

CONFORMED COPY

LOAN NUMBER 4643 IND

Loan Agreement

(Eastern Indonesia Region Transport Project)

between

REPUBLIC OF INDONESIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated January 22, 2002

LOAN NUMBER 4643 IND

LOAN AGREEMENT

AGREEMENT, dated January 22, 2002, 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) (the General Conditions) constitute an integral part of this Agreement.

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

- (a) “BAPPENAS” means the Borrower’s National Development Planning Agency;
- (b) “Eligible Categories” means Categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;
- (c) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;
- (d) “Environmental Management Plan” means the Plan, adopted by the Borrower on November 6, 2001, setting forth the measures to be taken during the implementation and operation of the Project to eliminate or offset adverse environmental impacts or to reduce such impacts to acceptable levels, and setting forth the actions needed to implement these measures;
- (e) “Fiscal Year” and “FY” mean the Borrower’s fiscal year commencing January 1 and ending December 31;
- (f) “Isolated Vulnerable People” means those social groups in Indonesia that have a distinct social and cultural identity, and that are susceptible to being disadvantaged in the development process induced by the Project or any part thereof;
- (g) “Isolated Vulnerable People Development Plan” means a development plan prepared by a Project Province pursuant to the provisions of the guidelines for the treatment of Isolated Vulnerable People set out in the Environmental Management Plan, and pursuant to the recommendations of the social impact assessment carried out in accordance with such guidelines, and acceptable to the Bank, to mitigate any social or cultural impact of the Project on Isolated Vulnerable People;
- (h) “Kabupaten” means a regional autonomous district within a province of the Borrower;
- (i) “Kota” means a municipality, an administrative division within a province of the Borrower;

- (j) “Land Acquisition and Resettlement Action Plan” means a resettlement and rehabilitation action plan, acceptable to the Bank, prepared and implemented by a Project Province, pursuant to the Land Acquisition and Resettlement Policy Framework and paragraph 4 (e) of Schedule 5 to this Agreement;
- (k) “Land Acquisition and Resettlement Policy Framework” means the Policy Framework set out in the Borrower’s letter to the Bank of even date with this Agreement and appended to the Environmental Management Plan, for the provision of compensation, rehabilitation and resettlement assistance to Project Affected Persons;
- (l) “P3JJ” means the Provincial Project Office for the Design and Supervision of Road and Bridge Works in each of the Project Provinces;
- (m) “Project Affected Persons” means persons who, on account of the execution of the Project, had or would have their: (i) standard of living adversely affected; or (ii) right, title, interest in any house, land (including premises, agricultural and grazing land) or any other physical asset acquired or possessed, temporarily or permanently; (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and “Project Affected Person” means individually all those who qualify as Project Affected Persons;
- (n) “Project Management Manual” means the manual to assist the Central, Provincial and Local Governments’ Project staff in the implementation of the Project through the description of, *inter alia*, procurement procedures (including the letter on national competitive bidding procedures) and standard documentation, reporting requirements, financial management procedures including audit procedures, and environmental criteria applicable to Project design, as such Project Management Manual may be amended from time to time in agreement with the Bank;
- (o) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;
- (p) “Project Management Unit” means the unit established in the Directorate of Technical Affairs of the Directorate General of Regional Infrastructure in the Borrower’s Ministry of Settlements and Regional Infrastructure for the purposes set forth in paragraph 2 of Schedule 5 to this Agreement;
- (q) “Project Provinces” means the Borrower’s provinces of Bali, Gorontalo, Kalimantan Barat, Kalimantan Selatan, Kalimantan Tengah, Kalimantan Timur, Maluku, Maluku Utara, Nusa Tenggara Barat, Nusa Tenggara Timur, Papua, Sulawesi Selatan, Sulawesi Tengah, Sulawesi Tenggara, and Sulawesi Utara, and any province or provinces that may be established in the future within the geographical boundaries of the provinces referred to above;
- (r) “Road Fund” means the fund to be established in a pilot province by the provincial government for purposes of funding road maintenance in accordance with paragraph 7 of Schedule 5 to this Agreement;
- (s) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;
- (t) “Steering Committee” means the inter-agency committee established by the Borrower for the purposes set forth in paragraph 1 of Schedule 5 to this Agreement; and
- (u) “Strategic road” means an arterial road that satisfies the classification criteria of national roads under the Borrower’s Road Law but that has not yet been reclassified as a national road.

