

CONFORMED COPY

LOAN NUMBER 3000 IND

(Tree Crop Processing Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 2, 1988

LOAN NUMBER 3000 IND

LOAN AGREEMENT

AGREEMENT, dated December 2, 1988, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Borrower has also requested the Government of Japan (Japan) to provide assistance in financing part of the Project, namely, technical assistance for the Special Team for Nucleus Estate and Smallholder Projects within the Borrower's Directorate General of Estates;

(C) 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; and

(D) Japan has agreed to make available to the Borrower a grant (the Japanese Grant) out of said funds to assist the Borrower in carrying out part 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 terms have the following meanings:

(a) "BBD" means Bank Bumi Daya, established under Act on Bank Bumi Daya (Act No. 19 of year 1968) and any successor thereto;

(b) "BEII" means Bank Ekspor Impor Indonesia established under Act on Bank Ekspor Impor Indonesia (Act No. 22 of year 1968) and any successor thereto;

(c) "DGE" means the Directorate General of Estates in the Borrower's Ministry of Agriculture;

(d) "Governing Regulation" means any of the Laws, Decrees or Regulations referred to in Sections 1.02 (a), 1.02 (b) and 1.02 (g), as well as the Presidential Decrees Nos. 44 of 1974 and 15 of 1984;

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

(f) "Project PTP" or "Project PTPs" means any of the PTPs referred to in Section 1.02 (g);

(g) "PTP, means a Perseroan Terbatas Perkebunan, a state-owned agricultural enterprise established pursuant to Law No. 9/1969 of the Borrower and designated as such by Government Regulation and any successor thereto. For the purposes of this Agreement the following PTPs have been designated by the following Government Regulations:

PTP I	No. 7/1981
PTP III	No. 9/1971
PTP IV	No. 26/1971
PTP V	No. 27/1971
PTP VI	No. 28/1971
PTP VII	No. 29/1971
PTP IX	No. 44/1973
PTP X	No. 1/1979
PTP XIII	No. 24/1971

PTP XVIII No. 23/1972

PTP XXIII No. 8/1971

PTP XXVI No. 64/1971

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

(i) "State Commercial Bank" means BBD or BEII, either individually or collectively as the case may be.

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 one hundred eighteen million two hundred thousand dollars (\$118,200,000).

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 account in Bank Indonesia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 1993, 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 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 June 1 and December 1 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. 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, agricultural, engineering, environmental and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall enter into, or cause to be entered into, the following financing arrangements which shall be in form and substance satisfactory to the Bank:

(a) Financing Agreements between MOF and each PTP that receives a portion of the Loan as equity;

(b) Subsidiary Loan Agreements between MOF, BBD and BEII, respectively, with respect to Loan funds on-lent to BBD and BEII; and

(c) Credit Agreements between BBD or BEII, as the case may be, and the relevant PTP with respect to all funds for a specific site, if relevant, on-lent to such PTP.

Section 3.04. The Borrower shall prepare, or cause to be prepared, by June 30, 1989, for each Project PTP an action plan satisfactory to the Bank, to improve financial and other aspects of such PTP.

Section 3.05. The Borrower shall, by December 31, 1990, furnish, or cause to be furnished, to the Bank, an action plan, satisfactory to the Bank, to bring existing PTP factories into compliance with the Borrower's effluent control regulations.

Section 3.06. The Borrower shall, for each Project PTP, select and train the relevant factory managers, assistant factory managers and maintenance engineers, and shall appoint such persons at least six months prior to the estimated commissioning date of the relevant factory.

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 Project PTPs, and 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, or cause them to be audited in accordance with

appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

- (ii) furnish, or cause to be furnished, 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, or cause to be furnished, 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, or cause to be retained, 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 expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. The Borrower shall cause each Project PTP 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.

