

CONFORMED COPY

LOAN NUMBER 4744-IND

Loan Agreement

(Second Eastern Indonesia Region Transport Project)

between

REPUBLIC OF INDONESIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated July 23, 2004

LOAN NUMBER 4744-IND

LOAN AGREEMENT

AGREEMENT, dated July 23, 2004, 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 (the Project), 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 (as amended through October 6, 1999) with the following modification (the General Conditions) constitute an integral part of this Agreement: the text in Section 5.01 which reads “(a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories: or (b)” is deleted in its entirety.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) “AWP” means annual work program.
- (b) “BAPPENAS” means the Borrower’s National Development Planning Agency and any successor thereto.

(c) “DGRI” means the Directorate General of Regional Infrastructure in the Ministry of Settlements and Regional Infrastructure and any successor thereto.

(d) “Displaced Person” means a person who, on account of the execution of Part A of the Project has experienced or would experience direct economic and social impacts caused by the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; and “Displaced Persons” means, collectively, all such Displaced Persons.

(e) “DPUK” means the public works agency reporting to the Head of the Kabupaten in each Project Kabupaten for works planning and implementation.

(f) “DPUP” means the provincial public works agency reporting to the Governor in each Project Province for managing road and bridge works in each Project Province.

(g) “Eligible Categories” means Categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement.

(h) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement.

(i) “Environmental Management Plan” means the Plan, dated May 2004, setting forth the measures to be taken during the implementation of Part A of the Project to eliminate or offset adverse environmental impacts of said implementation or to reduce such impacts to acceptable levels, and setting forth the actions needed to implement such measures, as such plan may be amended from time to time in agreement with the Bank.

(j) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement.

(k) “Fiscal Year” and “FY” mean the Borrower’s fiscal year commencing January 1 and ending December 31.

(l) “Framework for Treatment of Isolated Vulnerable People” means the framework, dated May 2004, for: (i) the informed involvement of Isolated Vulnerable People, through a process of informed participation, in the design and implementation of Part A of the Project to be, or being, carried out in a location in which such people reside or use for their livelihood; and (ii) designing and implementing mitigation measures on

possible impacts of the Project on Isolated Vulnerable People which are socially and culturally acceptable to them.

(m) “Isolated Vulnerable People” means those social groups in Indonesia that have a social and cultural identity distinct from the dominant society, that are susceptible to being disadvantaged in the development process induced by the Project or any part thereof.

(n) “Isolated Vulnerable People Development Plan” means a development plan prepared by a Project Province and a Project Kabupaten pursuant to the provisions of the Framework for the Treatment of Isolated Vulnerable People, and pursuant to the recommendations of the social impact assessment carried out in accordance with such framework, and acceptable to the Bank, to mitigate any social or cultural impact of the Project on Isolated Vulnerable People.

(o) “Land Acquisition and Resettlement Action Plan” means a resettlement and rehabilitation action plan for the provision of compensation, rehabilitation and resettlement assistance to Displaced Persons, prepared and implemented by a Project Province or a Project Kabupaten pursuant to the Land Acquisition and Resettlement Policy Framework and paragraph 5(e) of Schedule 5 to this Agreement, as such plan may be amended from time to time in agreement with the Bank.

(p) “Land Acquisition and Resettlement Policy Framework” means the Policy Framework, dated May 2004, for the provision of compensation, rehabilitation and resettlement assistance to Displaced Persons, as such framework may be amended from time to time in agreement with the Bank.

(q) “MSRI” means the Borrower’s Ministry of Settlement and Regional Infrastructure and any successor thereto.

(r) “P3JJ” means Proyek Perencanaan dan Pengawasan Jalan dan Jembatan, an administrative unit of DGRI in each Project Province for design and supervision of national road works.

(s) “PPJJP” means Proyek Pembangunan Jalan dan Jembatan Perkotaan, an administrative unit of the Directorate General of Urban and Rural Development of MSRI in each Project Province for design, implementation, and supervision of national urban road works.

(t) “Procurement Plan” means the Borrower’s procurement plan, dated April 8, 2004, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section

3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(u) “Project Kabupaten” means a regional autonomous district within a province of the Borrower, participating in the Project, and the term “Project Kabupatens,” means, collectively, more than one Project Kabupaten.