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 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, 2006, 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 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 said 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 United States 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

(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 semi-annually in arrears on April 15 and October 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 through its Ministry of Settlements and Regional Infrastructure 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. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants’ services required for the Project and to be financed out of the proceeds of the

Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. 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 a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, 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 Project Management Reports, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 Project Management Reports submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. The Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter, a Project management report for such period, which:

(a) (i) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and Projected sources and applications of funds for the Project for the six-month period following the period covered by said report and (ii) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(b) (i) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (ii) explains variances between the actual and previously forecast implementation targets; and

(c) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

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:

(a) that the Steering Committee has been established in accordance with paragraph 1 of Schedule 5 to this Agreement; and

(b) that the annual work program for Fiscal Year 2002, acceptable to the Bank, has been finalized.

Section 5.02. 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, Indonesia, as of the day and year first above written.

REPUBLIC OF INDONESIA

By /s/ A. Anshari Ritonga
Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Mark Baird
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 under:		70%

	(a) Part A.1, A.2 and A.3 of the Project	127,500,000	
	(b) Part A.4 of the Project	1,300,000	
(2)	Goods	12,700,000	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	400,000	80%
(4)	Consultants' services and training	29,000,000	100%

<u>Category</u>	<u>Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(5) Fee	2,000,000	Amount due under Section 2.04 of this Agreement
(6) Unallocated	<u>27,100,000</u>	
TOTAL	200,000,000 =====	

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;

(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; and

(c) the term “incremental operating costs” means reasonable expenditures incurred by the Directorate of Technical Affairs and the Project Management Unit 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.

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, except that withdrawals, in an aggregate amount not exceeding \$4,500,000, may be made in respect of Categories (1) and (2) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after November 1, 2001.

B. Special Account

1. The Borrower shall open and maintain in United States 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. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of this Part B. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each

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.

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

(a) Each application for withdrawal from the Loan Account shall be supported by a Project Management Report.

(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 Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said report to be remaining in the Special Account, shall not exceed the equivalent of \$28,000,000. 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.

3. 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 determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals 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 made on the basis of Project Management Reports.

4. 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.

5. (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.

(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 sub-paragraph (a), (b) or (c) of this paragraph 5 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 objective of the Project is to assist the Borrower in stimulating economic growth and improving social welfare in the Project Provinces through the improvement of access to road transport facilities, the reduction of road transport costs and the efficient use of road transport sector resources.

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

Part A:

1. Carrying out of a program of periodic maintenance works on about 1,000 kilometers of the national and the Strategic road networks in the Project Provinces.
2. Carrying out of a program of betterment works, including widening of roads, on about 1,250 kilometers of the national and the Strategic road networks in the Project Provinces.
3. Carrying out of a program of bridge replacement of a total length of about 5,800 meters, including provision of steel truss bridges, on the national and the Strategic road networks in the Project Provinces.
4. Carrying out of accident mitigation measures in about 90 priority locations in the Project Provinces, including at least three priority locations in each Project Province under the program

Provinces, including at least three priority locations in each Project Province under the program set out in Part B.4 of the Project, to reduce accidents in the Project Provinces.

5. Resettlement and rehabilitation of Project Affected Persons under Parts A.1, A.2, A.3 and A.4 of the Project.

Part B:

1. Strengthening the capacity of the staff of P3JJ in each Project Province in the carrying out of design and supervision of works under Parts A.1, A.2, A.3 and A.4 of the Project, including provision of technical assistance therefor.

2. Strengthening the capacity of the staff of the Project Management Unit in managing the Project, including provision of technical assistance and office and communications equipment therefor.

3. Strengthening the capacity of the staff of the Directorate of Central Region Infrastructure and the Directorate of Eastern Region Infrastructure of the Directorate General of Regional Infrastructure in the Borrower's Ministry of Settlements and Regional Infrastructure in the carrying out of the oversight of design and supervision of civil works under the Project, including provision of technical assistance therefor.

