

CONFORMED COPY

LOAN NUMBER 3304 IND

(East Java - Bali Urban Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated May 3, 1991

LOAN NUMBER 3304 IND

LOAN AGREEMENT

AGREEMENT, dated May 3, 1991, 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) pursuant to a letter agreement dated June 3, 1987, between Japan and the Bank, Japan has requested the Bank, and the Bank has agreed, to administer grant funds to be made available by Japan for the financing of certain programs and projects supported by the Bank in accordance with the provisions of such letter agreement;

(C) Japan has made available to the Borrower a grant (the Japanese Grant) in an amount of 607,500,000, out of said funds to assist the Borrower in carrying out a portion of the technical assistance under the Project in accordance with the terms and conditions of the agreement entered into between the Borrower and

the Bank as Administrator of Grant Funds provided by the Government of Japan dated April 30, 1990 (hereinafter the "Japan Grant Agreement"); and

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

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) "Bali" means the Borrower's Province of Bali;
- (b) "BAPPEDA I" means a Provincial Development Planning Agency;
- (c) "BAPPEDA II" means a Local Development Planning Agency;
- (d) "BAPPENAS" means the Borrower's National Development Planning Agency;
- (e) "Batch I Governments" means the local governments of Badung, Buleleng, Klungkung, and Jembrana in Bali; and the local governments of Sumenep, Banyuwangi, Jember, Sidoardjo and Lamongan and the municipalities of Probolinggo, Mojokerto, Kediri and Pasuruan in East Java;
- (f) "Batch II Governments" means the local governments of Tabanan, Gianyar, Bangli and Karangasem in Bali; and the local governments of Situbondo, Lumajang, Malang, Pasuruan, Tulungagung, Ponorogo, Jombang, Bojonegoro, Tuban, Gresik, Bangkalan, Sampang and Pamekasan, and the municipalities of Madiun and Blitar, and PDAM Surabaya in East Java;
- (g) "Batch III Governments" means the local governments of Bondowoso, Probolinggo, Mojokerto, Kediri, Blitar, Trenggalek, Pacitan, Nganjuk, Madiun, Magetan, and Ngawi and the municipality of Malang in East Java;
- (h) "BPAM" means any Badan Pengelola Air Minum, a water supply entity at the regional level, established pursuant to the provisions of the Borrower's Presidential Decree No. 29 of 1984 and Decree No. 269/KPTS/1984 of the Borrower's Ministry of Public Works, as any of the same may be amended from time to time;
- (i) "DGBANGDA" means the Directorate General of Regional Development in MHA;
- (j) "DGBM" means the Directorate General Bina Marga (Roads and Bridges) in MPW;
- (k) "DGCK" means the Directorate General Cipta Karya (Human Settlements) in MPW;
- (l) "DGPUOD" means the Directorate General of Public Administration and Regional Autonomy in MHA;
- (m) "DLA" means a domestic lending arrangement to be entered into between the Borrower and a Participating Local Government, as

the same may be amended from time to time, and such term includes all schedules to such domestic lending arrangement;

(n) "DPUK" means the public works department of a local government or municipality;

(o) "DPUP" means the public works department of a province;

(p) "East Java" means the Borrower's Province of East Java;

(q) "expenditure program" means the five-year program (the PJM) of investment and operations and maintenance expenditures (including the financing plan therefor) for Participating Local Governments as agreed by the Borrower and the Bank;

(r) "kampung" means an urban neighborhood;

(s) "Local PIA" means a Local Program Implementation Agreement, to be entered into between a Project Province and a Participating Local Government as the same may be amended from time to time, and such term includes all schedules to such implementation agreement;

(t) "MHA" means the Borrower's Ministry of Home Affairs;

(u) "MOF" means the Borrower's Ministry of Finance;

(v) "MPW" means the Borrower's Ministry of Public Works;

(w) "Participating Local Government" means a local government or a BPAM or PDAM receiving investment funds under the Loan and listed in the Annex to Schedule 1 of this Agreement;

(x) "PDAM" means any Perusahaan Daerah Air Minum, a regional water supply enterprise, established pursuant to the provisions of the Borrower's Law No. 5 of 1962, Law No. 5 of 1974, Decree No. 26 of 1975 of the Borrower's Ministry of Home Affairs, and Joint Decree of the Borrower's Ministry of Home Affairs No. 3 of 1984 and the Borrower's Ministry of Public Works No. 26/KPTS of 1984, as any of the same may be amended from time to time;

(y) "PMDU" means the Provincial Monitoring and Development Units established and operating in the Project Provinces;

(z) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated September 4, 1989 and September 18, 1989 between the Borrower and the Bank.

