

CONFORMED COPY

LOAN NUMBER 4155 IND

Loan Agreement

(Bali Urban Infrastructure Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated June 9, 1997

LOAN NUMBER 4155 IND

LOAN AGREEMENT

AGREEMENT, dated June 9, 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 acceptable 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, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, 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, wherever used in this Agreement, have the following meanings:

(a) "AMDAL" means Analysis Mengenai Dampak Lingkungan, the Borrower's national guidelines for the preparation of environmental impact assessment, including mitigation and monitoring measures established by Government Regulation No. 51 of 1993, of the Borrower;

(b) "Annual Project Implementation Plan" and "APIP" mean Memoranda Pelaksanaan Program Tahunan (MPPT), the annual action plan adopted among Bali, as hereinafter defined, and each Participating Local Government and its respective PDAM pursuant to the provisions of Part A.2 of Schedule 5 to this Agreement;

(c) "Bali" means the provincial government of Bali, one of the Borrower's provinces;

(d) "Bapedal" means Badan Pengendalian Dampak Lingkungan Nasional, the Central Government's Environmental Impact Management Agency;

(e) "Bapedalda" means Badan Pengendalian Dampak Lingkungan Propinsi Daerah Tingkat I, the Provincial Environmental Impact Management Agency established by Bali;

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

(g) "Bina Marga" means the Directorate General of Highways within the Borrower's Ministry of Public Works and any successor thereto;

(h) "BLH" means Biro Bina Lingkungan Hidup, the Environmental Management Bureau established by Bali within the Office of the Provincial Governor;

(i) "Cipta Karya" means the Directorate General of Human Settlements within the Borrower's Ministry of Public Works and any successor thereto;

(j) "EMMP" means the Borrower's Environmental Management and Monitoring Plan applicable in the Province of Bali for the environmental screening, management and monitoring of remedial measures designed to offset the impact of Project infrastructure investments defined pursuant to PP51 of 1993, KEP-39/MENLH/8/1996, KEP-14/MENLH/3/1994, KEP-12/MENLH/2/1994, Decree of the Head of BAPEDAL No. KEP-056 of 1994, KEPMEN PU No. 58/KPTS/1995, Regulation of the Borrower's Ministry of Public Works No. 69/PRT/1995, KEPMEN PU No. 147/KPTS/1995, KEPMEN PU No. 148/KPTS/1995 and KEPMEN PU No. 481/KPTS/1996, as any of the same may be amended from time to time;

(k) "Executing Agency" means Cipta Karya, the Directorate General of Human Settlements within the Borrower's Ministry of Public Works and any

successor thereto;

(l) "Fiscal Year" means the fiscal year of the Borrower or the fiscal year of Participating Local Governments, both commencing April 1 and ending March 31;

(m) "FRAP" means the financial recovery action plan adopted by a Participating PDAM;

(n) "Implementing Agencies" means the central, provincial and local agencies, departments and units, including the Participating Local Governments, and Participating PDAMs responsible for Project implementation and coordination referred to under Part B of Schedule 5 to this Agreement, and "Implementing Agency" means any of the Implementing Agencies;

(o) "Kabupaten" means a level II autonomous local government (district) within the Province of Bali;

(p) "Kotamadya" means a level II autonomous local government (municipality) within the Province of Bali;

(q) "Participating Local Government" means any of the level II autonomous local governments within the Province of Bali listed in Section I of the Annex to Schedule 2 to this Agreement;

(r) "Participating PDAM" means a Participating PDAM, as hereinafter defined, operating under a Participating Local Government;

(s) "PCU" means the Project Coordination Unit established within a Participating Local Government including: (i) Kabupaten Badung pursuant to SK No. 228A/1997 dated March 25, 1997; (ii) Kabupaten Bangli pursuant to SK No. 227/1997, dated March 25, 1997; (iii) Kotamadya Denpasar pursuant to SK No. 80/1997, dated March 25, 1997; (iv) Kabupaten Jembrana pursuant to SK No. 47/1997, dated March 25, 1997; (v) Kabupaten Buleleng pursuant to SK No. 99A/1997, dated March 25, 1997; (vi) Kabupaten Gianyar pursuant to SK No. 103/1997, dated March 25, 1997; (vii) Kabupaten Karangasem pursuant to SK No. 197/1997, dated March 25, 1997; (viii) Kabupaten Klungkung pursuant to SK No. 64/1997, dated March 25, 1997; and (ix) Kabupaten Tabanan pursuant to SK No. 69/1997, dated March 25, 1997, and "PCUs" means the Project Coordination Units collectively;