4. Preparation of an accident blackspot program to improve accident blackspots on the national and the Strategic road networks in the Project Provinces, consisting of: (a) the establishment of blackspot investigation units and provision of related training to such units; (b) provision of training to traffic police in traffic accident reporting systems; (c) identification of accident blackspots; (d) development of accident mitigation measures; (e) monitoring of the accident blackspot program; and (f) preparation of a road traffic safety component for the Borrower's proposed Second Eastern Indonesia Region Transport Project; and including provision of technical assistance therefor.

Part C:

1. *Strengthening of Road Management (Planning, Programming and Budgeting Procedures) under Decentralized Operations*

(a) Strengthening the capacity of the staff of the Directorate General of Regional Infrastructure in the Borrower's Ministry of Settlements and Regional Infrastructure in preparing national road budgets, in monitoring performance of the national road sector, and in preparing a medium-term strategic plan for the national road sector, including provision of technical assistance therefor.

(b) Development of a framework for road planning, programming and budgeting procedures under decentralized operation and establishment of road planning, programming and budgeting procedures under decentralized operation at the Borrower's administrative provincial level, with defined resources, methodology and adequate private sector participation, including

level, with defined resources, methodology and adequate private sector participation, including provision of technical assistance therefor to the Directorate General of Regional Infrastructure in the Borrower's Ministry of Settlements and Regional Infrastructure.

(c) Development of a Kabupaten and Kota level local roads management system compatible with the national and provincial systems referred to in sub-paragraphs (a) and (b) above, including provision of technical assistance therefor to the Directorate General of Regional Infrastructure in the Borrower's Ministry of Settlements and Regional Infrastructure.

2. *Strengthening Quality Management for Roads in the Project Provinces*

Establishment in the Project Provinces of: (i) improved road quality assurance procedures and organization, (ii) improved monitoring of civil works for roads, and (iii) new tools to improve the management of quality in road contract administration, road project management and asphalt paving, including the carrying out of related studies and the provision of technical assistance therefor to the Directorate General of Regional Infrastructure in the Borrower's Ministry of Settlements and Regional Infrastructure.

3. *Implementation of a Demonstration Provincial Road Fund*

Establishment and administration of a demonstration Road Fund in a pilot province for the financing of road maintenance, and provision of related technical assistance to such province.

4. *Automated Road Monitoring Surveys*

Carrying out of an automated road monitoring survey in selected provinces of the Borrower, including Maluku, North Maluku, Papua and Aceh, to assist in the planning, monitoring and design of roads and bridges, including the provision of technical assistance therefor to the Directorate General of Regional Infrastructure in the Borrower's Ministry of Settlements and Regional Infrastructure.

5. *Improvement of Standard Bidding Documents for Roads and Bridges*

Improvement of the Borrower's standard bidding documents for roads and bridges through the preparation of standard bidding documents to include specifications, construction safety measures and environmental standard operating procedures for minimizing and mitigating common adverse environmental impacts, and provision of technical assistance therefor to the Directorate General of Regional Infrastructure in the Borrower's Ministry of Settlements and Regional Infrastructure.

6. *Training and Studies*

(a) Carrying out of a study to determine the organizational structure and institutional linkages in training delivery between the Borrower's Ministry of Settlements and Regional Infrastructure and the Project Provinces' Road Agencies and the road sector training needs of provincial and Kabupaten staff in the Project Provinces, including provision of technical assistance therefor to the Directorate General of Regional Infrastructure in the Borrower's

assistance therefor to the Directorate General of Regional Infrastructure in the Borrower's Ministry of Settlements and Regional Infrastructure.

(b) Preparation of training modules for road and bridge planning, design, construction supervision, maintenance, and related environmental management and land acquisition, including provision of technical assistance therefor to the Directorate General of Regional Infrastructure in the Borrower's Ministry of Settlements and Regional Infrastructure.

(c) Carrying out of road and bridge planning, design, construction supervision, maintenance, and related environmental management and land acquisition training for provincial, Kabupaten and Kota staff in the Project Provinces, including provision of technical assistance therefor to the Directorate General of Regional Infrastructure in the Borrower's Ministry of Settlements and Regional Infrastructure.

