

CONFORMED COPY

LOAN NUMBER 4244 IND

Loan Agreement

(Information Infrastructure Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated December 15, 1997

LOAN NUMBER 4244 IND

LOAN AGREEMENT

AGREEMENT, dated Decemebr 15, 1997, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modification of Section 6.03 set forth below (the General Conditions) constitute an integral part of this Agreement:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be

financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, the Bank may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

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 wherever used in this Agreement;

(a) "BAPPENAS" means the National Development Planning Agency of the Borrower, and any successor thereto;

(b) "Beneficiary" means a small or medium-scale enterprise, including cooperatives, established and operating in the territory of the Borrower, whose equity is wholly privately owned, and whose assets are less than 5,000,000 Rupiah, and, if applicable, annual sales amount to 2,500,000 Rupiah;

(c) "BPPT" means the Agency for the Assessment and Application of Technology of the Borrower established by the Borrower and operating pursuant to the provisions of the Borrower's Decree No. 47/1991 of October 8, 1991, and any successor thereto;

(d) "CPMIU" means the coordinating project management implementation unit established within MTPT's planning bureau office, pursuant to the provisions of Ministerial Regulation No. SK/112/OT.001/SEKJ-PPT-97 of October 23, 1997, and maintained pursuant to the provisions of Part A.1 (b) of Schedule 5 to this Agreement;

(e) "DGCPT" means the Directorate General of Copyrights, Patents and Trademarks established within the Borrower's Ministry of Justice, and any successor thereto;

(f) "DG Tourism" means the Directorate General of Tourism established within MTPT, and any successor thereto;

(g) "ETIS" means the Borrower's Electronic Tourism Information System established and operating pursuant to the provisions of an agreement entered into between DG Tourism and a group of private sector operators within the tourism industry (NTWG-PS), dated July 11, 1997;

(h) "Executing Agency" and "MTPT" mean the Ministry of Tourism, Posts and Telecommunications of the Borrower, and any successor thereto;

(i) "Fiscal Year" and "FY" mean the fiscal year of the Borrower commencing April 1 and ending March 31;

(j) "IPR" means Intellectual Property Rights;

(k) "IPR Group" means the working group established by the Borrower within SEKNEG, and with representation of DGCPT, to promote and coordinate the development and protection of IPR pursuant to the provisions of the Borrower's Presidential Decree (KEPRES) No. 34/86 of July 30, 1986;

(l) "IPTEKnet" means the Borrower's Science and Technology Network established and operating pursuant to the provisions of the Borrower's Decree No.

SK/183/KA/BPPT/IV/1997 of April 2, 1997;

(m) "IPTEKnet Steering Committee" means the committee responsible for the oversight of the IPTEKnet, established and operating pursuant to the provisions of the Borrower's Decree No. SK/183/KA/BPPT/IV/1997 of April 2, 1997;

(n) "IT Framework" means the Borrower's framework and strategy for the development of National Information Systems established by the Borrower's Decree No. KEP/905/KET/8/1997 of August 27, 1997;

(o) "MOF" means the Borrower's Ministry of Finance, and any successor thereto;

(p) "MOIT" means the Borrower's Ministry of Industry and Trade, and any successor thereto;

(q) "NUSANTARA 21" or "N21" means the Borrower's strategic plan aimed at developing national information infrastructure and systems pursuant to the provisions of the National Development Plans (REPELITA), and implemented pursuant to the provisions of Presidential Decree No.30/1997 of April 7, 1997;

(r) "N21SC Secretariat" means the secretariat to be established and maintained by the Borrower within MTPT pursuant to the provisions of Part A.1 (g) of Schedule 5 to this Agreement;

(s) "National Steering Committee" means the national steering committee for information technology application established by the Borrower pursuant to Ministerial Decree No. SK85/OT.001/SEKJ-PPT-96 of July 15, 1996, and maintained in accordance with the provisions of Part A.1 (e) of Schedule 5 to this Agreement;

(t) "Performance Indicators" means the indicators agreed between the Borrower and the Bank to measure the achievement of the objectives of the Project as set forth in Schedule 2 to this Agreement, as such indicators may be amended from time to time by agreement between the Borrower and the Bank;