(t) "PDAM" means a water enterprise, established by and operating under a Participating Local Government pursuant to the provisions of the Borrower's Law No. 5 of 1962, Law No. 5 of 1974, Decree No. 26 of 1975 of the Ministry of Home Affairs, and Joint Decree No. 3 of 1984 of the Ministry of Home Affairs and the Ministry of Public Works;

(u) "PDAM fiscal year" means the fiscal year of any of the Participating PDAMs commencing January 1 and ending December 31;

(v) "Performance Indicators" means the indicators agreed with the Bank and designed 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 in agreement with the Bank;

(w) "PPCU" means the Provincial Project Coordination Unit established within the Office of Bappeda Bali pursuant to SK Gub No. 96/1997, dated March 25, 1997, in accordance with the provisions of Part B. II. 2 of Schedule 5 to this Agreement;

(x) "Project Affected Person" and "PAP" means a person who, on account of the execution of Part A.1 or Part D. (a) of the Project, had or would have his or her: (i) standard of living adversely affected; (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently adversely affected; or (iii) business, occupation, work or place of residence or habitat adversely affected; and "Project Affected Persons" or "PAPs" means collectively all persons who qualify as a Project Affected Person;

(y) "Provincial Program Implementation Memorandum" and "PPIM" mean the memorandum of understanding entered into between the Borrower and Bali

pursuant to the provisions of Section 3.02 (c) of this Agreement, as such Memorandum may be amended from time to time in agreement with the Bank;

(z) "Resettlement Action Plan" and "RAP" mean a resettlement and rehabilitation action plan to be prepared by any Participating Local Government or Participating PDAM pursuant to the Resettlement Guidelines, as hereinafter defined, and which includes, where necessary, compensation, in line with the Resettlement Guidelines, for persons resettled after January 1, 1996;

(aa) "Resettlement Guidelines" means the framework approved by the Provincial Governor of Bali pursuant to SK Gub. No. 3/97 dated January 14, 1997, and other operational regulations describing procedural and institutional aspects, pertaining to land acquisition and the resettlement and compensation of PAPs under the Project, as such Guidelines may be amended from time to time in agreement with the Bank;

(bb) "Rupiah" means the currency of the Borrower;

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

(dd) "Sub-project" means a specific infrastructure investment project described under Part A.1 and Part D. (a) of the Project;

(ee) "Subsidiary Loan" means a loan made or proposed to be made by the Borrower to a Participating Local Government or a Participating PDAM under a Subsidiary Loan Agreement; and

(ff) "Subsidiary Loan Agreements" and "SLAs" mean the agreements to be entered into between the Borrower, represented by its Ministry of Finance, and Participating Local Governments and Participating PDAMs, pursuant to Section 3.02 (a) of this Agreement, and "Subsidiary Loan Agreement" and "SLA" mean any of the Subsidiary Loan Agreements.

## 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 one hundred ten million dollars (\$110,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower 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 acceptable to the Bank, including, in the case of a state commercial bank, appropriate protection against set-off, seizure or 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 December 31, 2002, 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 in arrears on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the 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 the Project through Cipta Karya with due diligence and efficiency and in conformity with appropriate engineering, financial, technical, environmental, resettlement and cultural heritage conservation 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. (a) The Borrower shall make available out of the proceeds of the Loan the amounts allocated from time to time to Categories (1) (a) and (2) (a) of the table in paragraph 1 of Schedule 1 to this Agreement to Participating Local Governments and Participating PDAMs except for Kotamadya Denpasar and Participating PDAM Badung, under subsidiary loan agreements entered into between the Borrower and each Participating Local Government and the Borrower and, each Participating PDAM, respectively, under terms and conditions which shall have been approved by the Bank, which shall include, inter alia, the following principal terms and conditions: (i) the amount repayable under each Subsidiary Loan shall be the Rupiah equivalent at the time of withdrawal of such proceeds from the Loan Account; (ii) the interest on the principal amount withdrawn and outstanding of a Subsidiary Loan shall be payable at a fixed annual rate of 11.75%. Such interest shall be payable during any grace period; (iii) the commitment charge shall be payable on the amount so on-lent but not yet withdrawn from time to time at the rate payable by the Borrower in accordance with Section 2.04 of this Agreement; and (iv) the repayment period of each Subsidiary Loan shall be up to twenty (20) years, including a grace period of up to three (3) years.

