

CONFORMED COPY

LOAN NUMBER 3749-0 IND

Loan Agreement

(Semarang - Surakarta Urban Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 22, 1994

LOAN NUMBER 3749-0 IND

LOAN AGREEMENT

AGREEMENT, dated June 22, 1994, 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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "Affected Person" and "Affected Persons" means individually the person and collectively the persons whose right, title or interest in any property is acquired or is intended to be acquired or whose property is otherwise possessed or intended to be possessed and who as a result thereof has been or would be displaced or dispossessed from his/their habitat or land or precluded from carrying out his/their business, occupation or work on account of the execution of Part A.3 (a) of the Project; and "Affected Family" means the immediate members of the Affected Person and family residing with the Affected Person at the time of said acquisition or possession of the Affected Person's property.

(b) "BAPPEDA Level I" means the provincial development planning agency, or any successor thereto, of Central Java Province, a political subdivision of the Borrower.

(c) "NBP" means Badan Pertanahan Nasional, the National Land Agency of the Borrower, or any successor thereto.

(d) "Eligible Beneficiaries" means the selected individuals to whom Sub-loans (as the term is defined herein) are provided out of the proceeds of the Loan.

(e) "Implementing Agencies" means any of the agencies responsible for Project implementation as set forth under Part B.I. (a) of Schedule 5 to this Agreement.

(f) "KM Semarang" means Kotamadya Semarang, the Semarang municipal government.

(g) "KM Surakarta" means Kotamadya Surakarta, the Surakarta municipal government.

(h) "MPW" means the Borrower's Ministry of Public Works or any successor thereto.

(i) "PDAM" means Perusahaan Daerah Air Minum, a local water supply enterprise, established and operating 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 Borrower's Ministry of Home Affairs, and Joint Decree of the Borrower's Ministry of Home Affairs No.3 of 1984 and the Borrower's Ministry of Public Works No. 26/KPTS of 1984, as any of the same may be amended from time to time.

(j) "PDAM Semarang" means the PDAM established and operating in Semarang, as hereinafter defined.

(k) "PDAM Surakarta" means the PDAM established and operating in Surakarta, as hereinafter defined.

(l) "Semarang PIA" means the Project Implementation Agreement to be entered into between the Borrower and the Mayor of KM Semarang on behalf of KM Semarang and PDAM Semarang pursuant to Section 3.03 (a) of this Agreement.

(m) "Surakarta PIA" means the Project Implementation Agreement to be entered into between the Borrower and the Mayor of KM Surakarta on behalf of KM Surakarta and PDAM Surakarta pursuant to Section 3.03 (b) of this

Agreement.

(n) "PIAS" means, collectively, the Semarang PIA and the Surakarta PIA.

(o) "Resettlement and Rehabilitation Action Plan" means the Semarang Drainage and Flood Control Compensation and Resettlement Plan, dated August 25, 1993, and amended by Letter of Instruction issued by the Mayor of Semarang dated January 22, 1994, prepared by KM Semarang, for carrying out the resettlement and rehabilitation of each Affected Person and Affected Family, as such plan may be amended from time to time by agreement between the Borrower and the Bank, pursuant to the terms and conditions described in Schedule 6 to this Agreement.

(p) "RIAP" means the Revenue Improvement Action Plan describing a program of actions to increase local revenue generation at the level of the Kotamadya.

(q) "Semarang SLAS" means, the subsidiary loan agreements to be entered into between:

- (i) the Borrower and KM Semarang; and
- (ii) the Borrower and PDAM Semarang, respectively, pursuant to Section 3.03 (c) of this Agreement.

(r) "Surakarta SLAS" means, the subsidiary loan agreements entered into between:

- (i) the Borrower and KM Surakarta; and
- (ii) the Borrower and PDAM Surakarta, respectively, "SLAS" means, collectively, the Semarang SLAS and the Surakarta SLAS.

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

(u) "Semarang" means the Semarang municipality, a political subdivision of the Borrower, or any successor or successors there-to.

(v) "Surakarta" means the Surakarta municipality, a political subdivision of the Borrower, or any successor or successors thereto.

(w) "Subsidiary Agreements" means, collectively, the Semarang PIA, the Surakarta PIA, the Semarang SLAS and the Surakarta SLAS.

(x) "fiscal year" or "FY" means the Borrower's and the Kotamadya fiscal year which runs from April 1 to March 31.

(y) "PDAM FY" means any of the PDAMol fiscal year which runs from January 1 to December 31.