(u) "PMIU" means the project implementation units established within (i) BAPPENAS, pursuant to the provisions of Ministerial Decree No. KEP, 905/KET/8/1997 of August 27, 1997, (ii) BPPT, pursuant to the provisions of Ministerial Decree No. SK/259/KA/BPPT/IV/1997 of April 17, 1997, (iii) DGCPT/SEKNEG, pursuant to Keputusan Menteri Sekretaria Negara Selaku Keua Konsep of November, 1997, and (iv) MTPT, pursuant to the provisions of Ministerial Regulations No. SK/4/KU.603/SEKJEN/PPT-97 of April 1, 1997 and No. SK.22/OT.001/PPT-97 of April 14, 1997, and maintained pursuant to the provisions of Part A.1(d) of Schedule 5 to this Agreement, and "PMIU" means any of the project management implementation units;

(v) "Project Committees" means the technical committees to be established and maintained within BAPPENAS, BPPT, DGCPT, MOIT, MTPT, and SEKNEG pursuant to the provisions of Part A.1 (h) of Schedule 5 to this Agreement, and the term "Project Committee" means any of the project committees;

(w) "Rupiah" and "Rp" mean the currency of the Borrower;

(x) "SEKNEG" means Sekretariat Negara, the Borrower's State Secretariat and any successor thereto;

(y) "SIMRENAS" means the national development planning information system of the Borrower approved by the Borrower's Decree No. KEP/905/KET/8/1997 of August 27, 1997;

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

(aa) "Sub-projects" means the specific development investment projects to be carried out by the Beneficiaries under Part D.1 (a) of the Project, and "Sub-project" means any of the Sub-projects;

(bb) "TATP Implementation Manual" means the manual describing operational

guidelines and technical, financial, administrative and economic criteria for the selection and approval of Sub-projects to be approved by the Borrower, through MOIT, for the purposes of providing TATP Grants to Beneficiaries for the carrying out of such Sub-projects;

(cc) "TATP Management Contract" means the contract to be entered into between MOIT and a management consulting firm pursuant to the provisions of Part C.1 of Schedule 5 to this Agreement;

(dd) "TATP Grant" means a grant in Rupiah or in Dollars made or proposed to be made by the Borrower, through MOIT, partly out of the proceeds of the Loan to a Beneficiary to assist in financing a portion of the cost of a Sub-project, pursuant to the provisions of Part C.3 of Schedule 5 to this Agreement; and

(ee) "TAT Program" or "TATP" means the program prepared by the Borrower, through MOIT, as set forth in Part D of the Project, and in the TATP Implementation Manual, and as such Program may be amended from time to time in agreement between the Borrower and the Bank.

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 equal to thirty-four million five hundred thousand dollars (\$34,500,000).

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: (i) the reasonable cost of goods and services required for the Project (other than Part D.1 (a) of the Project) and to be financed out of the proceeds of the Loan; and (ii) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made for Grants under Part D.1 (a) of the Project to meet the reasonable cost of services required for a Sub-project in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in Bank Indonesia or in a state commercial bank on terms and conditions satisfactory to the Bank including, in the case of a state commercial bank, appropriate protection against set-off, seizure and attachment. 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, 2003, 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. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable semi-annually on February 15 and August 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of 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: (i) Part A.1 (a) of the Project through MTPT, in close coordination with SEKNEG; (ii) Parts A.2 and A.3 of the Project through SEKNEG; (iii) Part A.4 of the Project through DGCPT; (iv) Parts A.5 and C.1 of the Project through MTPT; (v) Part A.6 of the Project through BAPPENAS; (vi) Part B of the Project through BPPT; (vii) Part C.2 of the Project through DG Tourism; (viii) Part D of the Project through MOIT; and (ix) Part E of the Project through the CPMIU and the PMIUs; all with due diligence and efficiency and in conformity with appropriate administrative, financial, and technical 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.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank and furnish to Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan to ensure the continued achievement of the Project objectives; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such Year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the Fiscal Year in which the last

withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records;
and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P.O. Box 1139
Jakarta 10710
Indonesia

Cable address:

45799
DEPKEU-IA

Telex:

DJMLN-IA44319

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 (MCI) or
64145 (MCI)

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/ Budiman Darmosutanto

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jean-Michel Severino

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

TABLE WAS DONE IN COLUMN FORMAT

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 and services supplied from the territory of any country other than that of the Borrower;

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

(c) the term "Project Management" means Project-related expenditures incurred by: (i) the CPMIU; (ii) the PMIU within BPPT; and (iii) MOIT, for the preparation of the TAT Program pursuant to the provisions of Part D.1 (b) of the Project, including advisory services, administrative costs, travel, consumables, office supplies, and per-diem and honoraria for staff, but excluding salaries; and

(d) the term "Incremental Operating Costs" means expenditures incurred by BPPT for the supply of telecommunications services to IPTEKnet, under Part B.1 of the Project, to access on-line technology information procured under contractual arrangements acceptable to the Bank.

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;

(b) in respect of Category (1) (a) unless the Bank has received an action plan, acceptable to the Bank, for the strengthening of DGCPT in accordance with the provisions of Part B.3 (a) of Schedule 5; and

(c) in respect of Category (4) unless the TATP Management Contract shall have been entered into pursuant to the provisions of Part C.1 of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) local workshops and overseas study-tours; (b) TATP Grants; (c) goods under contracts costing less than \$200,000 equivalent each; (d) incremental operating costs; (e) Project Management; and (f) services under contracts for the employment of (i) consulting firms costing less than \$100,000 equivalent each, and (ii) individual consultants costing less than \$50,000 equivalent each, under such terms and conditions as the Bank shall specify by notice

to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in enhancing private sector participation in the provision of information technology, post and tourism services through the removal of existing barriers to said participation.

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: Improving the Legal and Regulatory Framework

1. Strengthening the Borrower's enabling legal and regulatory framework, including the preparation of laws and regulations and the carrying out of policy studies in the areas of:

(a) examination, registration, administration and protection of IPR, specifically with regard to information technology including integrated circuits, industrial designs, undisclosed information, trade secrets and data transmission; and

(b) electronic commerce, software competitiveness, and data security and encryption.

2. Strengthening the skills of staff of the Borrower responsible for the development and implementation of the legal and regulatory framework under Part A.1 above, through the development of IPR curricula and the provision of training, including in-country workshops.

3. Strengthening the strategic policy capabilities of the Borrower for the coordination of IPR through the provision of advisory services to SEKNEG.

4. Strengthening the institutional capacity of DGCPT to: (a) register and manage IPR and establish common IPR data sharing with relevant government agencies, through the provision of advisory services and acquisition of automation and office equipment; and (b) design a long-term institutional development action plan, through the provision of advisory services.

5. Strengthening the capabilities of the N21SC Secretariat to manage and implement the Borrower's national information infrastructure program, through the provision of advisory services and office facilities.

6. Strengthening the institutional capabilities of BAPPENAS by:

(a) improving the management of information technology within the public sector and designing and implementing technical guidelines to develop national information systems (IT Framework), through the provision of advisory services; and

(b) improving the integration of development planning information systems within the public sector, through the carrying out of a pilot project, including the provision of equipment, aimed at testing the standardization and sharing of common planning data among public sector agencies (SIMRENAS).

Part B: Expanding the Science and Technology Network

1. Improving access to on-line technology information available to IPTEKnet users through:

(a) the provision of regional nodes and networks; and

(b) the design and use of databases.

2. Strengthening the capabilities of IPTEKnet staff, including the provision of practical professional training, through the implementation of a twinning arrangement

with an international network provider. 3. Strengthening the capabilities of users and potential users of on-line scientific and technical information, through the provision of training and awareness workshops.

Part C: Expanding Communications and Information Networks

1. Enhancing private sector participation in the provision of postal services, through the provision of legal advisory services to review the Borrower's postal legal and regulatory framework and prepare laws and regulations.

2. Improving the institutional capabilities of DG Tourism to develop a regional electronic tourism information system (ETIS) through:

(a) the development of a business model for ETIS, through the provision of advisory services; and

(b) the improvement of regional access to telecommunication and information-related services, through the design and implementation of pilot projects.