(b) The Borrower shall make available out of the proceeds of the Loan to Bali and the Participating Local Governments, on a grant basis, the amount allocated from time to time to Categories (1) (b), (2) (b) and (3) and (4) (b) of the table in paragraph 1 of Schedule 1 to this Agreement, in accordance with terms and conditions which shall have been approved by the Bank.

(c) The Borrower shall, through the Executing Agency, enter into a provincial program implementation memorandum with Bali on terms and conditions acceptable to the Bank including those set forth in Part A.1 of Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreements and the Provincial Program Implementation Memorandum in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any of the Subsidiary Loan Agreements or the Provincial Program Implementation Memorandum or any provision thereof.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. 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 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 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, including the Participating PDAMs, 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.

Section 4.02. (a) Except as the Bank shall otherwise agree, the Borrower shall ensure that no Participating PDAM shall incur any debt unless a reasonable forecast of the finances of such Participating PDAM shows that:

- (i) in any period of two consecutive PDAM fiscal years during the term of the debt to be incurred, the projected net current receipts of such Participating PDAM shall be at least 1.3 times the projected debt service requirement of such Participating PDAM in such said two fiscal year-period;
- (ii) each Participating PDAM produces for each of its fiscal years, starting on January 1, 1997, gross operational revenues equivalent to not less than its operating expenses; and
- (iii) by not later than January 1, 2001, each Participating PDAM produces in each of its fiscal years, gross current

revenues equivalent to not less than the sum of its operating expenses and depreciation.

(b) For the purposes of this Section:

- (i) the term "debt" means any indebtedness of a Participating PDAM maturing by its terms more than one year after the date on which it is originally incurred;
- (ii) debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or further modification of its terms of payment, on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into;
- (iii) the term "net current receipts" means the total cash receipts of any Participating PDAM obtained from charges applied to water supplied, together with the total cash receipts from all other revenues which are routinely received by any of such Participating PDAMs, on an annual or more frequent basis, including cash receipts from fees for customer connections which are received by the Participating PDAM under the terms of an extended credit scheme agreed between the respective Participating PDAM and its customers, but not including other receipts from connection charges and other receipts of funds raised for the specific purpose of financing capital expenditure, less all operating expenses of the respective Participating PDAM and all other expenses which fail to be met out of the above-mentioned cash receipts;
- (iv) the term "debt service requirement" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on all debts of a Participating PDAM, including any debt to be incurred by such Participating PDAM;
- (v) the term "reasonable forecast" means a forecast prepared by or on behalf of a Participating PDAM, which both the Bank and the Participating PDAM accept as reasonable, provided that no event has occurred since such acceptance, or may be reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of such Participating PDAM;
- (vi) the term "gross operational revenues" means the sum of the total billable charges of a Participating PDAM for water supplied, together with all other revenues which are routinely received on an annual or more frequent basis in connection specifically with the supply of water, not including revenues from fees for customer connections whether or not receivable under the terms of an extended credit scheme agreed between the respective Participating PDAM and its customers, and not including any other revenues which are receivable for the specific purpose of financing capital expenditure;
- (vii) the term "operating expenses" means the sum of all expenditures incurred by a Participating PDAM in relation to the supply of water by such Participating PDAM, including maintenance and administration, but excluding depreciation and expenditures on the provision of connections to water consumers and excluding all other expenditures of a capital nature;
- (viii) the term "gross current revenues" means the total billable charges of any Participating PDAM for water supplied to customer, together with the total of all other revenues which routinely accrue on an annual or

more frequent basis, including revenues from fees for customer connections which accrue under the terms of an extended credit scheme, but not including other revenues accruing from connection charges and other revenues which are for the specific purpose of financing capital expenditure;