(v) “Project Management Manual” means the manual to assist the Central, Provincial and Kabupaten’s Project staff (including stakeholders) in the implementation of the Project and referred to in paragraph 2 of Schedule 5 to this Agreement, as such Project Management Manual may be amended from time to time in agreement with the Bank.

(w) “Project Management Unit” means the unit established in the Directorate of Technical Affairs of the Directorate General of Regional Infrastructure in MSRI for the purposes set forth in paragraph 1(b) of Schedule 5 to this Agreement.

(x) “Project Provinces” means the Borrower’s provinces of West Kalimantan, Central Kalimantan, South Kalimantan, NTB, NTT, South East Sulawesi, South Sulawesi, Central Sulawesi, Maluku, North Maluku, Papua and West Irian Jaya, and any province or provinces that may be established in the future within the geographical boundaries of the provinces referred to above.

(y) “Road Fund” means the fund established or to be established in a Borrower’s province by respective provincial government for purposes of funding road maintenance in accordance with paragraph 12 of Schedule 5 to this Agreement.

(z) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement.

(aa) “Steering Committee” means the inter-agency committee established by the Borrower for the purposes set forth in paragraph 1 (a) of Schedule 5 to 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 this Agreement, an amount equal to two hundred million Dollars (\$200,000,000).

Section 2.02. 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, works and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. 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 2.06. (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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "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.
- (ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

- (iii) “LIBOR Base Rate” means, for each Interest Period, 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.
- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent ($3/4$ of 1%); (B) 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 the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, 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 said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan 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.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. 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, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, engineering, financial, and road safety practices and sound environmental and social standards, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with terms of reference acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 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 the 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 designed to ensure the continued achievement of the Project's 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 a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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 reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements), the Borrower shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and

- (iii) ensure that such reports are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 16 of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower shall make publicly available, and agrees that the Bank may also make publicly available, each final audit report referred to in Section 4.01 of this Agreement, promptly after its issuance by the independent auditors referred to therein.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that: (i) the AWP for Fiscal Year 2005, including engineering design and bidding documents, acceptable to the Bank, has been finalized; and (ii) the Project Management Manual has been duly adopted by the Borrower, each Project Province, and each Project Kabupaten, pursuant to paragraph 2(a) of Schedule 5 to this Agreement.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Environmental Management Plan, the Land Acquisition and Resettlement Policy Framework, and the Framework for Treatment of Isolated Vulnerable People have each been adopted by the Borrower and are each legally binding upon the Borrower in accordance with the laws of the Republic of Indonesia.

Section 5.03. 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:	Telex:	Facsimile:
FINMINISTRY Jakarta	45799 DJMLN-IA 44319 DEPKEU-IA	(21) 381 2859

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:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Jakarta, Republic of Indonesia, as of the day and year first above written.

REPUBLIC OF INDONESIA

By /s/ Achmad Rochjadi

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Bert Hofman

Authorized Representative

SCHEDULE 1**Withdrawal of the Proceeds of the Loan**A. General

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works		
(a) under Part A.1 of the Project	23,260,000	70%
(b) under Part A.2 of the Project	53,470,000	30% for Project Provinces with above average financial capacity; and 60% for Project Provinces with average financial capacity; and 90% for Project Provinces with below average financial capacity
(c) under Part A.3	52,440,000	30% for Project Kabupatens with above average financial capacity; and 60% for Project Kabupatens with average financial capacity; and 90% for Project Kabupatens with below average financial capacity

<u>Category</u>	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(2) Goods	6,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Incremental operating costs	1,600,000	80%
(4) Consultants' services and training	34,470,000	100%
(5) Fee	2,000,000	Amount due under Section 2.04 of this Agreement
(6) Unallocated	<u>26,760,000</u>	
TOTAL	<u>200,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term "incremental operating costs" means reasonable expenditures incurred by the Directorate of Technical Affairs in DGRI and the Project Management Unit, Provincial Project Management Offices and Inspectorate General of MSRI for staff travel, per diem, communications, consumables, web page establishment and

maintenance, advertisement of bidding, printing and publication of Project information, and rental of meeting facilities, but excluding staff salaries, which expenditures would not have been incurred absent the Project; and

(d) the terms “Project Provinces/Project Kabupatens with above average financial capability;” “Project Provinces/Project Kabupatens with average financial capability”, and “Project Provinces/Project Kabupatens with below average financial capability” mean Provinces or Kabupatens so classified by the Borrower pursuant to the provisions of the Borrower’s Decree MOF-No. 35/KMK.072/2003.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in Bank Indonesia (its Central Bank) or in a state commercial bank acceptable to the 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.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

(b) Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (i) the amount so requested; and (ii) the amount which the Bank has determined, based on the reports

referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to: (i) improve conditions of the strategic road network in order to reduce transport costs and enhance regional accessibility; (ii) support decentralization of planning and managing responsibilities for civil works to Provincial and Kabupaten governments; and (iii) increase the efficiency, quality and transparency of civil works procurement and implementation.