(z) "Project Preparation Advance" means the project preparation advances granted by the Bank to the Borrower pursuant to an exchange of letters dated December 20, 1990 and May 10, 1991; and February 24, 1993 and March 29, 1993.

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 in various currencies that shall have an aggregate value equivalent to the amount of one hundred seventy four million dollars (\$174,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect

to the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in US Dollars a special deposit account in Bank Indonesia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 7 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall be thereupon cancelled.

Section 2.03. The Closing Date shall be September 30, 1999 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. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect to the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund:

(A) the Bank's investments; and

(B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) on such date as the Bank may specify by no less than six months, notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated

at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter, means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the Implementing Agencies, all with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, social and resettlement practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Notwithstanding the generalities of Section 3.01 (a) of this Section, the Borrower shall ensure that grant funds are transferred to KM Semarang and KM Surakarta, in a timely manner in order to carry out their respective Parts of the Project.

(c) 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 S 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. (a) The Borrower shall enter into the Semarang PIA with KM Semarang and PDAM Semarang, on terms and conditions satisfactory to the Bank including those set forth in Part A.1 of Schedule 5 to this Agreement.

(b) The Borrower shall enter into the Surakarta PIA with KM Surakarta and PDAM Surakarta on terms and conditions satisfactory to the Bank including those set forth in Part A. 1 of Schedule 5 to this Agreement.

(c) The Borrower shall make available out of the proceeds of the Loan:

- (i) ten million three hundred thousand dollars (\$10,300,000) and forty two million one hundred thousand dollars (\$42,100,000) equivalent, to KM Semarang and PDAM Semarang, respectively, under the Semarang SLA; and
- (ii) four million six hundred thousand dollars (\$4,600,000) and nine million five hundred thousand dollars (\$9,500,000) equivalent, to KM Surakarta and PDAM Surakarta, respectively, under the Surakarta SLA, on terms and conditions satisfactory to the Bank.

(d) The SLAs shall, inter alia, include the following provisions:

- (i) the interest payable on the principal amount of the subsidiary loan withdrawn from time to time shall be fixed at an annual rate of 11.5%;

- (ii) the commitment charge payable on the principal amount of the subsidiary loan not withdrawn from time to time shall be equivalent to the rate determined under Section 2.04 of this Agreement;
 - (iii) the term of each subsidiary loan shall be 20 (twenty) years, including a grace period of 5 (five) years.
 - (iv) financial and other covenants pursuant to the provisions of Parts A.2 and A.3 of Schedule 5 to this Agreement; and
 - (v) the Borrower shall bear the foreign exchange risk and interest variations.
- (e) The Borrower shall exercise its rights under the PIAs and SLAs in such manner as to:
- (i) protect the interests of the Bank and the Borrower;
 - (ii) comply with its obligations under this Agreement; and
 - (iii) achieve the objectives of the Project;
- (f) Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the PIAs or SLAs or any provisions thereof.

ARTICLE IV

Financial Covenants

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

- (b) The Borrower shall:
- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
 - (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.
- (c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:
- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
 - (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
 - (iii) enable the Bank's representatives to examine such records;

and

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

ARTICLE V

Remedies of the Bank

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

(a) KM Semarang or PDAM Semarang shall have failed to perform any of their respective obligations under the Semarang PIA.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that KM Semarang or PDAM Semarang will be able to perform any of their respective obligations under the Semarang PIA.

(c) KM Surakarta or PDAM Surakarta shall have failed to perform any of their respective obligations under the Surakarta PIA.

(d) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that KM Surakarta or PDAM Surakarta will be able to perform any of their respective obligations under the Surakarta PIA.

(e) The laws and regulations establishing KM Semarang and KM Surakarta or PDAM Semarang and PDAM Surakarta shall have been amended, suspended, abrogated, or repealed so as to affect materially and adversely the ability of KM Semarang and KM Surakarta or PDAM Semarang and PDAM Surakarta to perform any of their respective obligations under the PIAS.

(f) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of KM Semarang, KM Surakarta, PDAM Semarang or PDAM Surakarta and or for the suspension of their respective operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraphs (a), and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of ninety days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraphs (e) and (f) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the PIAS and the SLAs have been duly approved by all relevant authorities and executed by the respective parties thereto.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the PIAS and the SLAs have been duly authorized or ratified by their respective

parties thereto and are legally binding upon said parties in accordance with their respective terms.