- (ix) the term "depreciation" means the annual provision charged by a Participating PDAM against revenues to depreciate, on the basis of generally accepted accounting principles, the value of its water fixed assets in operation as valued from time to time in accordance with methods of valuation acceptable to the Bank; and
- (x) whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower; debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.03. (a) Except as the Bank shall otherwise agree, the Borrower shall ensure that no Participating Local Government shall incur any debt unless a reasonable forecast of the revenues and expenditures of such Participating Local Government shows that the projected non-grant and local revenues for a Fiscal Year minus the projected routine account expenditure on staff administration and routine operational and maintenance needs of such Participating Local Government for each Fiscal Year during the term of the debt to be incurred shall be at least 1.5 times the projected debt service requirement of such Participating Local Government in such year on all debt of such Participating Local Government including the debt to be incurred.

(b) For the purposes of this Section:

- (i) the term "debt" means any indebtedness of a Participating Local Government maturing by its terms more than one year after the date on which it is originally incurred;
- (ii) debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or further modification of its terms of payment, on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into;
- (iii) the term "debt service requirement" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt;
- (iv) the term "reasonable forecast" means a forecast prepared by a Participating Local Government in the Fiscal Year in which the debt in question is to be incurred, which both the Bank and the Participating Local Government accept as reasonable and as to which the Bank has notified the Participating Local Government of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or operating results of such Participating Local Government; and
- (v) whenever for the purposes of this Section it shall be necessary to value, in terms of Rupiah, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such



valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Borrower or Bali will be able to perform any of their respective obligations under the Provincial Program Implementation Memorandum; and

(b) the Resettlement Guidelines shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement or the ability of Bali to perform any of its obligations under the PPIM.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the events specified in paragraph (b) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Provincial Program Implementation Memorandum has been duly approved by all relevant authorities and executed by the Borrower and Bali.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Provincial Program Implementation Memorandum has been duly authorized or ratified by the Borrower and Bali and is legally binding upon the Borrower and Bali in accordance with its terms; and

(b) that the Resettlement Guidelines have been duly approved by the Borrower and Bali and all necessary actions have been taken to enable the Resettlement Guidelines to be implemented in accordance with their terms.

Section 6.03. 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 VII

##### Representative of the Borrower; Addresses

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

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

For the Borrower:

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

Indonesia

Cable address:

FINMINISTRY  
Jakarta

Telex:

45799 DJMLN-IA  
44319 DEPKEU-IA

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI)  
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/ Arifin M. Siregar

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Francis X. Colaco

Acting 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:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Civil works contracted for Sub-projects:		
(a) financed under SLAs	13,600,000	90%
(b) other works	59,900,000	65%
(2) Goods (except vehicles) for Sub-projects:		
(a) financed under SLAs	7,400,000	90%
(b) other goods	4,200,000	100% of foreign expenditures, 100%

		of local expenditures (ex-factory cost), and 65% of local expendi- tures for other items procured locally
(3) Training	3,600,000	100%
(4) Consultants' services:		
(a) contracted by the Borrower's central agencies	700,000	80%
(b) contracted by Bali, Participating Local Governments and Participating PDAMs	13,500,000	100%
(5) Unallocated	7,100,000	
TOTAL	110,000,000 =====	

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement;

(b) payments under Categories (1), (2) and (3) and (4)(b) with respect to expenditures incurred by a Participating Local Government and its respective Participating PDAM, unless the Bank has approved the first APIP for such Participating Local Government and Participating PDAM, which shall have been adopted in accordance with the provisions of Part A.2 of Schedule 5 to this Agreement;

(c) payments under Categories (1) and (2) with respect to expenditures incurred under any Sub-project unless: (i) the Sub-project has been selected in accordance with the criteria described under Part A.3 of Schedule 5 to this Agreement; (ii) the Bank has approved such Sub-project; and (iii) where applicable, the implementation of the RAP and the AMDAL requirements have been found to be acceptable to the Bank; and

(d) payments under Categories (1)(a) and (2)(a) with respect to expenditures incurred by a Participating Local Government or a Participating PDAM, unless the Bank has approved the first Subsidiary Loan Agreement for such Participating Local Government or such Participating PDAM, which shall have been entered into in accordance with the provisions of Section 3.02 (a) of 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) contracts for goods costing less than \$200,000 equivalent; (b) contracts for civil works costing less than \$1,000,000 equivalent; (c) training; and (d) contracts for the employment of: (i) consulting firms costing less than \$100,000 equivalent; and (ii) individual consultants costing less than \$50,000 equivalent; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## Description of the Project