Section 4.03. The Borrower shall cause each Project PTP:

- (a) to take all steps necessary to acquire, maintain and renew all such rights and interest in land and all such other rights, powers, privileges and franchises as are necessary or useful in the conduct of its business; and
- (b) at all times to operate and maintain its installations, equipment and other property, and promptly as required to make all necessary repairs and renewals thereof, all in accordance with sound agricultural, business and engineering practices.

Section 4.04. The Borrower shall cause each Project PTP at all times to manage its affairs, maintain its financial position, plan its future expansion and carry on its operations, all in accordance with sound agricultural, business, engineering, environmental and financial practices and under the supervision of experienced and competent management and supervisors, assisted by qualified staff in adequate numbers.

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) a Governing Regulation or any provision thereof shall have been repealed, amended, suspended, varied or waived, so as to affect adversely: (i) the carrying out of the Project; (ii) the performance by the Borrower of any other of its obligations under this Agreement; or (iii) the performance by any party to any of the arrangements referred to in Section 3.03 of this Agreement, of its respective obligations under such arrangements;

(b) any of the arrangements referred to in Section 3.03 of this Agreement shall have been terminated or abrogated without the concurrence of the Bank, or any party to any such agreement shall have failed to perform any of its obligations thereunder so as to affect adversely the objectives of the Project or any part thereof;

(c) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of a Project PTP, or for the suspension of all or part of the operations of any such Project PTP;

(d) a Project PTP shall have been unable to pay its debts as they mature or any action or proceeding shall have been taken whereby any of its properties shall or may be distributed among its creditors; and

(e) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of the Japanese 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 of the agreement providing therefor.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation or termination 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 of the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any of the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur.

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:

44319 DEPKEU-IA
45799 DJMLN-IA

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ A. S. Achjadi

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
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(1)	Factories and housing for Part A.1 of the Project (rubber)		70%
(a)	PTP I	1,530,000	
(b)	PTP III	1,490,000	
(c)	PTP IV		
	(i) Air Molek/Riau	760,000	
	(ii) Bajubang/Jambi	50,000	
(d)	PTP VI		
	(i) Rimbo Bujang/Jambi	1,550,000	
	(ii) Durian Luncuk/Jambi	1,430,000	
		Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
	Category		
(e)	PTP XIII	420,000	
(f)	PTP XVIII	2,080,000	
(g)	PTP XXIII	1,490,000	
(h)	PTP XXVI	1,210,000	
(2)	Factories, housing and training facilities for Part A.2 of the Project (palm oil)		70%
(a)	PTP III	5,280,000	
(b)	PTP IV		
	(i) Sei Bahar/Jambi	13,140,000	
	(ii) Bagan Sinembah/Riau	2,830,000	
(c)	PTP V	8,010,000	
(d)	PTP VI	5,050,000	
(e)	PTP VII		
	(i) Parindu/West Kalimantan	7,880,000	
	(ii) Ngabang/West	2,710,000	

Kalimantan

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(f) PTP IX	5,240,000	
(g) PTP X		
(i) Muara Enim/ South Sumatra	8,160,000	
(ii) Prabumulih/ South Sumatra	5,050,000	
(3) For Part A of the Project: technical assistance and training	18,830,000	100%
(4) Vehicles	6,200,000	100% of foreign expenditures; 95% of local expendi- tures (ex-factory cost); 65% of local expendi- tures for other items procured locally
(5) For Part B of the Project: technical assistance, training, environmental support, monitoring and evaluation, studies and project pre- paration:	8,000,000	
Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(a) equipment		100% of foreign expenditures; 95% of local expenditures (ex-factory cost); 65% of local expendi- tures for other items procured locally
(b) other		100%
(6) Unallocated	9,810,000	
TOTAL	118,200,000	

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: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$3,000,000, may be made in respect of Categories (2) and (3) on account of payments made for expenditures before that date but after October 31, 1987;