Section 6.03. The date one hundred and twenty (120) 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:

Minister of Finance
c/o Directorate General of Budget Jalan Lapangan Banteng Timur
2-4 P.O. Box 139
Jakarta 10710
Indonesia

Cable address:

Telex:

FINMINISTRY
Jakarta

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:

Telex:

INTBAFRAD 248423 (RCA),
Washington, D.C. 82987 (FTCC),
 64145 (WUI) or
 197688 (TRT)

IN WITNESS WHEREOF, the parties hereof to, 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/ Gautam S. Kaji

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 Dollar Equivalent)	% of Expenditures to be Financed
Part A of the Project:		
(1) Civil works	45,800,000	65%
(2) Equipment and supplies	2,700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(3) Consultants' services and training	3,500,000	100%
(4) Sub-projects under the SLAS:		
(a) KM Semarang	10,300,000	100%
(b) PDAM Semarang	42,100,000	100%
Part B of the Project:		
(5) Civil works	21,800,000	65%
(6) Equipment and supplies	3,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(7) Consultants' services and training	2,200,000	100%
(8) Sub-projects under the SLAS:		
(a) KM Surakarta	4,600,000	100%
(b) PDAM Surakarta	9,500,000	100%
Part C of the Project		
(9) Consultants' services		

and training:

(a) employed by the Borrower	14,600,000	80%
(b) employed by provincial agencies	1,100,000	100%
(10) Refunding of Project Preparation Advance	1,700,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(11) Unallocated	11,100,000	
TOTAL	\$ 174,000,000	

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.

(c) the term "sub-projects financed under the SLAS", means expenditures for works, goods, and consultants' services procured by KM Semarang, KM Surakarta, PDAM Semarang and PDAM Surakarta, in the carrying out of Parts A.1, A.2, A.3, A.4, A.5, A.6, B.1, B.2, B.3, B.4, B.5 and B.6 of the Project and financed under the respective SLAS.

3. Notwithstanding the provisions of paragraph I 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 to exceed five million dollars (\$5,000,000), may be made in respect of Categories (1), (2), (3), (5), (6), (7), (9) (a) and (9) (b) on account of payments made for expenditures before that date but after November 1, 1993.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for:

(a) goods not exceeding two hundred thousand dollars (\$200,000);

(b) works not exceeding one million dollars (\$1,000,000) equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower;

(c) the employment of consulting firms estimated to cost less than \$100,000; and

(d) the employment of individuals, estimated to cost less than \$50,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to improve, through the carrying out of sub-projects in Semarang and Surakarta:

(a) the provision of urban infrastructure and services;

(b) the efficiency of urban investments;

(c) the development and strengthening of municipal governments; and

(d) the implementation of urban environmental management and poverty alleviation activities.

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: Semarang

1. Urban Roads

(a) construction and improvement of priority urban roads, including the construction of new bridges.

(b) Carrying out of periodic maintenance of priority urban roads and routine maintenance of urban roads

(c) Carrying out of a traffic management program, including improvements to road links, intersections, traffic signals, public transport and pedestrian facilities, parking areas and road safety.

2. Water Supply

(a) Refurbishing and carrying out of maintenance of deepwells and the existing water treatment plant at Kali Garang.

(b) Increasing the capacity of the existing Gajah Mungkur water treatment plant.

(c) Construction of an intake facility and a water treatment plant at Kudu.

(d) Designing and carrying out of a water loss reduction program.

(e) Expansion of the transmission storage and distribution system through the installation of pipelines and the construction of water storage reservoirs and pumping stations.

(f) Installation of new water service connections and provision of new public taps to benefit about 90,000 households.

3. Drainage

(a) Improvement of primary, secondary and tertiary drains.

(b) Carrying out of routine maintenance of the drainage system.

(c) Resettlement and rehabilitation of Affected Persons displaced by the carrying out of drainage works along the river (kali) Banger including:

(i) the provision of housing assistance, serviced plots, utilities, civic facilities, access roads and transportation assistance; and

(ii) the administration, monitoring and evaluation thereof.

4. Sanitation and Sewerage

(a) Improvement of off-site sanitation facilities comprising the construction of:

(i) trunk and interceptor sewers;

(ii) a waste water treatment facility;

(iii) pumping stations; and

(iv) a pilot area with full sewerage and house connections.