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: Preservation or Improvement of Roads and Transport Facilities

1. Carrying out of a program of rehabilitation of about 185 kilometers (km) and betterment of about 140 km of national roads; and replacement of about 700 meters of bridges on the Borrower's national roads.
2. Carrying out of a program of rehabilitation of about 370 km and betterment of about 440 km of provincial roads and replacement of about 1150 meters of provincial bridges in the Project Provinces.
3. Carrying out of a program of rehabilitation of about 1050 km and betterment of about 1,170 km of Kabupaten roads and replacement of about 25 bridges each longer than 15 meters totaling about 500 meters in the Project Kabupatens.
4. Carrying out of a program of improvement of non-road transport facilities in the Project Provinces and in the Project Kabupatens.

Part B: Project Implementation Support

1. Strengthening the capacity of the Project Management Unit and DGRI in managing the Project, including provision of technical assistance and office and communications equipment therefor.
2. Strengthening the capacity of P3JJ, PPJJP, DPUK, and DPUP in each Project Province and Project Kabupaten in the carrying out design, supervision, and management of implementation of civil works under Part A of the Project.

3. Strengthening the capacity of the Directorate General of Regional Development within the Ministry of Home Affairs to develop procedures on how regional governments introduce performance-based budgeting for infrastructure development, promote community awareness of the Project, and regional-based community participation in the Project.
4. Strengthening the capacity of the Project staff in DGRI, the Project Provinces, and the Project Kabupatens in carrying out the financial management and procurement activities related to the Project through provision of training and workshops.

Part C: Road Sector Support

1. Improving the management of the environmental and social impacts of road development in environmentally sensitive areas and in communities of Isolated Vulnerable People, including preparing standard screening, management and monitoring procedures for road development in such areas and communities and carrying out pilot studies to demonstrate the application of said procedures.
2. Improving the road planning, programming and budgeting procedures under decentralized operation at the Borrower's provincial and Kabupaten levels, including, preparing and implementing a training program for application of said improved procedures.
3. Providing legal, institutional, economic and engineering support for the establishment and initial operation of commercially managed Road Fund for road maintenance in selected provinces.
4. Improving the traffic and road asset monitoring system through developing appropriate survey methods and procedures and collection of traffic and road assets data for provincial and Kabupaten roads in the Eastern Indonesia Region.
5. Developing Kalimantan road network, including: identifying road network development needs and priorities to support medium- to long term regional growth and development; preparing environmentally sustainable road network development plans for the next 15 years; preparing terms of reference for feasibility studies needed for carrying out of those plans; and examining the institutional arrangements for planning and implementing the road network development.
6. Fostering the Borrower's decentralization program by strengthening the capacity of the road sector at national, provincial, and Kabupaten levels in the Eastern Indonesia Region, including: institutionalizing the training needs analysis function in local governments; developing competency-based training modules; and providing training at

master degree level to about 75 road sector officials in the following disciplines: highway engineering, structure/bridge engineering, construction management, road and bridge maintenance, and environmental studies.

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3**Amortization Schedule**

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
November 15, 2009	5,905,000
May 15, 2010	5,950,000
November 15, 2010	6,000,000
May 15, 2011	6,050,000
November 15, 2011	6,100,000
May 15, 2012	6,150,000
November 15, 2012	6,200,000
May 15, 2013	6,250,000
November 15, 2013	6,305,000
May 15, 2014	6,355,000
November 15, 2014	6,410,000
May 15, 2015	6,460,000
November 15, 2015	6,515,000
May 15, 2016	6,570,000
November 15, 2016	6,625,000
May 15, 2017	6,675,000
November 15, 2017	6,730,000
May 15, 2018	6,790,000
November 15, 2018	6,845,000
May 15, 2019	6,900,000
November 15, 2019	6,955,000
May 15, 2020	7,015,000
November 15, 2020	7,070,000
May 15, 2021	7,130,000
November 15, 2021	7,190,000
May 15, 2022	7,250,000
November 15, 2022	7,310,000
May 15, 2023	7,370,000
November 15, 2023	7,430,000
May 15, 2024	7,495,000

