the supply contract
(4)	Consultants' services	6,900,000	100%
(5)	Unallocated	9,200,000	
	TOTAL	101,500,000	

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 "inland transportation" means transportation costs from the factory, port of entry and supplier warehouse to Project site for vehicles, equipment, spare parts and supplies procured under the Project.

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 \$5,000,000, may be made in respect of Categories 1, 2 and 4 on account of payments made for expenditures before that date but after January 1, 1994;

(b) under Category 1 (a), unless the Bank has received evidence that the Borrower has complied with its obligations under paragraphs 8 and 9 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 the previous fiscal year has been implemented to the satisfaction of the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for:

- (i) civil works not exceeding 1,500,000;
- (ii) equipment, vehicles, spare parts, and supplies not exceeding \$200,000 equivalent under terms and conditions as the Bank shall specify by notice to the Borrower; and
- (iii) contracts for the employment of consultants, estimated to cost less than \$100,000 equivalent for consulting firms and less than \$50,000 equivalent for individuals.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to:

(a) improve the access of rural population in Project Kabupaten to its main economic centers; and

(b) enhance the capability of its departments and agencies that manage the development 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 Improvement and Maintenance

1. Improvement and maintenance of Project Kabupatens road network through sub-projects comprising:

(a) rehabilitation or improvement of selected roads (about 1,620 kilometers) in the Project Kabupatens; and

(b) routine and periodic maintenance of all the roads (about 6,000 kilometers) in the Project Kabupatens.

2. (a) Construction of about four new workshops and about five new laboratories in selected 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 improvement and maintenance works under the Project.

Part B: Technical Assistance and Training

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 Project quality assurance, including technical audits;

(b) general assistance in planning including further development of the planning methodologies, carrying out of special studies of road works needs in underdeveloped 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, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
January 15, 2000	1,925,000
July 15, 2000	1,995,000
January 15, 2001	2,065,000
July 15, 2001	2,140,000
January 15, 2002	2,220,000
July 15, 2002	2,300,000
January 15, 2003	2,380,000
July 15, 2003	2,470,000
January 15, 2004	2,560,000
July 15, 2004	2,650,000
January 15, 2005	2,750,000
July 15, 2005	2,850,000
January 15, 2006	2,950,000
July 15, 2006	3,060,000
January 15, 2007	3,170,000
July 15, 2007	3,285,000
January 15, 2008	3,405,000
July 15, 2008	3,530,000
January 15, 2009	3,655,000
July 15, 2009	3,790,000
January 15, 2010	3,925,000
July 15, 2010	4,070,000
January 15, 2011	4,220,000
July 15, 2011	4,370,000
January 15, 2012	4,530,000
July 15, 2012	4,695,000
January 15, 2013	4,865,000
July 15, 2013	5,040,000
January 15, 2014	5,225,000
July 15, 2014	5,410,000

* 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.

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

1. 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).

(a) 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.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other inter-nationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 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 \$8,200,000, may be carried out by force account, in accordance with procedures satisfactory to the Bank.

2. (a) Except as provided in sub-paragraphs (b) and (c) hereof, items or groups of items of goods, estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount equivalent to \$800,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

(b) Except as provided in sub-paragraph (c) hereof, items or groups of items for goods estimated to cost less than the equivalent of \$50,000 per

contract, up to an aggregate amount equivalent to \$200,000, 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 \$200,000, 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 more than the equivalent of \$1,500,000 and \$200,000 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

1. 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 the World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981. For, complex, time-based assignments, the Borrower shall employ such consultants under contracts using standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent of each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

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 DPUKs.

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

(c) Part B 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, in accordance with criteria and methodology agreed to by the Bank, and, by December 31, 1994 and December 31, 1995, submit, for the Bank's review and comments, its annual road maintenance program for the fiscal years 1995-96 and 1996-97 respectively; and

(b) finalize and implement the said annual road maintenance program as agreed between the Borrower and the Bank.

4. The Borrower shall cause each Project Kabupaten to:

(a) prepare, in accordance with criteria and methodology agreed to by the Bank, and, by December 31, 1994 and December 31, 1995, submit, for the Bank's review and comments, its annual rehabilitation and improvement works program in respect of the Project for the fiscal years 1995-96 and 1996-97 respectively; 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. 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:

(a) 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

(b) mitigate or avoid adverse effects on Indigenous Peoples caused or likely to be caused by the Project.

7. The Borrower shall:

(a) by December 31, 1994, 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

(b) 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.

8. The Borrower shall provide vehicles for Kabupaten staff responsible for Project supervision in accordance with a list agreed between the Borrower and the Bank.

9. Without limitation upon the generality of Section II of Schedule 4 to this Agreement, the Borrower shall employ consultants, as agreed with and under arrangements satisfactory to the Bank, for the provision of supervision services for road improvement and maintenance works under the Project.

10. The Borrower shall:

(a) by September 15, 1994, prepare a detailed action plan for establishing Kabupaten workshops plant-hire units; and

(b) by January 15, 1995:

- (i) provide funds, as agreed with the Bank, for the operation and maintenance of the said workshops; and
- (ii) charge hire rates, in accordance with a formula agreed to by the Bank.

11. The Borrower shall:

(a) from time to time, as reasonably required by the Bank, carry out:

- (i) an action program to assure Project quality in accordance with terms of reference agreed between the Borrower and the Bank; and
- (ii) technical audits of the completed road improvement and maintenance works under the Project focussing on the quality of said works; and

(b) immediately thereafter, furnish the result of said program and audits to the Bank.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1, 2, 3, and 4 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into 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 into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; 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.