(b) Improvement of on-site sanitation facilities comprising:

(i) construction of a septage treatment facility;

- (ii) construction of communal lavatory and toilet facilities;
- (iii) provision of sludge collecting vehicles; and
- (iv) carrying out of a loan program to assist about 4, 500 individual households with the construction of septic tanks.

5. Solid Waste Management

(a) Improvement of solid waste disposal sites comprising:

- (i) upgrading of the Jatibarang disposal site;
- (ii) construction of a road to facilitate access to the Jatibarang disposal site; and
- (iii) rehabilitation and closure of existing disposal sites.

(b) Selection of the appropriate location and land acquisition for the construction of a new disposal site.

(c) Improvement of the solid waste collection system comprising the provision of equipment, dump trucks, armroll trucks, loader, backhoe and handcarts.

6. Rampung Improvement Program and Market Improvement Program

(a) Carrying out of a program to improve urban neighborhood (Kampung) infrastructure.

(b) Carrying out of a program to strengthen social and economic community development.

(c) Rehabilitation and improvement of infrastructure and facilities in selected markets.

7. Urban Renewal

Carrying out of a feasibility study, and preparation and implementation of an action plan for the improvement of physical infrastructure in the low-income area in Bandarharjo, on a pilot basis.

8. Housing Rehabilitation

Provision of financial assistance to low-income urban households, under the National Housing Credit Scheme Program (TRIGUNA), for housing rehabilitation.

9. Historic Areas Conservation

Carrying out of a conservation and physical improvement program to protect historic buildings and areas at Tawang Railway Station and at Kota Lama.

10. Institutional Development

(a) Strengthening of Project management and implementation capabilities of the Implementing Agencies.

(b) Provision of technical assistance in local revenue improvement, including the installation of a land information system.

(c) Carrying out of studies in the following areas: traffic management, sewerage, drainage and industrial liquid waste.

Part B: Surakarta

1. Urban Roads

(a) Construction and improvement of priority urban roads, including the construction of new bridges.

(b) Carrying out of periodic maintenance of priority urban roads and routine maintenance of urban roads.

(c) Carrying out of a traffic management program, including, improvements to road links, intersections, traffic signals, public transport and pedestrian facilities, parking areas and road safety.

(d) Carrying out of a study of investment needs and priority activities for the improvement of urban transport and roads.

2. Water Supply

(a) Construction of new deepwells.

(b) Carrying out of a well maintenance program.

(c) Designing and carrying out of a water loss reduction program.

(d) Expansion of the distribution system through the installation of new, and the rehabilitation of existing distribution pipelines and installation of booster pumps.

(e) Installation of new water service connections and provision of new public taps to benefit about 18,000 households.

(f) Carrying out of a study of water resources and water supply system development and expansion in the Surakarta metropolitan area.

3. Drainage

(a) Improvement of primary, secondary and tertiary drains.

(b) Carrying out of routine maintenance of the drainage system.

(c) Improvement of the Demangan and A. Yani pumping stations.

(d) Construction of a pumping station at Kali Pepe.

4. Sanitation and Sewerage

(a) Improvement and rehabilitation of the existing sewer system comprising:

(i) construction of an interceptor sewer;

(ii) construction of an in-stream waste water treatment plant;

(iii) rehabilitation of the Mojosongo and Jebres sewerage system;

(iv) addition of an oxidation pond sewage treatment facility at Kali Anyar; and

(v) extension of the main trunk sewers.

(b) Carrying out of an on-site sanitation program comprising:

(i) construction of communal lavatory and toilet facilities;

(ii) provision of sludge collecting vehicles; and

(iii) carrying out of a loan program to assist about 2300 individual households with the construction of septic tanks.

5. Solid Waste Management

(a) Upgrading of the Putri Cempo final solid waste disposal site.

(b) Improvement of a solid waste collection system comprising the provision of equipment, dump trucks, armroll trucks, compactor trucks, wheel

loader, backhoe and handcarts.

6. Kamipung improvement Program and Market Improvement Program

(a) Carrying out of a program to improve urban neighborhood (Kampung) infrastructure.

(b) Carrying out of a program to strengthen social and economic community development.

(c) Rehabilitation and improvement of infrastructure and facilities in selected markets.

7. Urban Renewal

Carrying out of a feasibility study, and preparation and implementation of an action plan for the improvement of physical infrastructure in the low-income area in Mojosongo, on a pilot basis.

8. Housing Rehabilitation

Provision of financial assistance to low-income urban households, under the National Housing Credit Scheme Program, (TRIGUNA) for housing rehabilitation.