(aa) "Project Provinces" means the Borrower's Province of East Java and Province of Bali;

(bb) "Provincial PIA" means a Provincial Program Implementation Agreement, to be entered into between the Borrower and each of the Project Provinces, as the same may be amended from time to time, and such term includes all schedules to such implementation agreement; and

(cc) "Rupiah" and "Rp" mean the currency of the Borrower.

## 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 eighty million three hundred thousand dollars (\$180,300,000), 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 6 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

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 June 15 and December 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, environmental and financial 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, or cause the Project to be carried out, in accordance with: (i) Provincial PIAs and Local PIAs the terms and conditions of which shall be satisfactory to the Bank, and (ii) the Implementation Program set forth in Schedule 5 to this Agreement.

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. (a) The Borrower shall make funds available (which funds shall include a portion of the proceeds of the Loan) to a Participating Local Government under a Domestic Lending Arrangement to be entered into between the Borrower, through its Ministry of Finance, and such Participating Local Government, under terms and conditions which shall have been approved by the Bank, including those set out in Schedule 7 hereto.

(b) The Borrower shall exercise its rights under each Provincial PIA, each Local PIA and each DLA 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 any Provincial PIA, Local PIA or DLA or any provisions thereof.

Section 3.04. The Borrower shall approve, or cause to be approved by Participating Local Governments, all subprojects only after they have been appraised using procedures satisfactory to the Bank which procedures shall include provisions for resettlement, if necessary, and on environmental impact; provided that, all subprojects estimated to cost more than Rp 4 billion shall also be appraised by the Bank; provided further that, revisions to any such

subproject and any change of 20% or more in a Participating Local Government's expenditure program shall be agreed by the Bank prior to such revision or change taking effect.

Section 3.05. The Borrower shall take all necessary steps to ensure that during the construction period of a PDAM all revenues of such PDAM shall be retained by the PDAM.

Section 3.06. The Borrower shall have prepared by April 1, 1992, an action plan and timetable, including financial analysis and plans for adjusting tariffs consistent with the requirements of Section 4.02 and 4.03 of this Agreement, satisfactory to the Bank, to convert all BPAMs in the Project Provinces into PDAMs.

Section 3.07. The Borrower shall carry out, or cause to be carried out, by June 30, 1993, a comprehensive review assessing the progress of the Project, which review shall emphasize, and evaluate expenditures relating to operations and maintenance, and shall revise the expenditure program and financing plans, as necessary, within the agreed totals for such program.

Section 3.08. The Borrower shall carry out, or cause to be carried out, by June 30 of each year of the Project, a review of the operations and maintenance program of each Participating Local Government, and shall take all necessary steps to ensure that such expenditures are at least 90% of the agreed totals for such Local Government.

Section 3.09. The Borrower shall take all necessary steps to cause each Participating Local Government to have in place, within three months of each Participating Local Government receiving funds under the Project, a Project accounting system 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, the Project Provinces and the Participating Local Governments, 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.

Section 4.02. Except as the Bank shall otherwise agree, the Borrower shall ensure that: (a) no PDAM shall incur any debt unless a reasonable forecast of the revenues and expenditures of such PDAM shows that the projected net revenues of such PDAM for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times the projected debt service requirement of such PDAM in such year, the previous fiscal year and the next fiscal year on all debt of such PDAM including the debt to be incurred; (b) no PDAM debt shall be more than 70% of its total capitalization; and (c) each BPAM or PDAM produces for each of its fiscal years (i) through March 31, 1994, gross revenues from all sources equivalent to not less than its operating expenses, and (ii) after March 31, 1994, gross revenues from all sources equivalent to not less than the sum of its operating expenses and depreciation;

- (i) the term "debt" means any indebtedness of a PDAM 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 such PDAM" means gross revenues of a PDAM from all sources, adjusted to take account of such PDAM 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 related, less all operating expenses of a PDAM, 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 a PDAM in the fiscal year in which

the debt in question is to be incurred, which both the Bank and the PDAM accept as reasonable and as to which the Bank has notified the PDAM 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 such PDAM;

- (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 a PDAM not allocated to cover specific liabilities;
- (viii) the term "gross revenues from all sources" means the sum of revenues from all sources related to water operation, house connections, and cash consumer contributions in aid of construction, but excluding non-operating income and any other cash inflows;
- (ix) the term "operating expenses" means the sum of all expenses related to water operations, including maintenance and administration, but excluding depreciation;
- (x) the term "depreciation" means the annual provision charged against revenues to depreciate, on a basis acceptable to the Bank, the current value of the water fixed assets in operation as valued from time to time in accordance with methods of valuation satisfactory to the Bank; and
- (xi) 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 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, with the absence of such rate on the basis of a rate of exchange acceptable to the Bank.