The objectives of the Project are to assist the Borrower to: (a) improve the provision of urban infrastructure services in the Province of Bali; (b) promote private sector participation in the provision of urban infrastructure services in the Province of Bali; (c) strengthen the urban and environmental management capabilities of the Participating Local Governments and Participating PDAMs; and (d) improve the conservation and management of the cultural heritage of the Province of Bali.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

### Part A: Infrastructure Works

1. Carrying out a five-year program of infrastructure investment works for Participating Local Governments and Participating PDAMs in the following sub-sectors:

- (a) urban roads and traffic management;
- (b) water supply;
- (c) drainage and flood control;
- (d) solid waste management;
- (e) sanitation;
- (f) provision of support to low-income communities and rehabilitation of urban neighborhoods (Kampung);
- (g) urban infrastructure renewal, including rehabilitation of existing and construction of new markets, bus terminals, and parking areas; and
- (h) environmental monitoring and implementation of mitigation measures designed pursuant to AMDAL requirements.

2. Resettlement and rehabilitation of Project Affected Persons under Part A.1 above.

### Part B: Private Sector Participation

Improving the institutional, technical and financial capabilities of the Participating Local Governments and Participating PDAMs to identify and select private sector investments in the infrastructure sector including, inter alia, in the water supply and solid waste sub-sectors in the Province of Bali through: (a) the provision of advisory services; and (b) the carrying out of studies.

### Part C: Institutional Capacity Development

1. Improving the managerial capabilities of the staff of the Participating Local Governments and Participating PDAMs through the provision of management advisory services.

2. Improving the capabilities of the Borrower's central, provincial and local agencies to program, manage and finance Sub-project preparation implementation and environmental management and community consultation through:

- (a) the provision of advisory services and training; and
- (b) the carrying out of the following technical studies: (i) an assessment of cumulative environmental impacts of future investments in the infrastructure sector in the Province of Bali; (ii) preparation of development plans for selected strategic centers in the Province of Bali; (iii) preparation of strategic structural plans for the Kuta neighborhood in Kabupaten Badung; and (iv) support for the development of a public

transport strategy for the Province of Bali.

Part D: Cultural Heritage Conservation

Improving the cultural heritage conservation capacity of the Province of Bali through:

- (a) the carrying out of conservation and rehabilitation works including:
  - (i) rehabilitation of the Besakih neighborhood;
  - (ii) development of a provincial inventory of historic places;
  - (iii) strengthening the capacity for conservation of physical cultural heritage; and
  - (iv) development and installation of signs in Bahasa-Indonesia and other languages at selected historical sites; and
- (b) the provision of training for the staff of provincial and local agencies responsible for the design, preparation and implementation of cultural heritage conservation activities.

\* \* \*

The Project is expected to be completed by June 30, 2002.

ANNEX TO SCHEDULE 2

SECTION I

Participating Local Governments

Kotamadya Denpasar  
Kabupaten Badung  
Kabupaten Buleleng  
Kabupaten Jembrana  
Kabupaten Tabanan  
Kabupaten Gianyar  
Kabupaten Klungkung  
Kabupaten Bangli  
Kabupaten Karangasem

SECTION II

Participating PDAMs

PDAM Gianyar  
PDAM Tabanan  
PDAM Bangli  
PDAM Karangasem

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 day occurring on the Interest Payment Date 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%);
- (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 June 15 and December 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 June 15, 2012, 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 such Disbursed Amount.

### SCHEDULE 4

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

###### Part A: General

Goods and works 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, as applicable.

###### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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 and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for works estimated to cost the equivalent of \$1,000,000 or more shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for: (i) works estimated to cost \$3,000,000, and (ii) goods estimated to cost \$200,000 shall be grouped in bid packages.

(c) 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.

(d) Dispute Review Board

Each contract for works estimated to cost \$50,000,000 equivalent or more shall include the provisions for a dispute review board set forth in the standard bidding documents for works referred to in paragraph 2.12 of the Guidelines.