9. Historic Areas Conservation

Carrying out of a conservation and physical improvement program to protect selected historic buildings and areas.

10. Institutional Building

(a) Strengthening of Project management capabilities of the Implementing Agencies, including advisory services and training.

(b) Provision of technical assistance, local revenue improvement, and the installation of a land information system.

(c) Carrying out of studies in the following areas: traffic management and industrial liquid waste.

Part C: Implementation Support and Training

1. Provision of advisory services to strengthen the Borrower's Project implementation capabilities, including the carrying out of a project management training program.

2. Provision of technical assistance in the following areas: water system development, infrastructure maintenance, sewerage sanitation and urban management support.

* * * *

The Project is expected to be completed by March 31, 1999.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal expressed in dollars*
February 15, 2000	3,295,000

August 15, 2000	3,415,000
February 15, 2001	3,540,000
August 15, 2001	3,670,000
February 15, 2002	3,800,000
August 15, 2002	3,940,000
February 15, 2003	4,085,000
August 15, 2003	4,230,000
February 15, 2004	4,385,000
August 15, 2004	4,545,000
February 15, 2005	4,710,000
August 15, 2005	4,880,000
February 15, 2006	5,060,000
August 15, 2006	5,245,000
February 15, 2007	5,435,000
August 15, 2007	5,630,000
February 15, 2008	5,835,000
August 15, 2008	6,050,000
February 15, 2009	6,270,000
August 15, 2009	6,495,000
February 15, 2010	6,730,000
August 15, 2010	6,975,000
February 15, 2011	7,230,000
August 15, 2011	7,495,000
February 15, 2012	7,765,000
August 15, 2012	8,050,000
February 15, 2013	8,340,000
August 15, 2013	8,645,000
February 15, 2014	8,960,000
August 15, 2014	9,295,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two pre-disclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. Bidders for civil works under Parts A and B of the Project shall be pre-qualified as provided in paragraph 2.10 of the Guidelines.

Part B: Preference for Domestic Manufacturers

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

Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Local Competitive Bidding

(a) Civil works, estimated to cost the equivalent of \$3,000,000 or less per contract, up to an aggregate amount of \$137,300,000; and

(b) Goods, estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$7,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures acceptable to the Bank.

2. Shopping

Goods, estimated to cost the equivalent of \$50,000 or less per contract, up to an aggregate amount equivalent to \$ 700,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part E: Review by the Bank of Procurement Decisions

1. Review of pre-qualification:

With respect to the pre-qualification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract for:

- (i) civil works, estimated to cost the equivalent of \$1,000,000 or more; and
- (ii) goods, estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect to such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix I to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ or cause the relevant Implementing Agencies to employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

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 individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to:

- (i) the terms of reference for such contracts;
- (ii) single-source selection of consulting firms;

- (iii) assignments of a critical nature, as reasonably determined by the Bank;
- (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or
- (v) amendments to contracts for the employment of individual consultants raising the contract value to \$ 50,000 equivalent or above.

SCHEDULE 5

Implementation Program

Part A: Subsidiary Agreements

1. Project Implementation Agreements (PIAS)

(a) Except as the Bank shall otherwise agree, the PIAs shall include, *inter alia*, provisions whereby:

- (b) (i) KM Semarang, KM Surakarta, PDAM Semarang and PDAM Surakarta shall declare their commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and to that end, they shall agree to carry out their respective Parts of the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and resettlement practices, and to provide, promptly as needed, the funds, facilities, services and other resources required therefor.
- (ii) KM Semarang, KM Surakarta, PDAM Semarang and PDAM Surakarta agree that procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan under this Agreement shall be governed by the provisions of Schedule 4 to this Agreement.

(c) KM Semarang, KM Surakarta, PDAM Semarang and PDAM Surakarta shall agree to use the goods and services financed out of the proceeds of the Loan exclusively for the purposes of the Project.

- (i) KM Semarang, KM Surakarta, PDAM Semarang and PDAM Surakarta shall agree that the Borrower or the Bank may from time to time inspect the goods, works and services under the Project including all records and documents relating thereto.
- (ii) The Borrower may suspend or terminate the right of KM Semarang, KM Surakarta, PDAM Semarang and PDAM Surakarta to use the proceeds of the Loan made available under the SLAs upon their failure to perform any of their respective obligations under the PIAs or upon notice by the Bank to the Borrower that it intends to exercise its remedies under Article V of this Agreement.