* The figures in this column represent the amount in United States Dollars to be repaid, except as provided in Section 4.04(d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of international competitive bidding in accordance with the provisions of Section II and paragraphs 3.14 and 3.15 of the Procurement Guidelines, and the following additional procedures:

1. Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each and contracts for works shall be grouped in bid packages estimated to cost \$3,000,000 equivalent or more each.

2. Domestic Preference. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract and works estimated to cost less than \$3,000,000 equivalent per contract, may be procured under contracts awarded on the basis of national competitive bidding in accordance with the provisions of paragraphs 3.1, 3.3, 3.4, 3.14 and 3.15 of the Procurement Guidelines and Annex B to this Schedule.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of quality and cost in accordance with the provisions of Section II of the Consultant Guidelines.

B. Other Procedures

Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines.

Section IV: Review by the Bank of the Procurement Decisions

A. Prior Review. Except as the Bank shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods, Works and Services (other than Consultants' Services)

The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Procurement Guidelines shall apply to each contract for goods estimated to cost the equivalent of \$200,000 or more; works estimated to cost the equivalent of \$1,000,000 or more; and the first contract for works to be procured in accordance with the provisions in paragraph B. 1 of Section II of this Schedule 4 in each Project Province and each Project Kabupaten.

2. Consultants' Services

(a) The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more.

(b) The following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

B. Post Review.

1. With respect to each contract for goods, works or services (other than consultants' services) not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants' services not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Consultant Guidelines shall apply.

Annex A
to
SCHEDULE 4

Without limitation on the provisions of Schedule 4 to the Loan Agreement (Schedule 4) and of the Procurement Guidelines and the Consultant Guidelines (as such terms are defined in said schedule and referred to hereafter as the Procurement Guidelines), the following provisions shall apply in respect of goods, works and consultants' services to be procured under the Project:

1. To ensure end-user participation in procurement process under this Project, attendance of non-governmental observers is required. The end-users may include members from civil society, affected communities and university staff members where appropriate. One option to achieve this end would be to have each affected community through their FAD (inter-village representative body) elect a representative for this purpose. Clear criteria for the selection of procurement committee members and observers at all levels for reasonable expenses will be established with the agreement of the Bank and detailed in the Project Management Manual.
2. The Procurement Plans, including all updates thereof, shall be made publicly available promptly after their finalization.
3. All bidding documents and requests for proposals issued in accordance with Schedule 4 shall be made available to any member of the public promptly upon request, subject only to payment of a reasonable fee to cover the cost of printing and delivery. In the case of requests for proposals, the relevant documents will only be made available after notification of award to the successful firm. Each such document will continue to be made publicly available until a year after completion of the contract entered into for the goods, works or consultants' services in question.
4. All short lists of consultants and, in cases of pre-qualification, lists of pre-qualified contractors and suppliers shall be made available to any member of the public promptly upon request.
5. A summary of the evaluation of all bids and proposals for specific contracts shall be disclosed to all bidders and parties submitting proposals therefor, promptly after the notification of award to the successful bidder/consultant. Information in such summaries will be limited to a list of bidders/consultants, all bid prices and financial proposals as read out at public openings for bids and financial proposals, all bids and proposals declared non responsive (together with reasons for such an assessment), the name of winning bidder/consultant and the contract price. Such summaries will be made available to any member of the public promptly upon request.

6. Contract award information for all contracts for goods and works above \$100,000 equivalent or more and all contracts for consultants above \$50,000 equivalent or more shall be made publicly available and published widely, and be made available to any member of the public upon request, promptly after such award.

7. A list of all contracts awarded in the three months preceding the date of such request, including, with respect to each such contract, the name of the contractor/consultant selected, the contract amount, the number of bidders/makers of proposals in respect thereof, the procurement method followed and the purpose of such contract shall be made available, promptly upon request by any member of the public.

8. Representatives of the end-users of goods or works being procured shall be permitted to attend public bid openings in respect thereof.