(e) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$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

1. National Competitive Bidding

The following may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines: (a) goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$3,500,000 equivalent; and (b) works, estimated to cost less than \$3,000,000 equivalent per contract, up to an aggregate amount not to exceed \$61,000,000 equivalent.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 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 and works 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

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to: (a) each contract for goods estimated to cost the equivalent of \$200,000 or more; and (b) each contract for works estimated to cost the equivalent of \$1,000,000 or more.

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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individuals raising the contract value to \$50,000 equivalent or above.

### SCHEDULE 5

#### Implementation Program

##### Part A: Implementation Arrangements

##### 1. Provincial Program Implementation Memorandum (PPIM)

Except as the Bank shall otherwise agree, the PPIM shall, inter alia, include the following undertakings:

(a) Cipta Karya shall be designated as the Executing Agency.

(b) Bali shall be designated as the principal Implementing Agency.

(c) The Implementing Agencies for purposes of the Provincial Program Implementation Memorandum shall be Cipta Karya, Bina Marga, Bali, the Participating Local Governments and Participating PDAMs.

(d) Bali shall declare its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and to this end shall carry out its respective part of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, resettlement and cultural heritage conservation practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the implementation of the Project.

(e) Bali shall ensure that the Participating Local Governments and Participating PDAMs carry out their respective parts of the Project in accordance with technical, financial and environmental criteria, cost estimates, financing arrangements, community consultation procedures, implementation timetables, operations and maintenance programs, institutional capacity development programs and the Performance Indicators.

(f) Bali shall, through the PPCU, ensure that procurement of the goods, works and consultants' services required by the Implementing Agencies for their respective parts of 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.

(g) The Implementing Agencies shall use the goods and services financed out of the proceeds of the Loan exclusively for the purposes of their respective parts of the Project.

(h) Bali shall closely monitor the implementation of all proposed activities, and shall inspect, from time to time, the goods, works and services procured by the Implementing Agencies under their respective parts of the Project, including all records and documents relating thereto.

(i) The Borrower, through the Executing Agency, shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, and ensure that appropriate corrective measures are taken by the relevant Implementing Agencies.

(j) The Executing Agency shall cause each Implementing Agency to:

- (i) from time to time, at the request of either the Borrower or the Bank, exchange views with the Participating Local Governments and Participating PDAMs regarding progress achieved in carrying out their respective Sub-projects; and
- (ii) furnish to the Bank all such information and documents related thereto as may reasonably be requested. Bali shall further agree to obtain such information and documents from Participating Local Governments or Participating PDAMs, as may be required by the Borrower, to fulfill its supervision, monitoring, recording and reporting obligations to the Bank.

## 2. Annual Project Implementation Plan (APIP)

The Borrower shall ensure that, commencing on April 15, 1998, and thereafter, by April 15 in each year until the completion of the Project, APIPs are adopted by Bali and each of the Participating Local Governments and their respective PDAMs, in accordance with model terms and conditions which shall have been approved by the Bank, including the scope, costs, time-bound implementation schedules, financing plan and detailed budget arrangements for Sub-projects and other Project activities.

## 3. Sub-projects

In carrying out Part A.1 and D (a) of the Project, the Borrower shall cause the Implementing Agencies to:

(a) select and prepare Sub-projects to be financed under the Project using technical, financial, economic, environmental and social criteria acceptable to the Bank. Such criteria shall include, without limitation:

- (i) each Sub-project shall be prepared by the respective Participating Local Government or Participating PDAM;
- (ii) for each Sub-project under Part A.1 of the Project, a projected minimum economic rate of return of ten percent (10%) shall be required;
- (iii) for each Sub-project involving the involuntary resettlement of any PAP, a RAP has been prepared in accordance with the Resettlement Guidelines and in consultation with said PAP, and such RAP has been approved by the Bank;
- (iv) for each Sub-project, operation and maintenance arrangements have been defined;
- (v) for each Sub-project, the AMDAL requirements have been completed; and
- (vi) for each Sub-project under Part D.(a) of the Project, conservation guidelines have been followed in a manner acceptable to the Bank;

(b) furnish to the Bank for its approval, by not later than November 15, 1997, and thereafter, by November 15 of each year until completion of the Project, a list of Sub-projects proposed to be financed under the Project during the next Fiscal Year, together with all supporting documentation, all in accordance with the criteria set forth in sub-paragraph (a) above; and

(c) promptly after receiving the Bank's approval thereof carry out their respective Sub-projects approved by the Bank in accordance with standard operating procedures and technical guidelines issued by the Provincial Project Coordination Unit, including the carrying out of any RAP approved by the Bank and required under paragraph 3 (a) (iii) above, in a manner acceptable to the Bank.