Part D: Technical Assistance and Training Program

1. Undertaking a program to strengthen the development, dissemination and adoption of appropriate information technology practices by Beneficiaries through:

(a) the provision of TATP Grants to Beneficiaries to finance the carrying out of information technology investment projects; and

(b) the improvement of public awareness of the TAT Program including the provision of advisory services and the carrying out of studies. 2. Strengthening of MOIT's institutional capabilities to administer the TAT Program, including the provision of management advisory services.

Part E: Project Management

Strengthening of Project management capabilities of CPMIU and the PMIUs, through the provision of advisory services, office equipment and computers.

* * *

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

(i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

(i) one half of one percent (1/2 of 1%); and

(ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in Dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

(i) one-half of one percent (1/2 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount; as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, the Bank determines that it is in the interest of its Borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each February 15 and August 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the eighteenth (18th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-twelfth (1/12) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after August, 15, 2013, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for each Disbursed Amount.

SCHEDULE 4

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost two hundred thousand dollars (\$200,000) equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost ten million dollars (\$10,000,000) equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures National Shopping

Goods estimated to cost less than fifty thousand dollars (\$50,000) equivalent per contract, up to an aggregate amount not to exceed one million two hundred thousand dollars (\$1,200,000) equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of two hundred thousand dollars (\$200,000) or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for the carrying out of training and studies under Part D of the Project, estimated to cost less than two hundred thousand dollars (\$200,000) equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for expanding the IPTEKnet under Parts B.1 (b), B.2 and B.3 of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Individual Consultants

Services for Parts A.3 and A.6 (a) of the Project shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 of the Consultant Guidelines.

3. Commercial Practices

Services to assist Beneficiaries in carrying out Sub-projects under Part D.1 (a) of the Project and estimated to cost less than \$100,000 equivalent may be procured in accordance with commercial practices acceptable to the Bank.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

Part A: Implementing Arrangements

1. Project Implementation and Coordination

(a) MTPT shall be the Executing Agency and shall be responsible for: (i) overseeing the overall progress of Project implementation; (ii) ensuring coordination of Project activities undertaken by BAPPENAS, BPPT, DGCPT, MOIT, MTPT and SEKNEG (the Implementing Agencies); and (iii) carrying out overall technical supervision and management of Project activities.

(b) In discharging the above-described responsibilities, MTPT shall establish and, thereafter, maintain until the completion of the Project, within its Planning Bureau Office, a coordinating project management implementation unit (CPMIU). The CPMIU shall be assigned with such functions, powers, funds and qualified and experienced staff as shall be required to enable the CPMIU to undertake overall coordination of the Project.

(c) The CPMIU shall be responsible for: (i) overall Project coordination and administration among Implementing Agencies; (ii) monitoring progress in Project implementation; (iii) ensuring timely reporting and the carrying out of annual and mid-term Project implementation reviews; and (iv) coordinating with the Implementing

Agencies compliance with all accounting and financial auditing requirements under this Agreement.

(d) (i) The Borrower shall establish and, thereafter, maintain until the completion of the Project, within each of BAPPENAS, BPPT, DGCPT/SEKNEG and MTPT, a PMIU assigned with such functions, powers, funds and qualified and experienced staff as shall be required to enable each PMIU to undertake the day-to-day implementation of the Project.

(ii) The key staff of each PMIU shall include a: (A) Project manager (PIMPRO); and (B) treasurer.

(e) The Borrower shall, until the completion of the Project, maintain a steering committee (National Steering Committee), chaired by the Secretary General of MTPT and comprising designated representatives of the public and private sectors, and in accordance with terms of reference, staffing and resources acceptable to the Bank.

(f) The National Steering Committee shall be responsible for :

(i) designing, planning and overseeing the implementation of training activities and technical assistance financed out of the proceeds of the Loan;

(ii) disseminating to the public and other stakeholders the results and findings of the activities referred to in subparagraph (i) above; and

(iii) making policy recommendations and submitting to MTPT proposals for the strengthening of the legal and regulatory frameworks referred to under Parts A.1 and C.1 of the Project.