Annex B
to
SCHEDULE 4

1. General

Subject to the provisions of paragraph B(1) of Section II of Schedule 4 to this Agreement, the procedures to be followed for national competitive bidding shall be those set forth in Presidential Decree No.80/2003 of the Republic of Indonesia with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the “Guidelines for Procurement under IBRD Loans and IDA Credits” dated May 2004 (the “Procurement Guidelines”).

2. Registration

(a) Bidding shall not be restricted to pre-registered firms and shall not be a condition for participation in the bidding process.

(b) Where registration is required prior to award of contract, bidders (i) shall be allowed a reasonable time to complete the registration process, and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

3. Pre-qualification

Pre-qualification shall not be used for simple goods and works. Normally, post-qualification shall be used. Pre-qualification shall be required only for large or complex works with the prior “no objection” of the Bank. When pre-qualification shall be required:

(a) eligible bidders (both national and foreign) shall not be denied pre-qualification, and

(b) invitations to pre-qualify for bidding shall be advertised in at least one widely circulated national daily newspaper a minimum of 30 days prior to the deadline for the submission of pre-qualification applications.

4. Joint Ventures

A bidder declared the lowest evaluated responsive bidder shall not be required to form a joint venture or to sub-contract part of work or part of the supply of goods as a condition of award of the contract.

5. Preferences

(a) No preference of any kind shall be given to national bidders.

(b) Regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers shall not be applicable to procurement procedures under the Loan Agreement.

6. Advertising

(a) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper allowing a minimum of 30 days for the preparation and submission of bids and allowing potential bidders to purchase bidding documents up to 24 hours prior to the deadline for the submission of bids.

(b) Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee.

(c) Bidders domiciled outside the area/district/province of the unit responsible for procurement shall be allowed to participate regardless of the estimated value of the contract.

(d) Foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign firm declared the lowest evaluated bidder shall be given a reasonable opportunity for registering.

7. Bid Security

Bid security, at the bidder's option, shall be in the form of a bank guarantee from a reputable bank.

8. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids, and if bids are invited in two envelopes, both envelopes (technical and price) shall be opened at the same time.

(b) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated bidder.

(c) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.

(d) No bidder shall be rejected merely on the basis of a comparison with the owner's estimate and budget ceiling without the Bank's prior concurrence.

9. Rejection of Bids

(a) All bids shall not be rejected and new bids solicited without the Bank's prior concurrence.

(b) When the number of responsive bids is less than three, re-bidding shall not be carried out without the Bank's prior concurrence.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain, until completion of the Project:
 - (a) the Steering Committee chaired by BAPPENAS' Deputy for Infrastructure and including representatives from the Ministry of Finance, the Ministry of Home Affairs, the State Ministry for Development of Eastern Indonesia, the Ministry of Settlements and Regional Infrastructure and the Ministry of Communications, and responsible for the facilitation of coordination among the Borrower's Ministries and among the local governments of the Project Provinces and Project Kabupatens for purposes of Project implementation;
 - (b) the Project Management Unit, responsible for day-to-day management and implementation of the Project, chaired by the Director of Technical Affairs of the Directorate General of Regional Infrastructure, said Unit to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers, as shall be necessary to accomplish its functions, responsibilities and objectives; and
 - (c) the Provincial Project Management Offices, responsible for day-to-day management and implementation of the Project at Provincial and district level, each headed by a qualified and experienced officer, each said Unit to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its functions, responsibilities and objectives.
2. The Borrower shall, and shall cause each Project Province and Project Kabupaten to:
 - (a) adopt the Project Management Manual, in a manner and substance satisfactory to the Bank, which shall include the description of: (i) the Project implementation arrangements and organizational structure; (ii) financial management, reporting and auditing procedures set forth in Article IV of this Agreement; (iii) environmental and social safeguards requirements and measures for the Project; (iv) procurement procedures set forth in Schedule 4 to this Agreement and standard procurement documentation; (v) monitoring and reporting of the Project's progress; and (vi) the Anti-Corruption Action Plan;
 - (b) carry out the Project in accordance with the Project Management Manual; and

(c) not amend, abrogate, suspend, or waive any provision of said Project Management Manual without the prior concurrence of the Bank.

