

CONFORMED COPY

LOAN NUMBER 3158 IND

Loan Agreement

(Second Secondary Education and Management Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated February 12, 1990

LOAN NUMBER 3158 IND

LOAN AGREEMENT

AGREEMENT, dated February 12, 1990, 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; 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 term "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred fifty-four million two hundred thousand dollars (\$154,200,000) as 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 (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in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 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, 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 per cent ($3/4$ 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."

(e) Notwithstanding the provisions of paragraph (a) of this Section, the interest rate for the Interest Period commencing in the first Semester of 1989 shall be seven and sixty-five hundredths percent (7.65%).

Section 2.06. Interest and other charges shall be payable semiannually on April 1 and October 1 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, educational, engineering 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 in accordance with 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 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.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

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

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

Effective Date; 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:

Minister of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P.O. Box 139
Jakarta, Indonesia

Cable address: Telex:

	FINMINISTRY	44319
DEPKEU-IA	Jakarta	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: Telex:

	INTBAFRAD	440098 (ITT)
	Washington, D.C.	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/ R. J. Cheetham
Acting Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Equipment, books and educational materials (including delivery)	57,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local ex- penditures for other items pro- cured locally
(2) Technical Assistance under Parts A, B and C of the Project	11,700,000	100%
(3) Fellowships	36,600,000	100%
(4) Training:		
(a) in-service teacher and other training	34,600,000	50%
(b) management training	3,000,000	50%
(c) examinations trainings	1,500,000	80%
(d) development of monitor- ing and evaluation	600,000	100%
(5) Studies and preparation of future projects	2,700,000	100%
(6) Technical Assistance and operating costs (excluding salaries) under Part D of the Project	1,500,000	100%

(7)	Unallocated	4,800,000
	TOTAL	154,200,000

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 expenditures in respect of Category (4) (b) of the table set forth in paragraph 1 of this Schedule until the Borrower shall have commenced implementation of the Action Program referred to in paragraph 6 of Schedule 5 to this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to improve the quality and sustainability of the Borrower's secondary education system, through teacher upgrading programs, developing and coordinating the examinations system and improving the quality of science education through the provision of educational materials; and (b) to improve management capacity within the education sector.

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) Upgrading about 200,000 teachers in the secondary education system in the fields of science, mathematics, English, Bahasa Indonesia, and social sciences, including training teacher instructors and key teachers.

(b) Improving secondary schools by supplying curriculum guides in the above fields, as well as student and teacher materials.

2. Developing an environmental studies program for secondary schools.

3. Improving the quality of secondary science education by providing new science equipment, testing prototypes, training teachers and laboratory assistants in its use and maintenance, developing a national computerized system for supplying and restocking science equipment, and establishing permanent annual funding for its supply, restocking and maintenance.

4. Developing in all provinces a permanent and formalized examinations system.

Part B:

1. Establishing a management information system for the

Ministry of Education and Culture, with special focus on personnel, logistics and financial operations.

2. Improving data collection and its processing, management and feedback to schools at central, provincial and district levels.

3. Improving management capabilities of the Borrower's Ministry of Education and Culture by:

(a) assessing training needs, and carrying out training, including data processing and "hands-on" practical training, at central, provincial, and district levels; and

(b) providing training in monitoring and evaluation.

Part C:

1. Carrying out studies by the Borrower's Directorate of General Secondary Education, to address key quality and equity issues in secondary education, including "Policy Options for Improved Equity in Secondary Schooling", "Recurrent Input Needs of Secondary Education", and "Public Support for Private Education".

2. Preparation of future projects in the secondary education sub sector and management capacity within the education sector.

3. Provision of technical assistance and fellowships to carry out Parts A, B and C.1 and 2 above.

Part D:

Coordination, monitoring and evaluation of the various activities under the Project, including technical assistance.