(d) KM Semarang, KM Surakarta, PDAM Semarang and PDAM Surakarta shall agree to promptly inform the Borrower and the Bank of any condition which interferes or threatens to interfere with the progress of their respective Parts of the Project, the accomplishment of the purposes of the Loan under this Agreement, or the performance of their respective obligations under the PIAs.

(e) KM Semarang, KM Surakarta, PDAM Semarang and PDAM Surakarta shall agree to cooperate fully with the Borrower and the Bank to assure that the purposes of the Loan will be accomplished. To that end, KM Semarang, KM Surakarta, PDAM Semarang and PDAM Surakarta shall agree to:

- (i) from time to time, at the request of either the Borrower or the Bank, exchange views with the Borrower and/or the Bank regarding the progress in carrying out their respective Parts of the Project or the performance of their respective

obligations under the PIAS, and other matters relating to the purposes of the Loan; and

- (ii) furnish all such information and documents related thereto as may reasonably be requested. KM Semarang, KM Surakarta, PDAM Semarang and PDAM Surakarta shall further agree to provide such information and documents as may be required by the Borrower to fulfill its supervision, monitoring, recording and reporting obligations to the Bank.

(f) KM Semarang, KM Surakarta, PDAM Semarang and PDAM Surakarta shall agree to comply and assist the Borrower in complying with the audit and accounting covenants in respect of their respective Parts of the Projects.

(g) KM Semarang and KM Surakarta shall, by not later than April 1, 1998, provide funds to fully finance the road and drainage operation and maintenance activities in Semarang and Surakarta as referred to under Parts A. 1. (b) , A. 3 (b) , B. 1 (b) and A. 3 (b) of the Project.

2. Subsidiary Loan Aareements between the Borrower and EN Semarang and KM Surakarta

Except as the Bank shall otherwise agree, and for the purposes of the provisions of Section 3.03 (d) (iv) of this Agreement, the SLAs shall, inter alia, include the following covenants:

(a) KM Semarang and KM Surakarta shall take all necessary measures to implement their respective RIAPS, and improve their revenue collection in accordance with terms and conditions satisfactory to the Bank;

(b) KM Semarang and KM Surakarta shall, during Project implementation, periodically review and adjust their charges for solid waste disposal with a view to obtaining by not later than April 1, 1998, full recovery of respective costs of operation and maintenance of their respective solid waste disposal facilities.

(c) KM Semarang and KM Surakarta shall, during Project implementation, periodically review and adjust their sanitation charges with a view to obtaining by not later than April 1, 1997, full recovery of the costs for operation and maintenance of the onsite sanitation programs described under Parts A. 4. (b) and B. 4. (b) of the Project.

3. Subsidiary Loan Agreements between the Borrower and PDAM SeMarana and PDAM Surakarta (SLAel

(a) Except as the Bank shall otherwise agree, the SLAs shall, Interall&, include the following financial covenants:

- (i) Except as the Borrower and the Bank shall otherwise agree, PDAM Semarang and PDAM Surakarta shall produce, for each of its fiscal years after their fiscal year ending on December 31, 1994, gross revenues from all sources equivalent to not less than the sum of its operating expenses and depreciation.
- (ii) Before September 30 in each of their fiscal years, PDAM Semarang and PDAM surakarta shall, on the basis of forecasts prepared by said PDAMs and satisfactory to the Borrower and the Bank, review whether they would meet the requirements set forth in paragraph (i) in respect of such year and the next fiscal year and shall furnish to the Borrower and the Bank a copy of such review upon its completion.
- (iii) If any such review shows that PDAM Semarang or PDAM Surakarta would not meet the requirements not forth in paragraph (i) for the fiscal years covered by such review, PDAM Semarang or PDAM Surakarta and the Borrower shall promptly take all necessary measures in order to meet such requirements.
- (iv) For the purposes of this Section:

- (A) The term "gross revenues from all sources" means the sum of revenues from all sources related to water operation, house connections, and cash consumer contributions in aid of construction, but excluding non-operating income and any other cash inflows;
 - (B) the term, "operating expenses", means the sum of all expenses related to water operations, including maintenance and administration, but excluding depreciation; and
 - (C) the term, "depreciation", means the annual provision charged against revenues to depreciate, on a basis acceptable to the Bank, the current value of the water fixed assets in operation as valued from time to time in accordance with methods of valuation satisfactory to the Bank.
- (v) 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.
- (vi) Except as the Borrower and the Bank shall otherwise agree, PDAM Semarang and PDAM Surakarta shall not incur any debt unless a reasonable forecast of their revenues and expenditures shows that the estimated net revenues of PDAM for each of their respective fiscal year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements in such year on all debt including the debt to be incurred.
- (vii) For the purposes of this Section:
- (A) The term "debt" means any indebtedness of PDAM Semarang or PDAM Surakarta maturing by its terms more than one year after the date on which it is originally incurred.
 - (B) Debt shall be deemed to be incurred:
 - (1) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and
 - (2) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
 - (C) The term, "net revenues", means the difference between:
 - (1) the sum of revenues from all sources related to operations and net nonoperating income; and
 - (2) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
 - (D) The term, "net non-operating income", means the difference between:
 - (1) revenues from all sources other than those related to operations; and

- (2) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
 - (E) 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.
 - (F) The term, "reasonable forecast", means a forecast prepared by PDAM Semarang or PDAM Surakarta not earlier than twelve months prior to the incurrence of the debt in question, which both the Bank and the respective PDAM accept as reasonable and as to which the Bank has notified the respective PDAM 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 future operating results of the respective PDAM.
 - (G) 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.
- (b) (i) Except as the Borrower and the Bank shall otherwise agree, PDAM Semarang or PDAM Surakarta shall not make any distribution with respect to their net income, unless, after such distribution has been made, funds from internal sources are equivalent to not less than 20% of the annual average of capital expenditures incurred, or expected to be incurred, for that year, the previous year, and the next following fiscal year.
- (ii) For the purposes of this Section:
- (A) The term, "funds from internal sources", means the difference between:
 - (1) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and
 - (2) the sum of all expenses related to operations, including administration, ad@ate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.
 - (B) The term, "net non-operating income", means the difference between:
 - (1) revenues from all sources other than those related to operations; and
 - (2) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

- (C) The term, "working capital other than cash", means the difference between current assets, excluding cash, and current liabilities at the end of each fiscal year.
- (D) The term, "current assets excluding cash", means all assets, other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (E) The term, "current liabilities", means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
- (F) The term, "debt service requirements", means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (G) The term, "capital expenditures", means all expenditures on account of fixed assets, including interest charged to construction, related to operations.
- (H) 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.

(d) The Borrower shall cause each of the PDAMs to periodically review and adjust their tariffs on the basis of realistic forecasts of revenues and expenditures, by not later than January 1, 1996, January 1, 1998 and January 1, 2000 for PDAM Semarang, and January 1, 1995, January 1, 1997 and January 1, 1999 for PDAM Surakarta, respectively; and to meet the financial targets set forth under paragraph 3 of this Schedule.

(e) PDAM Semarang and PDAM Surakarta shall, by not later than the first two years after the implementation of the new sewerage system, referred to under Parts A.4 (a) and B.4 (a) of the Project obtain full recovery of the costs of operation and maintenance of said system, through the application of a surcharge to the water bills charged by the PDAME.

PART B: implementation Actions

1. The Borrower shall, throughout Project implementation maintain with staffing and functions as agreed between the Borrower and the Bank, the following:

(a) Implementing Agencies responsible for Project implementation including, inter all&, Municipal Public Agency (Dinas PU), Cleansing Agency (Dinas Kebersihan), Municipal Housing Agency (Dinan Perumahan), Market Agency (Dinas Pengelola Pasar), BAPPEDA Level II. KM Semarang, KM Surakarta, PDAM Semarang, PDAM Surakarta and MPW.

(b) Project Implementation Units responsible for Project management and coordination including, inter all&, Provincial Management and Development Unit for Water Enterprises (PMDU), Local Project Monitoring Office (PMO), Project Management Unit (PHU), Project Finance Office (PFO), Provincial Project Management Unit (PPMU), Provincial Project Finance Office (PPFO) and Provincial Project Monitoring office (PPMO).

2. The Directorate General for Human Settlements under MPW shall be

responsible for overall technical supervision and management of Project implementation.

3. The Borrower shall, by not later than November 30 of each year, review all budget requests submitted to it by all municipal Implementing Agencies and issue the respective budget approvals, by not later than January 15, of each year for the PDAMs and by not later than May 1 of each year for the respective Kotamadya.

4. For the purposes of Part A.2. (c) of the Project, the Borrower shall make all necessary funds available, in a timely manner, for completion of the Kelambu-Kudu conveyance canal.