3. The Borrower shall ensure that no Project Provinces and Project Kabupatens shall be eligible for participation in the Project, unless (i) they have adopted the Anti-corruption Action Plan, in a manner and substance satisfactory to the Bank; (ii) they have committed to undertaking annual routine maintenance of their roads financed under the Project, and at least additional 30% of provincial road networks in the Project Provinces, and at least additional 30% of priority network roads in the Project Kabupatens, and have allocated budgets for these purposes for up to five years after completion of the Project; and (iii) they have committed to applying the Technical Guidelines for Planning and Programming of Kabupaten roads under SK77/KPTS/Db/1990, and provincial roads under the Integrated Indonesian Road Management System for the preparation of their AWP-2 and AWP-3.

4. The Borrower shall, through the Directorate General of Regional Infrastructure of MSRI and through the local governments of the Project Provinces and Project Kabupatens, take all such action as shall be necessary to ensure that:

(a) not later than June 30 in each year, commencing June 30, 2005, and until the completion of the Project, a draft AWP for all components of the Project to be implemented during the following Fiscal Year is prepared and furnished to the Bank for its review and comments, including: (i) the scope of the program; (ii) the results of the environmental and social impact screening of the proposed works; (iii) cost estimates; (iv) time-based implementation schedules; (v) financing plan; (vi) budget arrangements; and (vii) procurement plan.

(b) not later than November 30 in each year, commencing November 30, 2005, finalize the above mentioned AWP for implementation, taking into account the comments of the Bank thereon, including detailed engineering design and bidding documents, the Environmental Management Plans, social impact assessments, the Land Acquisition and Resettlement Action Plans, the Isolated Vulnerable People Development Plans, as required, by the Environmental Management Plan, the Framework for Treatment of Isolated Vulnerable People, and the Land Acquisition and Resettlement Policy Framework.

5. The Borrower shall ensure that in carrying out the works and activities under Part A of the Project:

(a) the proposed works and activities have been included in the relevant AWP referred to in paragraph 4 of this Schedule;

(b) the proposed works and activities have a projected minimum economic rate of return of fifteen percent as calculated in a manner acceptable to the Bank, or such lower economic rate of return as the Bank may agree in exceptional circumstances;

(c) necessary counterpart funding to fully finance the proposed works and activities is available and in amounts acceptable to the Bank;

(d) appropriate engineering, social and environmental standards and practices that would minimize any acquisition of land and avoid involuntary resettlement of Displaced Persons have been considered in the design of the proposed works and activities;

(e) for proposed works and activities involving the involuntary resettlement of Displaced Persons: (i) a Land Acquisition and Resettlement Action Plan has been prepared in accordance with the Land Acquisition and Resettlement Policy Framework and in consultation with said Displaced Persons; (ii) such Land Acquisition and Resettlement Action Plan has been approved by the Bank; and (iii) every Displaced Person has been compensated and/or has been provided with a resettlement site and moving allowance prior to the taking of the land and related assets, and such compensation and provision of resettlement site and moving allowance has been substantially completed prior to the signing of the contract for the carrying out of such works or activities, in accordance with the provisions of said Plan;

(f) for proposed works and activities involving Isolated Vulnerable People: (i) a social impact assessment pursuant to the Framework for the Treatment of Isolated Vulnerable People has been prepared, including an Isolated Vulnerable People Development Plan as required; (ii) such assessment and Plan have been approved by the Bank; and (iii) the most critical aspects of the Plan have been implemented prior to the signing of the contract for the carrying out of such works or activities; and

(g) for proposed works and activities, the environmental impact assessment requirements have been completed pursuant to the provisions of the Environmental Management Plan, including the provisions relating to cultural property, under terms and conditions which shall have been approved by the Bank.

6. The Borrower shall, carry out a technical audit of selected road sections where quality of construction is below the specifications and technical standards included in the bidding documents, in accordance with terms of reference acceptable to the Bank. Should the technical audits identify any major problems or any significant delay in execution of the civil works contracts under the Project, the Borrower shall, through the Project Management Unit, prepare and submit to the Bank for review a time-bound action plan for remedy of the identified problems.