(d) (i) Development of job descriptions and competencies for road sector construction workers, and programs to improve their productivity; and (ii) updating of existing road sector construction worker training modules and development of new training modules; including provision of technical assistance therefor to the Construction Industry Training Center of the Borrower's Ministry of Settlements and Regional Infrastructure.

* * *

The Project is expected to be completed by December 31, 2005.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
April 15, 2007	4,970,000
October 15, 2007	5,065,000
April 15, 2008	5,165,000
October 15, 2008	5,265,000
April 15, 2009	5,370,000
October 15, 2009	5,470,000
April 15, 2010	5,580,000
October 15, 2010	5,690,000
April 15, 2011	5,800,000
October 15, 2011	5,910,000
April 15, 2012	6,025,000
October 15, 2012	6,145,000
April 15, 2013	6,265,000
October 15, 2013	6,385,000
April 15, 2014	6,510,000

October 15, 2014	6,640,000
April 15, 2015	6,770,000
October 15, 2015	6,900,000
April 15, 2016	7,035,000
October 15, 2016	7,170,000
April 15, 2017	7,310,000
October 15, 2017	7,455,000
April 15, 2018	7,600,000
October 15, 2018	7,745,000
April 15, 2019	7,900,000
October 15, 2019	8,050,000
April 15, 2020	8,210,000
October 15, 2020	8,370,000
April 15, 2021	8,535,000
October 15, 2021	8,695,000

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

SCHEDULE 4

Procurement

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, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

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) 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.

(b) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$3,000,000 equivalent per contract, up to an aggregate amount not to exceed \$190,900,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and in accordance with the provisions of the Supplemental Letter on National Competitive Bidding Procedures of even date with this Agreement and appended to the Project Manual.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 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 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

With respect to each contract for goods estimated to cost the equivalent of \$50,000 or more, each contract for works estimated to cost the equivalent of \$1,750,000 or more, the first contract for betterment works in each Project Province estimated to cost less than \$1,750,000, the first contract for periodic maintenance works in each Project Province estimated to cost less than \$1,750,000, and the first contract for bridge replacement works in each Project Province estimated to cost less than \$1,750,000, the procedures set forth in paragraphs 2 and 3 of

estimated to cost less than \$1,750,000, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

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

1. Selection Planning

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

2. Prior Review

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

3. Post Review

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

SCHEDULE 5

Implementation Program

1. The Borrower shall establish and, thereafter, maintain until completion of the Project, an inter-agency Steering Committee chaired by BAPPENAS' Deputy for Production, Trade and 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 for purposes of Project implementation.

2. The Borrower shall maintain until completion of the Project, a Project Management Unit in the Directorate General of Regional Infrastructure of the Borrower's Ministry of Settlements and Regional Infrastructure, responsible for the implementation of the Project, chaired by the Director of Technical Affairs of the Directorate General of Regional Infrastructure, and 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 objectives.

3. The Borrower shall, through the Directorate General of Regional Infrastructure of the Borrower's Ministry of Settlements and Regional Infrastructure and through the local governments of the Project Provinces, take all such action as shall be necessary to ensure that:

(a) not later than June 30 in each year, commencing June 30, 2002, and until the completion of the Project, a draft annual work program 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 screening of the proposed works, (iii) the Land Acquisition and Resettlement Action Plans and the Isolated Vulnerable People Development Action Plans; (iv) cost estimates; (v) time-based implementation schedules; (vi) financing plan; and (vii) budget arrangements; and

(b) not later than November 30 in each year, commencing November 30, 2002, finalize the above mentioned annual work program for implementation, taking into account the comments of the Bank thereon.

4. 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 annual work

program referred to in paragraph 3 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 Project Affected Persons have been considered in the design of the proposed works and activities;

(e) for proposed works and activities involving the involuntary resettlement of Project Affected 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 Project Affected Persons, (ii) such Land Acquisition and Resettlement Action Plan has been approved by the Bank, and (iii) every Project Affected 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 guidelines for the treatment of Isolated Vulnerable People has been prepared, including an Isolated Vulnerable People's 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.