* * *

The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due dollars)*	Payment of Principal (expressed in dollars)
October 1, 1995	2,810,000
April 1, 1996	2,920,000
October 1, 1996	3,030,000
April 1, 1997	3,150,000
October 1, 1997	3,270,000
April 1, 1998	3,395,000
October 1, 1998	3,530,000
April 1, 1999	3,665,000
October 1, 1999	3,805,000
April 1, 2000	3,955,000
October 1, 2000	4,105,000
April 1, 2001	4,265,000
October 1, 2001	4,430,000
April 1, 2002	4,605,000
October 1, 2002	4,780,000
April 1, 2003	4,965,000
October 1, 2003	5,160,000
April 1, 2004	5,360,000
October 1, 2004	5,565,000

April 1, 2005	5,780,000
October 1, 2005	6,005,000
April 1, 2006	6,235,000
October 1, 2006	6,480,000
April 1, 2007	6,730,000
October 1, 2007	6,990,000
April 1, 2008	7,260,000
October 1, 2008	7,540,000
April 1, 2009	7,830,000
October 1, 2009	8,135,000
April 1, 2010	8,450,000

* 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

Part A: International Competitive Bidding

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

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Items which cannot be grouped in packages estimated to cost \$100,000 or more equivalent, and printing and delivery services within Indonesia may be procured under contracts awarded on the basis of competitive bidding advertised locally, in accordance with procedures satisfactory to the Bank; provided that, such items and services in packages estimated to cost less than \$50,000 equivalent, up to an aggregate amount not to exceed \$5,800,000 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 procedures satisfactory to the Bank.

2. Books, computer software and other educational materials, up to an aggregate amount not to exceed \$1,100,000 equivalent may be procured, after negotiations, by direct purchase from suppliers eligible under the Guidelines.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of \$100,000 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 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 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

1. (a) The position of Head of Education/National Coordinator for the Pemantapan Kerja Guru (PKG) (in/on-service teacher training) of the Directorate of General Secondary Education shall be a full-time position and shall be filled either with one full time person or at most two persons devoting at least one-half their time to the position. The Head shall be appointed for a three year term. Such appointment shall take place by July 1, 1990 .

(b) The positions for the three Project Implementation Units and the Secretariat for the Project Monitoring and Coordination Committee shall also be filled by full-time staff or at most two persons devoting at least one-half their time to each position. Key staff within each Unit shall be appointed for a three year term with such staff appointed by July 1, 1990. New staff shall have a three month overlap with the then existing staff.

(c) By April 1, 1992, all vacant positions for national specialists (in science, mathematics, Bahasa Indonesia, English and social sciences, with suitable qualifications and experience as teachers), in the PKG shall have been appointed at the national and provincial levels.

2. The Borrower shall:

(a) by June 1, 1991, establish within its Ministry of Education and Culture, PKG examination teams with membership and terms of reference satisfactory to the Bank.

(b) by February 1, 1993, establish in each provincial education administrative office, functional provincial examination teams with at least ten subject specialists and an evaluation specialist, each with qualifications and experience satisfactory to the Bank.

3. The Borrower shall by January 1, 1992, furnish to the Bank an action program, satisfactory to the Bank, for the implementation of the management studies referred to in Part C.1 of Schedule 2 to this Agreement. Such studies shall be carried out under the coordination of the Office of Educational and Cultural Research and Development, and in consultation with the offices of the Secretariat General and the Directorate General of Primary and Secondary Education.

4. The Borrower shall, by April 1, 1994, have taken all necessary steps to provide permanent annual funding, satisfactory to the Bank, for procurement, replenishment and maintenance of science equipment for secondary schools.

5. The Borrower shall, in October of each year commencing in 1990, carry out a comprehensive project

implementation review and shall discuss the results of each such review with the Bank.

6. The Borrower shall, by September 1, 1990, review the results of the Integrated Management Study, and, based on such review, by March 31, 1991, furnish to the Bank, for comments, a detailed Action Program. Such Action Program shall thereafter be implemented in a manner satisfactory to the Bank.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5) and (6) 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 \$9,400,000 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 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.