(b) expenditures in respect of Categories (1)(a), (1)(b), (1)(e), (1)(f), (1)(g) and (1)(h) of the table set forth in paragraph 1 of this Schedule until the Bank shall have received evidence, in form and substance satisfactory to the Bank: (i) of the execution and delivery of: (A) the relevant Financing Agreement referred to in Section 3.03 (a) of this Loan Agreement; (B) the relevant Subsidiary Loan Agreement referred to in Section 3.03 (b) of this Loan Agreement; and (C) the Credit Agreement referred to in Section 3.03 (c) of this Loan Agreement between the relevant PTP and a State Commercial Bank; and (ii) the following consultants for the relevant PTP shall be in post: (A) headquarters technical assistance, and (B) factory supervision;

(c) expenditures in respect of Categories (1)(c)(i) and (ii) and (1)(d)(i) and (ii) of the table set forth in paragraph 1 of this Schedule until the Bank shall have been satisfied that all relevant conditions in paragraph (b) above have been met;

(d) expenditures in respect of Categories (2)(a), (2)(c), (2)(d), and (2)(f) of the table set forth in paragraph 1 of this Schedule until the Bank shall have received evidence, in form and substance satisfactory to the Bank: (i) of the execution and delivery of: (A) the relevant Financing Agreement referred to in Section 3.03 (a) of this Loan Agreement; (B) the relevant Subsidiary Loan Agreement referred to in Section 3.03 (b) of this Loan Agreement; and (C) the Credit Agreement referred to in Section 3.03 (c) of this Loan Agreement between the relevant PTP and a State Commercial Bank; (ii) the following consultants for the relevant PTP shall be in post: (A) headquarters technical assistance, and (B) factory supervision;

(e) expenditures in respect of Categories (2)(b)(i) and (ii), (2)(e)(i) and (ii) and (2)(g)(i) and (ii) of the table set forth in paragraph 1 of this Schedule until the Bank shall have been satisfied that all relevant conditions in paragraph (d) above have been met; and

(f) expenditures in respect of Categories (2)(b), (2)(c), (2)(d), (2)(e), and (2)(g) of the table set forth in paragraph 1 of this Schedule until the Bank shall have been satisfied that initial implementing actions have been taken in accordance with a preliminary action plan for the relevant PTP, satisfactory to the Bank, to address any managerial, financial, and technical issues affecting the performance of the relevant PTP.

SCHEDULE 2

Description of the Project

The objectives of the Project are to raise the productivity of the Borrower's tree crop subsector, safeguard farmer and estate incomes and increase non-oil exports by providing essential processing facilities and addressing environmental issues, and technical, organizational, marketing and policy constraints on factory efficiency.

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:

1. (a) Construction of about seven new crumb rubber factories with a total capacity of about 130 tons/day at the following PTPs and locations:

PTP I at Alue Ie Merah/Aceh
PTP III at Labuhan Batu/North Sumatra
PTP VI at Rimbo Bujang/Jambi
PTP VI at Durian Luncuk/Jambi
PTP XVIII at Danau Salak/South Kalimantan
PTP XXIII at Ketahun/Bengkulu
PTP XXVI at Tanjungsantan/East Kalimantan

(b) Expansion of about four crumb rubber factories with an additional capacity of about 80 tons/day at the following PTPs and locations:

PTP I at Alue Ie Merah/Aceh
PTP IV at Air Molek/Riau
PTP VI at Rimbo Bujang/Jambi
PTP XVIII at Danau Salak/South Kalimantan

(c) Construction of rubber coagulation centers at PTP XIII - Sintang/West Kalimantan.

(d) Provision of housing, equipment (including rubber drying equipment at Air Molek/Riau and Bajubang/Jambi), vehicles, working capital and technical assistance for all of the above.