(g) The Chairman of the National Steering Committee shall, by not later than March 31, 1998, establish within MTPT and, thereafter, maintain until the completion of the Project, a secretariat staffed by qualified and experienced staff in adequate numbers and with functions acceptable to the Bank, as follows: (i) a Project Director; and (ii) other professional and technical staff to be drawn, if necessary, from the Planning Bureau Office of MTPT.

(h) The Borrower shall establish, and thereafter, maintain until the completion of the Project, the following: (i) IPTEKnet Steering Committee within BPPT; (ii) Supervisory Committee and Technical Committee within MOIT; (iii) IT Framework and SIMRENAS Steering Committee and Implementation Team within BAPPENAS; (iv) Steering Committee within SEKNEG; and (v) Steering Committee within DGCPT, all with such functions, powers, funds and qualified and experienced staff as shall be required to enable such Committees to undertake project coordination and technical supervision of Project activities.

Part B: Implementation Actions

1. The Borrower shall ensure that:

(a) the training under Parts A. 2, B. 2, and B. 3 of the Project shall be carried out in accordance with programs and implementation timetables acceptable to the Bank; and

(b) qualified candidates are selected to receive overseas training financed out of the proceeds of the Loan pursuant to standard procedures established by the Borrower's Overseas Training Organization, including the implementation of bonding requirements, if applicable.

2. The Borrower shall:

(a) carry out the studies under Parts A.1 and D.1 (b) of the Project in accordance with terms of reference and implementation timetables acceptable to the Bank, furnish to the Bank for comments, not later than four months after the

completion of each such study, the recommendations of said study;

(b) promptly thereafter prepare an action plan taking into account the comments of the Bank on the recommendations of said study; and

(c) thereafter, carry out such action plan in a manner acceptable to the Bank.

3. For the purposes of Part A.4 of the Project, the Borrower shall, through DGCPPT:

(a) prepare, under terms of reference acceptable to the Bank, and furnish to the Bank for comments, an action plan for the strengthening of IPR registration and management and the establishment of common IPR data sharing including a detailed description of equipment needs; and

(b) promptly thereafter, carry out said action plan in accordance with an implementation timetable acceptable to the Bank, taking into account the Bank's comments on the action plan.

4. For the purposes of Part A.6 (b) of the Project, the Borrower shall, not later than December 31, 2001, through BAPPENAS, carry out the SIMRENAS pilot project approved by the Bank, in accordance with procedures and technical guidelines issued by BAPPENAS and in a manner acceptable to the Bank.

5. For the purposes of Part C.2 of the Project, the Borrower shall, not later than December 31, 1999 through DG Tourism, carry out the ETIS pilot projects approved by the Bank, in accordance with procedures and technical guidelines issued by DG Tourism and in a manner acceptable to the Bank.

6. The Borrower shall:

(a) not later than April 30, 2000, prepare and furnish to the Bank for comments, the terms of reference for the carrying out of a technical audit of Project implementation;

(b) not later than October 31, 2000, cause said technical audit to be carried out in accordance with said terms of reference as shall have been agreed with the Bank; and

(c) promptly thereafter, furnish to the Bank for comments, a copy of such technical audit.

7. The Borrower shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objectives thereof.

8. The Borrower shall, through MTPT:

(a) prepare, under terms of reference acceptable to the Bank, and furnish to the Bank, on or about September 30 of each year, until the completion of the Project, a consolidated report including (i) the results of the monitoring and evaluation activities performed pursuant to Section 7 of this Schedule on the progress achieved in the carrying out of the Project during the twelve-month period preceding the date of said report; and (ii) a description of Project activities proposed for the next Fiscal Year and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following the date of such report;

(b) review with the Bank, by November 30 of each year, until the completion of the Project, or such later date as the Bank shall request, the report referred to in paragraph (a) of this Section furnished during said year, and carry out, an annual Project review to, inter alia: (i) evaluate progress achieved by the Borrower in carrying out the Project; (ii) review progress in preparing laws and regulations under Parts A.1 and C.1 of the Project; (iii) evaluate the implementation of the expansion of the IPTEKnet under Part B of the Project; (iv) assess progress in the carrying out of the TAT Program under Part D of the Project; (v) assess progress

achieved by DGCPT in implementing the action plan under Part A.4 (a) of the Project; (vi) assess the level of counterpart funding provided by the Borrower for the timely implementation of the Project activities during the previous Fiscal Year and review the proposed allocations for the upcoming Fiscal Year; (vii) assess progress in achieving the Performance Indicators, and propose adjustments, if necessary, to such Performance Indicators; (ix) review and update the scope of the Project detailed under Schedule 2 to this Agreement with a view to reflecting developments in the information technology sector; (viii) identify future information infrastructure development projects; and (ix) identify any current implementation issues and propose solutions to resolve such issues;