Part B: Implementing Agencies

Responsibility for the implementation of the Project shall be vested in the Implementing Agencies as follows:

I. Central Executing and Implementing Agencies

1. BAPPENAS, in its capacity of coordinating agency, shall be responsible for providing overall policy guidance and sectoral oversight.

2. Cipta Karya shall be the Executing Agency and shall be responsible for: (a) overseeing the overall progress of Project implementation; (b) ensuring coordination of Project activities among Implementing Agencies at the central, provincial and local levels; and (c) carrying out overall technical supervision and management of Project activities.

3. Bina Marga shall be responsible, at the national level, for the implementation of its respective Sub-projects referred to under Part A.1 (a) of the Project.

4. The Directorate General of Water Resources Development within the Ministry of Public Works shall be responsible, at the national level, for the implementation of its respective Sub-projects referred to under Part A.1 (c) of the Project.

5. The Directorate General of Financial Institutions within the Borrower's Ministry of Finance shall be responsible for the execution, enforcement and supervision of the Subsidiary Loan Agreements.

6. The Ministry of Home Affairs shall be responsible for providing guidance to the provincial and local Implementing Agencies on all aspects pertaining to general organizational structure and staffing matters required throughout Project implementation.

7. Bapedal shall be responsible for providing guidance to Implementing Agencies on all environmental matters under the Project.

II. Provincial Implementing Agencies

1. Bali shall be the lead Implementing Agency and shall be responsible for the implementation of the Project.

2. (a) In discharging its implementation responsibilities, Bali shall maintain at all times during Project implementation the PPCU within the Office of Bappeda Bali.

(b) The PPCU shall be responsible for the overall coordination of the PCUs and management of the Project and shall provide support in the implementation of the Project through: (i) ensuring the technical quality of Project activities; (ii) reviewing proposed Sub-projects and furnishing them to the Bank for approval; (iii) issuing standard operating procedures and related guidelines for the implementation of Sub-projects by Implementing Agencies; (iv) monitoring the implementation of Sub-projects, and establishing, maintaining and monitoring accounting and auditing procedures and documentation, including the preparation and consolidation of Project accounts; (v) supervising the implementation of RAPs and environmental mitigation measures in accordance with the EMMP; (vi)

preparing, in close coordination with the Executing Agency, the quarterly and annual progress reports on overall Project implementation and furnishing said reports to the Borrower and the Bank; and (vii) coordinating the provision of training for local project management staff in procurement procedures.

3. The various provincial agencies shall be responsible for managing their respective Sub-projects and, to this end, shall appoint and thereafter maintain, at all times, during Project implementation, a qualified and experienced Sub-project Manager (PIMPRO) for each of said Sub-projects. The PIMPRO shall be responsible for: (a) day-to-day management of Sub-project activities; and (b) overseeing implementation of environmental management and monitoring plans and activities under the Sub-projects.

4. (a) Bali shall maintain until completion of the Project, the Bapedalda. BLH shall carry out the activities for which Bapedalda is responsible until such time as Bapedalda has become operational.

(b) The Bapedalda shall be responsible for: (i) providing overall guidance and supervision of environmental management and monitoring plans activities under the Project pursuant to the EMMP; (ii) reviewing and approving environmental documentation submitted by the Implementing Agencies with their respective Sub-project proposals; (iii) coordinating the provision of environmental training activities for the staff of the Implementing Agencies; and (iv) providing general oversight for the implementation of mitigation activities for environmental impacts and other remedial actions identified during Project implementation and detailed under the APiPs.

### III. Participating Local Governments

1. Each Participating Local Government shall be responsible for the coordination and monitoring of the implementation of Sub-projects carried out in the jurisdiction of such Participating Local Government.

2. (a) In discharging its implementation responsibilities, each Participating Local Government shall maintain at all times during Project implementation, a PCU.