7. The Borrower shall ensure that the local government in each Project Kabupaten carry out an independent financial audits for its work programs therein every six months, in a manner and substance satisfactory to the Bank, beginning with June 30, 2005.
8. The Borrower shall ensure that the Project staff at provincial and Kabupaten levels be trained annually on the Bank's financial management and procurement procedures pursuant to the schedules set forth in the Procurement and Financial Management Action Plan acceptable to the Bank; and be trained annually on the application of the Project Management Manual, with the first year training carried out by November 30, 2004.
9. In carrying out Part B(3) of the Project, the Borrower shall, not later than December 31, 2007, furnish to the Bank for its review and comments, a draft report on carrying out of the activities in said Part of the Project, and thereafter finalize the report taking into account the comments of the Bank thereon and carry out the recommendations the Bank may have on such a report.
10. In carrying out Part C(1) of the Project, the Borrower shall, not later than June 30, 2007, submit to the Bank for review and comments, a report on improving management of environmental and social impacts of road projects in sensitive areas, and thereafter finalize such report taking into account the comments of the Bank thereon.
11. In carrying out Part C(2) of the Project, the Borrower, shall, not later than June 30, 2008, furnish to the Bank for its review and comments, a report on the implementation of the activities in said Part of the Project, and thereafter finalize the report and carry out the recommendations the Bank may have on the report in a manner satisfactory to the Bank.
12. In carrying out Part C(3) of the Project, the Borrower, shall, no later than June 30, 2008, furnish to the Bank for its review and comments, a report on the implementation of the Road Fund, and thereafter prepare and carry out an action plan for further expansion and continuation of the Road Fund activities taking into account the comments of the Bank on the report, if any.
13. In carrying out Part C(4) of the Project, the Borrower shall complete the traffic and road asset monitoring system acceptable to the Bank, by June 30, 2008.
14. In carrying out Part C(5) of the Project, the Borrower, shall, not later than December 31, 2007, submit to the Bank for review and comments, a report on carrying out of the activities in said Part of the Project, thereafter finalize the report taking into account of the Bank's comments thereon.

15. In carrying out Part C(6) of the Project, the Borrower, shall, not later than September, 30, 2007, submit to the Bank for review and comments, a report on the outcomes of the training activities in said Part of the Project, thereafter finalize such report taking into account the comments of the Bank thereon.

16. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30 in each year, commencing June 30, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the preceding calendar 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 such date; and

(c) review with the Bank, by September 30 in each year, commencing September 30, 2006, or such later date as the Bank shall request, the corresponding report referred to in paragraph (b) of this Section, and, 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 said report and the Bank's views on the matter.

Schedule 6

Performance Indicators

Attainment of Project Objectives	Monitoring Indicators	2004 Baseline	2005	2006	2007	2008	2009	2011
1. Improve condition of the strategic road network in order to reduce transport costs and enhance regional accessibility	1a. Percentage reduction in vehicle operating costs on national and provincial roads included in the Project	—	1%	6%	10%	11%	11%	11%
	1b. Percentage reduction in vehicle operating costs on kabupaten roads included in the Project	—	3%	11%	19%	25%	25%	25%
	1c. Percentage travel time improvements on selected project roads	—	2%	9%	16%	20%	20%	20%
2. Support decentralization of planning and management responsibilities for works on provincial and kabupaten roads to the respective provincial and kabupaten governments	2a. Number of provinces using economic-based priority-setting procedures, with staff who understand and can apply them	0	3	5	8	11	11	11
	2b. Percentage of project kabupaten with adequate funding for routine maintenance of JJP network (based on budget allocations)	—	70%	75%	80%	85%	85%	85%
	2c. Percent of works packages reported by the RDSCs in environmental monitoring reports to the Bapedalda	—	45%	60%	90%	100%	—	—
3. Increase the efficiency, quality and transparency of works procurement and implementation	3a. Percentage of bid openings attended by one or more representatives of Civil Society	—	40%	50%	60%	—	—	—
	3b. Compliance with tender schedule defined at time of bidding	—	70%	80%	90%	—	—	—
	3c. Number of technical audits carried out by Inspectorate General	—	30	30	30	30	—	—

Attainment of Project Objectives	Monitoring Indicators	2004 Baseline	2005	2006	2007	2008	2009	2011
4. Physical outputs								
	Cumulative percent of project roads receiving betterment	—	12%	48%	78%	100%	—	—
	Cumulative percent of project roads receiving rehabilitation	—	10%	45%	78%	100%	—	—
	Cumulative percent of project bridges receiving rehabilitation or replacement	—	13%	52%	81%	100%	—	—
	Number of agreed technical assistance activities completed as planned	—	0	2	2	3	—	—