(c) at the third annual review, carry out a comprehensive mid-term assessment of Project implementation, including progress in the following areas:

(i) legal and regulatory work under Parts A.1 and C.1 of the Project;

(ii) implementation of the pilot projects under Parts A.6 (b) and C.2 (b) of the Project;

(iii) implementation of the policy studies under Part A. 1 of the Project;

(iv) (A) the level of contributions to the IPTEKnet provided by private organizations universities and research and development centers with a view to improving the self-sufficiency operation of IPTEKnet; (B) the service levels of the central network and regional nodes; (C) the databases and other services tailored to IPTEKnet users of on-line scientific and technical information; (D) the degree of participation of regional nodes in the development of IPTEKnet; and (E) the amount of parallel investment infrastructure connected and dedicated to IPTEKnet by the regional nodes; and

(v) implementation of the institutional development action plan prepared by DGCPT for the strengthening of its institutional capacity under Part A.4 (b) of the Project; and

(d) thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the reviews carried out pursuant to paragraphs (b) and (c) of this Section, and the Bank's views on the matter.

Part C: TAT Program

1. For the purposes of Part D.1 of the Project, the Borrower shall, through MOIT, enter into a contract with a management consulting firm, pursuant to the provisions of Part B of Section II of Schedule 4 to this Agreement, to, inter alia: (a) carry out day-to-day operations of the TAT Program; and (b) maintain a register database of qualified and experienced consultants eligible to provide services under such Program.

2. The Borrower undertakes that, unless the Bank shall otherwise agree, each TATP Grant shall be made on terms whereby the Borrower shall obtain, by written contract with each of the Beneficiaries or by other appropriate legal means, rights adequate to protect the interests of the Borrower and the Bank, including the following:

(a) require the Beneficiary to carry out the Sub-project, with due diligence and efficiency and in accordance with sound information technology, technical, financial and managerial standards and practices, and to maintain adequate records;

(b) require that: (i) consultants' services to be financed out of the proceeds of the Loan shall be procured by a Beneficiary in accordance with the provisions of Part C. 3 of Section II of Schedule 4 to this Agreement; and (ii) such services shall be used by a Beneficiary exclusively in the carrying out of its Sub-project;

(c) require the Beneficiary to maintain policies and procedures adequate to

enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Sub-project, as the case may be, and the achievement of the objectives thereof;

(d) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, any relevant records and documents;

(e) require that: (i) the Beneficiary, shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice;

(f) obtain all such information as the Borrower or the Bank shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary, and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Beneficiary, to the use of the proceeds of the Loan upon failure by such Beneficiary to perform its obligations under its contract with the Borrower.

3. Each TATP Grant under Part D.1 (a) of the Project shall be made by the Borrower only:

(a) to a Beneficiary which shall have established, to the satisfaction of the Borrower, acting through MOIT, on the basis of criteria and procedures acceptable to the Bank, that said Beneficiary has (i) the organization, management, staffing and other resources required for the efficient carrying out of the Sub-project, and (ii) has prepared an acceptable plan for the carrying out of the Sub-project;

(b) for a Sub-project which is determined by the Borrower, acting through MOIT, on the basis of the operational guidelines set forth in the TATP Implementation Manual (i) to be technically feasible and cost-effective, and (ii) to have been designed in accordance with appropriate information technology standards; and

(c) for an amount not exceeding seventy percent (70%) of the total cost of the Sub-project for which such TATP Grant is provided (excluding all taxes applicable in the territory of the Borrower, which taxes shall be borne by the Borrower).

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (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 \$2,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,250,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,000,000.

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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

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

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

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

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

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments 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.