2. (a) Construction of about new nine crude palm oil factories with a total capacity of about 300 tons fresh fruit bunches (FFB)/hour at the following PTPs and locations:

PTP III Labuhan Batu/North Sumatra
PTP IV at Sei Bahar (I)/Jambi
PTP IV at Sei Bahar (II)/Jambi
PTP V at Sei Intan/Riau
PTP VI at Kaliaanta/Riau
PTP VII at Parindu/West Kalimantan
PTP IX at Cot Girek/Aceh
PTP X at Muara Enim/South Sumatra
PTP X at Prabumulih/South Sumatra

(b) Expansion of about five crude palm oil factories with an additional capacity of about 150 tons FFB/hour at the following PTPs and locations:

PTP IV at Bagan Sinembah/Riau
PTP V at Sei Intan/Riau

PTP VII at Parindu/West Kalimantan
 PTP VII at Ngabang/West Kalimantan
 PTP X at Muara Enim/South Sumatra

(c) Provision of housing, equipment, vehicles, working capital and technical assistance for all of the above, and training facilities at one of the new palm oil factories of PTP V in Riau.

3. Training of about 850 PTP staff, mostly on-the-job, but also short courses, and some overseas training for selected factory managers and senior PTP staff.

Part B:

1. Strengthening the Borrower's capacities, in North Sumatra and West Kalimantan, to monitor effluent treatment, plant supervision and maintenance, and to collect data; and providing related technical assistance.

2. Carrying out a survey of each existing PTP processing facility to determine the current status of effluent control and the investments required to meet the Borrower's standards.

3. Training staff of DGE and other related agencies including short-term courses and Masters degree courses.

4. Carrying out studies:

(a) technical studies to develop and recommend the most efficient processing methods for rubber and oil palm;

(b) review existing rubber marketing processes and formulate long-term marketing strategies; and

(c) review long-term requirements for rubber and palm oil factories in the Borrower's territories, taking into account the roles of the public and private sectors.

5. Strengthening DGE, including, inter alia, the existing Monitoring and Evaluation Unit for Nucleus Estate and Smallholder Projects.

6. Provision of funds for the preparation of future tree crop projects, and for the introduction of new technology in tree crop processing.

* * *

The Project is expected to be completed by March 31, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)
June 1, 1994	2,180,000
December 1, 1994	2,265,000
June 1, 1995	2,350,000
December 1, 1995	2,440,000
June 1, 1996	2,530,000
December 1, 1996	2,625,000
June 1, 1997	2,725,000
December 1, 1997	2,830,000
June 1, 1998	2,940,000
December 1, 1998	3,050,000

June 1, 1999	3,165,000
December 1, 1999	3,285,000
June 1, 2000	3,410,000
December 1, 2000	3,540,000
June 1, 2001	3,675,000
December 1, 2001	3,815,000
June 1, 2002	3,960,000
December 1, 2002	4,110,000
June 1, 2003	4,265,000
December 1, 2003	4,425,000
June 1, 2004	4,595,000
December 1, 2004	4,770,000
June 1, 2005	4,950,000
December 1, 2005	5,135,000
June 1, 2006	5,330,000
December 1, 2006	5,535,000
June 1, 2007	5,745,000
December 1, 2007	5,960,000
June 1, 2008	6,190,000
December 1, 2008	6,405,000

Premiums 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 and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. Contracts for rubber and palm oil factories will be let on a

single responsibility basis in accordance with agreed tender documents.

3. Bidders for the works included in Part A of the Project shall be prequalified as described in paragraph 2.10 of the Guidelines.

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: 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. The rubber coagulation centers at Sintang/West Kalimantan (PTP XIII) (Schedule 2, Part A (1)(c)), all housing and civil works for training facilities in Riau (PTP V) and rubber drying equipment for existing facilities at Air Molek/Riau and Bajubang/Jambi (PTP IV) may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures in effect on the date of this Agreement.

2. Equipment and supplies for monitoring and evaluation for technical studies, training and for environmental components estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent, 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 the Borrower's local procedures in effect on the date of this Agreement.

Part E: Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.3 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract for factories and consultants, and each contract for housing estimated to cost more than \$1,000,000 equivalent, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be

furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

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

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

Section II. Employment of Consultants

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$200,000 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 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 made 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 Category, 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 Category, 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 Category 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.