5. In carrying out Part C.1 of the Project, the Borrower shall:

(a) not later than July 31, 2005, furnish the recommendations of the study on the proposed framework referred to therein to the Bank for review and comments; and

(b) thereafter, prepare and carry out an action plan to develop such framework taking into account the comments of the Bank on the recommendations of the study, if any.

6. In carrying out Part C.2 of the Project, the Borrower shall:
 - (a) not later than July 31, 2005, furnish the recommendations of the studies to the Bank for its review and comments; and
 - (b) thereafter, prepare and carry out an action plan for the implementation of the recommendations of the studies taking into account the comments of the Bank on the recommendations of the studies, if any.

7. In carrying out Part C.3 of the Project, the Borrower shall:
 - (a) select the pilot province in accordance with criteria acceptable to the Bank;
 - (b) take all measures required to establish the Road Fund in the pilot province by June 30, 2004, and, promptly thereafter, operate the Road Fund in a manner acceptable to the Bank; and
 - (c) by December 31, 2005, furnish to the Bank a report on the implementation of the Road Fund including recommendations on the establishment of road funds in other provinces.

8. In carrying out Part C.4 of the Project, the Borrower shall, not later than December 31, 2003, complete the automated road monitoring survey in a manner acceptable to the Bank.

9. In carrying out Part C.5 of the Project, the Borrower shall, not later than December 31, 2003, finalize the enhanced bidding documents, in a manner acceptable to the Bank.

10. In carrying out Part C.6 (a), (b) and (c) of the Project, the Borrower shall, not later than June 30, 2003, furnish to the Bank for its review and comments the draft report on training and the training modules, and, thereafter, finalize such report and training modules taking into account the comments of the Bank, if any.

11. In carrying out Part C.6 (d) of the Project, the Borrower shall, not later than December 31, 2003, furnish the recommendations of the studies and the training modules to the Bank for its review and comments, and, thereafter, prepare and carry out an action plan for the implementation of the recommendations taking into account the comments of the Bank on the recommendations, if any.

12. 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, 2003, 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, 2003, 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

<u>Performance Indicators</u>	<u>Indicator</u>	<u>Baseline</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<i>A. Objective: Improvement of national and Strategic roads to reduce road transport costs and provide reliable road access</i>						
1. Percent of segments on the budgeted work program which are recommended by IIRMS (the Integrated Indonesian Road Management System)	Impact	62%	70%	75%	80%	85%
2. Network condition:						
(a) Roads: international roughness index	Outcome	7.0	6.9	6.8	6.7	6.5
(b) Bridges: condition mark	Outcome	1.37	1.32	1.27	1.27	1.16
<i>B. Objective: Decentralized planning and management of roads to be operational and sustainable</i>						
3. Timeliness of annual work program: Number of Project Provinces which have submitted a long list Annual Work Program by August 15 in each year	Impact	0	2	9	13	15
4. Number of Project Provinces where BAPEDALDAs	Outcome	0	5	9	12	15

(provincial environmental protection agencies) furnish reports on environment and social aspects of the annual work program to the Project Management Unit

<u>Performance Indicators</u>	<u>Indicator</u>	<u>Baseline</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
5. Reports from the Planning, Programming, Budgeting Procedures Technical Assistance	Output			Phase 1 Report	Phase 2 Report	Phase 3 Report
<i>C. Objective: Improved use of scarce financial and natural resources through increased efficiency, quality and transparency of implementation</i>						
6. Quality of Initial Design: Percent of Sub-activities which meet design criteria	Impact	28%	50%	70%	80%	90%
7. Technical Audit of Works: Number carried out	Outcome	0	15	15	15	10
8. Reports from quality assurance technical assistance are available	Output			Phase 1 Report		Phase 2 Report
<i>D. Physical Outputs</i>						
9. Works Completed:	Output					
(a) Cumulative Kilometers of Betterment		0 km	400km	800km	1100km	1250km
(b) Cumulative Kilometers of Periodic Maintenance		0 km	300km	600km	800km	1000km
(c) Cumulative meters of Bridge Replacement		0m	400m	2500m	4500m	5800m
(d) Cumulative number of treated Accident Blackspots		0	0	35	65	90