5. For the purposes of Part A.2 (f) of the Project, PDAM Semarang shall not later than June 30, 1995 approve and implement a water house connection program for low income families, in a manner acceptable to the Bank.

6. (a) The Borrower shall, submit for Bank's approval, by February 15 of each year, commencing in 1995, a proposal covering technical, financial, economic, institutional and environmental aspects for each new or revised sub-project under Parts A and 8 of the Project selected for financing under the Loan.

(b) Such proposals shall be prepared by the respective Kotamadya in accordance with criteria and procedures agreed between the Borrower and the Bank and as set forth in the respective PIAS.

(c) All proposals shall include an environmental assessment and a management and monitoring plan and, if necessary, a resettlement plan for Affected Persons to be relocated under the Project.

7. The Borrower shall, throughout Project Implementation, ensure that all environmental management and monitoring plans or resettlement plans are carried out in a manner satisfactory to the Bank.

8. The Borrower shall:

(a) carry out every year during the implementation of the Project, commencing not later than June 30, 1995, annual technical audits, in a manner acceptable to the Bank, for Project quality assurance, including, inter alia, performance of civil works, procurement of goods and training programs financed under Project; and

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

9. For the purposes of Part B.2 (c) of the Project, the Borrower shall ensure that PDAM Surakarta establishes, by not later than December 31, 1994, a Leakage Control Division, in accordance with staffing and responsibilities agreed between the Borrower and the Bank.

SCHEDULE 6

Resettlement and Rehabilitation Action Plan (RRAP)

Part A: Institutional Responsibilities

1. For the purposes of Part A.3 (c) of the Project, the Borrower shall:

(a) take all necessary measures to cause KM Semarang to carry out the RRAP with due diligence and efficiency and in a manner satisfactory to the Borrower and the Bank;

(b) ensure that KM Semarang makes available in a phased manner and in accordance with the implementation timetable included in the RRAP, the serviced plots in Karang Roto to the Affected Persons;

(c) ensure that such serviced plots are made available to the Affected Persons, at least thirty (30) days prior to their displacement from Kali Banger; and

(d) jointly with KM Semarang monitor and evaluate the implementation of the RRAP and ensure that consultations with Affected Persons are carried out in a manner satisfactory to the Bank.

2. In the carrying out of the RRAP, KM Semarang shall be assisted by BPN, MPW and other relevant agencies and Departments of the Borrower.

Part B: Main features of the RRAP

1. KM Semarang shall agree to carry out the RRAP in accordance with terms agreed between the Borrower and the Bank.

2. KM Semarang shall further agree to:

(a) make available to Affected Persons either cash compensation, serviced plots, or serviced plots with core houses in adequate numbers and in accordance with the provisions of the RRAP, the informed preference of the Affected Family, and on terms and conditions satisfactory to the Bank, including, without limitation, the following:

- (i) the serviced plot's total area shall be at least sixty square meters;
- (ii) each said plot shall be made available to the Affected Person under the right to use (hak guna bangunan) which shall subsequently be converted into full ownership (hak milik) to the said plot. For this purpose, the Borrower undertakes to expeditiously issue, through the BPN, required certificates of the aforesaid legal rights to Affected Persons;
- (iii) the total amount to be charged to an Affected Person shall not exceed the lesser of:
 - (A) the total amount of cash compensation, at replacement value, to be provided to an Affected Person for the land; and
 - (B) the total cost to KM Semarang for providing the serviced plot, if applicable, and the core house.
- (iv) cash compensation to Affected Persons for the land and the residential or non-residential structure acquired or possessed therefrom, be calculated at replacement value in accordance with the provisions of the RRAP; and
- (v) a fixed cash compensation allowance.

(b) in addition to the above, provide to Affected Persons: community facilities and services, improved road access, and transportation assistance; and

(c) ensure that informal traders owning small kioske or businesses in the river (kali) Banger area are provided with alternative sites to relocate their businesses to:

- (i) plots along the improved river (kali) Banger drain; or
- (ii) a new market (Pasar Waru) to be developed by KM Semarang in the vicinity of the resettlement site.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term, "eligible Categories", means Categories (1), (2), (3), (4)(a), (4)(b), (5), (6), (7), (8)(a), (8)(b), (9)(a) and (9)(b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term, "eligible expenditures", means expenditures in respect to 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 @iv&lent to \$ 5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

(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.