(b) The PCU shall be staffed with competent and qualified staff in adequate numbers. Such staff shall include (i) a full-time Project Manager assigned with appropriate functions, responsibilities, resources and funds, and (ii) representatives of the Kabupaten or Kotamadya Planning Agency (Bappeda II), the Local Agency of Public Works (DPUK) and the Kabupaten or Kotamadya Finance Division.

(c) The PCU shall be responsible for overall coordination of the implementation of Project activities in the jurisdiction of the respective Participating Local Government.

### IV. Participating PDAMs

Each Participating PDAM shall be responsible for:

- (a) the implementation of the respective Sub-project; and
- (b) the implementation of the respective FRAP.

### Part C: Implementation Actions

1. The Borrower undertakes to carry out the asset acquisition of, compensation to, and resettlement and rehabilitation of, Project Affected Persons in accordance with the provisions of the Resettlement Guidelines and of the RAPs, if applicable.

2. The Borrower shall:

(a) through the relevant national public works inspectorate general (ITJEN PU), the Bali Provincial Inspectorate (ITWIL PROP), and the relevant Kabupaten or Kotamadya inspectorates (ITWIL KAB/KOT), carry out, not later than October 31, 1998, and annually thereafter, until the

completion of the Project, annual technical audits, acceptable to the Bank, for Project quality assurance, including achievement of Project objectives pursuant to the Performance Indicators, provision of compensation under the RAPs, if applicable, and performance under contracts for goods, works and consultants' services financed under the Project; and

(b) promptly after completion of the said technical audits, furnish to the Bank the recommendations submitted as part of said audits.

3. The Borrower shall, and shall cause Bali to maintain policies and procedures adequate to enable the Borrower and Bali 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.

4. (a) The Borrower shall, and shall cause Bali to, prepare, under terms of reference acceptable to the Bank, and furnish to the Bank, on or about August 31 of each year, commencing August 31, 1998, and until the completion of the Project, a report integrating the results of the monitoring and evaluation activities performed pursuant to Section 3 above, on the progress achieved in the carrying out of the Project during the period preceding the date of said report 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.

(b) The Borrower shall review with the Bank, by October 31 of each year, commencing October 31, 1998 and 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, and carry out an annual project implementation review to, inter alia: (i) evaluate progress achieved by the Implementing Agencies, in carrying out the Project, including the carrying out of the RAPs and the timely provision of local counterpart funds to finance such RAPs; (ii) evaluate performance of the Participating Local Governments and Participating PDAMs, under the respective APIPs, SLAs and FRAPs, during the previous year and review draft APIPs and SLAs proposed for the upcoming year; (iii) evaluate progress in the carrying out of the studies referred to under Part C.2 (b) of the Project and the training activities referred to under Parts C.2 (a) and D (b) of the Project; (iv) assess the level of expenditures incurred by Participating Local Governments and Participating PDAMs to finance the costs of operation and maintenance of infrastructure financed under the Project, during the previous Fiscal Year and PDAM Fiscal Year and the allocations proposed for the following Fiscal Year and PDAM Fiscal Year; (v) monitor the implementation of environmental management and monitoring plans and activities approved by the Bapedalda; (vi) discuss and exchange views on all other related activities financed by foreign assistance; and (vii) exchange information among Implementing Agencies and propose solutions to any current implementation issue.

(c) The Borrower shall, and shall cause Bali to, promptly 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 reviews.

5. The Borrower shall and shall cause the Implementing Agencies responsible for the implementation of Sub-projects to carry out the EMMP required under the respective Sub-project.

6. The Borrower shall cause the Participating PDAMs to take all measures required to implement the respective FRAPs agreed with the Bank, as such FRAPs may be amended from time to time in agreement with the Bank.

7. In carrying out the studies described under Parts B and C of the Project, the Borrower shall, and shall cause Bali to:

(a) carry out the studies in accordance with terms of reference and timing acceptable to the Bank;

(b) furnish to the Bank for comments, not later than December 31, 2000, the recommendations of the studies; and

(c) promptly thereafter prepare relevant action plans, taking into account the comments of the Bank on the recommendations of the studies.

8. In carrying out the training described under Parts C.2 (a) and D (b) of the Project, the Borrower shall, and shall cause Bali to, carry out such training in accordance with programs and implementation timetables acceptable to the Bank.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) (3) and, (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$6,400,000 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 \$3,200,000 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 \$12,800,000.

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 acceptable 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.