Section 4.03. By April 1, 1992, and thereafter by January 1, 1994 and January 1, 1996, the Borrower shall cause each Participating Local Government:

(a) to adjust its tariffs on the basis of realistic forecasts after reviewing the adequacy of its tariffs, to meet the requirements set out in Section 4.02 of this Agreement for the next two 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) no Participating Local Government shall incur any debt unless a reasonable forecast of the revenues and expenditures of such Participating Local Government shows that the projected non-grant and local revenues for a fiscal year minus the projected routine account expenditure on staff administration and routine operational and maintenance needs of such Participating Local Government 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 such Participating Local Government in such year on all debt of such Participating Local Government including the debt



to be incurred. For the purposes of this Section:

- (i) the term "debt" means any indebtedness of a Participating Local Government 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 "debt service requirement" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt;
- (iv) the term "reasonable forecast" means a forecast prepared by a Participating Local Government in the fiscal year in which the debt in question is to be incurred, which both the Bank and the Participating Local Government accept as reasonable and as to which the Bank has notified the Participating Local Government 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 operating results of such Participating Local Government; and
- (v) 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 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, with the absence of such rate on the basis of a rate of exchange acceptable to the Bank.

#### 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) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any PDAM or for the suspension of its operations; and
- (b) (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 events are specified:

(a) any event specified in paragraph 5.01 (a) of this Agreement shall occur; and

(b) the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

#### ARTICLE VI

##### Termination

Section 6.01. 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 VII

##### Representative of the Borrower; Addresses

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

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

For the Borrower:

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:

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:

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/ 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) DLA subprojects	50,000,000	90%
(2) Civil works	77,000,000	70%
(3) Goods	19,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(4) Consultant services and training	28,000,000	100%
Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(5) Refunding of Project Preparation Advance	1,500,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(6) Unallocated	4,800,000	
TOTAL	180,300,000 =====	

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: (a) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$2,000,000, may be made in respect of Categories (1), (2), (3) and (4) on account of payments made for expenditures before that date but after March 31, 1990; (b) under Category (1) with respect to any Participating Local Government for such Local Government until the Local PIA and the DLA for such Local Government has been signed by the respective authorities; and (c) under Categories (2) and (3) with respect to any Participating Local Government until the Local PIA for such Local Government has been signed by the respective authorities.

#### ANNEX TO SCHEDULE 1

##### Participating Local Government

- I. East Java
  1. Mojokerto - City
  2. Pasuruan - City
  3. Probolinggo - City
  4. Kediri - City
  5. Sumenep - District
  6. Lamongan - District
  7. Banyuwangi - District
  8. Sidoarjo - District
  9. Jember - District
  10. Madiun - City
  11. Blitar - City
  12. Situbondo - District
  13. Lumajang - District
  14. Malang - District
  15. Pasuruan - District
  16. Tulungagung - District
  17. Ponorogo - District
  18. Jombang - District
  19. Bojonegoro - District
  20. Tuban - District
  21. Gresik - District
  22. Bangkalan - District
  23. Sampang - District
  24. Pamekasan - District
  25. Surabaya - PDAM
  26. Malang - City
  27. Bondowoso - District
  28. Probolinggo - District
  29. Mojokerto - District
  30. Kediri - District
  31. Blitar - District
  32. Trenggalek - District
  33. Pacitan - District
  34. Nganjuk - District
  35. Madiun - District
  36. Magetan - District
  37. Ngawi - District
  
- II. Bali
  38. Badung - District
  39. Buleleng - District
  40. Jembrana - District
  41. Klungkung - District
  42. Tabanan - District
  43. Gianyar - District
  44. Bangli - District

45. Karangasem - District

SCHEDULE 2  
Description of the Project

The objective of the Project is to improve urban infrastructure and service delivery in the Provinces of East Java and Bali.

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:

Support for the core five-year urban infrastructure expenditure programs for about 45 Participating Local Governments in East Java and Bali, including investment rehabilitation, operations and maintenance expenditures, by providing civil works and equipment for the following subsectors: water supply, urban roads, kampung improvement, market infrastructure improvement, solid waste management, drainage and sanitation.

Part B:

Support and strengthening of central, provincial and local agencies in program implementation and further program and subproject preparation, including the provision of training and equipment.

Part C:

1. Support for municipal management improvement in the Project Provinces including revenue administration, local government financial accounting and management, environmental institutional development, and training in integrated urban infrastructure development programming.

2. Support for urban sector activities on a national level including the Integrated Urban Infrastructure Development Implementation Support Project, together with the United Nations Development Program and the United Nations Center for Human Settlements, and the preparation of future projects in the urban sector.

\* \* \*

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

SCHEDULE 3  
Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
December 15, 1996	3,290,000
June 15, 1997	3,415,000
December 15, 1997	3,545,000
June 15, 1998	3,685,000
December 15, 1998	3,825,000
June 15, 1999	3,975,000
December 15, 1999	4,130,000
June 15, 2000	4,290,000
December 15, 2000	4,455,000
June 15, 2001	4,625,000
December 15, 2001	4,805,000
June 15, 2002	4,990,000
December 15, 2002	5,185,000
June 15, 2003	5,385,000
December 15, 2003	5,590,000
June 15, 2004	5,805,000
December 15, 2004	6,030,000

June 15, 2005	6,265,000
December 15, 2005	6,505,000
June 15, 2006	6,760,000
December 15, 2006	7,020,000
June 15, 2007	7,290,000
December 15, 2007	7,575,000
June 15, 2008	7,865,000
December 15, 2008	8,170,000
June 15, 2009	8,485,000
December 15, 2009	8,815,000
June 15, 2010	9,155,000
December 15, 2010	9,505,000
June 15, 2011	9,865,000

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\* 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 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).

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. Contracts for civil works estimated to cost less than \$3,000,000 equivalent shall be awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Items or groups of items for equipment and materials estimated to cost the equivalent of less than \$200,000 per contract, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank, provided however, that, items estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount equivalent to \$2,000,000, 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 satisfactory to the Bank.

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 \$500,000 or more, and each contract for equipment estimated to cost the equivalent of \$200,000 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 a 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 respective 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 a 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 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

##### Implementation Program

The Borrower shall carry out, and cause to be carried out, the Project in accordance with the following:

1. With respect to Part A:

(a) DGCK and DGBM, with the support of the Central Program Management and Finance Offices, are responsible for technical supervision of all infrastructure and operations and maintenance, and implementation of all such infrastructure and operations and maintenance under national responsibility;

(b) BAPPEDA I (of each Project Province) with support of the Provincial Program Management and Finance Offices are responsible for program and subproject appraisal and monitoring;

(c) DPUPs will implement all infrastructure and operations and maintenance under provincial responsibility;

(d) BAPPEDA II (of each local government) supported by higher levels of government and by Program Management and Finance Offices are responsible for coordination of field-level planning and implementation; and

(e) DPUKs and PDAMs will implement all infrastructure under local government responsibility.

2. With respect to Part B:

(a) DGCK and DGBM with the concerned provincial agencies, as appropriate, will implement subcomponents concerned with: (i) further program and subproject preparation; and (ii) management of program implementation; and

(b) MHA will implement subcomponents as follows: (i) DG PUOD for supporting implementation of revenue and operations and maintenance management system reform; and (ii) DG BANGDA for supporting institutional development action programs.

3. With respect to Part C:

(a) DG PUOD will implement subcomponents concerned with revenue administration and financial accounting and management;

(b) DG BANGDA will implement the subcomponent concerned with environmental institutional development;

(c) MHA and DGCK will implement training in integrated urban infrastructure development programming;

(d) BAPPENAS will implement the Support Project referred to in Schedule 2 (C) (2); and

(e) DGCK will implement preparation of future projects.

#### 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 \$5,500,000 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.

#### SCHEDULE 7

A. For Batch I Governments:

Interest for a subproject shall be 9.00% per annum.

B. For Batch II and Batch III Governments:

1. Interest for a subproject shall be: (a) determined at the time of appraisal of such subproject, and (b) set at a rate per annum equivalent to the six-month average of the three-month Sertifikat Bank Indonesia (SBI) rate (i) less a discount of 30% of such SBI rate for Batch II Governments; provided that, such rate shall not be more than 10.5%; and (ii) less a discount of 25% of such SBI rate for Batch III Governments; provided that, such rate shall not be more than 11.5%

2. Notwithstanding subparagraph 1(b) above, the rate set for a Batch II or Batch III Government shall not be less than the interest rate charged by the Bank to the Borrower in accordance with the provisions of the Loan Agreement plus a fee of 1.75% to cover administrative costs.

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\* Each such rate shall be rounded to the nearest quarter percentage point.

