

LOAN NUMBER 2879 IND

Loan Agreement

(Industrial Energy Conservation Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated November 9, 1987

LOAN NUMBER 2879 IND

LOAN AGREEMENT

AGREEMENT, dated November 9, 1987, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) 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;

(B) part of the Project will be carried out by Perseroan Terbatas Konservasi Energi Abadi (KONEBA) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to KONEBA part of the proceeds of the Loan as provided in this Agreement;

(C) part of the Project will be carried out by Perseroan Terbatas Pupuk Sriwidjaja (PUSRI) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PUSRI part of the proceeds of the Loan as provided in this Agreement; 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 and in the Project Agreements of even date herewith between the Bank and PUSRI and KONEBA, respectively;

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 last sentence of Section 3.02 deleted (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) "KONEBA Project Agreement" means the agreement between the Bank and P.T. Konservasi Energi Abadi of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the KONEBA Project Agreement;

(b) "PUSRI Project Agreement" means the agreement between the Bank and Perseroan Terbatas Pupuk Sriwidjaja of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the PUSRI Project Agreement;

(c) "KONEBA Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and KONEBA pursuant to Section 3.02 of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the KONEBA Subsidiary Loan Agreement; and

(d) "PUSRI Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and PUSRI pursuant to Section 3.03 of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the PUSRI Subsidiary Loan Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty one million dollars (\$21,000,000).

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, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank, for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be June 30, 1993 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 per annum for

each Interest Period equal to one-half percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 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, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause KONEBA and PUSRI to perform in accordance with the provisions of the KONEBA and PUSRI Project Agreements, respectively, all the obligations of KONEBA and PUSRI therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable KONEBA and PUSRI to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. (a) The Borrower shall relend part of the proceeds of the Loan to KONEBA under a subsidiary loan agreement to be entered into between the Borrower and KONEBA, under terms and conditions which shall have been approved by the Bank which shall include the following:

- (i) interest shall be payable at a rate of 13.5% per annum on the principal amount of the subsidiary loan withdrawn and outstanding from time to time; and
- (ii) the subsidiary loan shall be repaid over a period of fifteen years, including a grace period of five years.

(b) The Borrower shall exercise its rights under the KONEBA Subsidiary Loan Agreement in such manner as to

protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the KONEBA Subsidiary Loan Agreement or any provision thereof.

Section 3.03. (a) The Borrower shall relend part of the proceeds of the Loan to PUSRI under a subsidiary loan agreement to be entered into between the Borrower and PUSRI, under terms and conditions which shall have been approved by the Bank which shall include the following:

- (i) interest shall be payable at a rate of 13.5% per annum on the principal amount of the subsidiary loan withdrawn and outstanding from time to time;
- (ii) the subsidiary loan shall be repaid over a period of ten years, including a grace period of four years.

(b) The Borrower shall exercise its rights under the PUSRI Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the PUSRI Subsidiary Loan Agreement or any provision thereof.

Section 3.04. 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 3.05. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project, shall be carried out by KONEBA pursuant to Section 2.03 of the KONEBA Project Agreement, and in respect of Part B of the Project, shall be carried out by PUSRI pursuant to Section 2.03 of the PUSRI Project Agreement.

Section 3.06. The Borrower shall, for purposes of Part A of the Project, maintain the Board of Commissioners, with powers and responsibilities satisfactory to the Bank, consisting of representatives from the Borrower's Ministry of Mines and Energy, from PUSRI and from other shareholders of KONEBA, and such other representatives as the Borrower may from time to time select, to give policy guidance to KONEBA.

ARTICLE IV

Financial Covenants

Section 4.01. (a) 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 sound accounting practices, records and accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and

other documents) evidencing such expenditures are retained 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; and

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section 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 nine 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, including 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; 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.

ARTICLE V

Other Covenants

Section 5.01. During any period in which the price or distribution of fertilizer in the Republic of Indonesia is controlled by the Borrower, or any of its agencies or instrumentalities, the Borrower shall not take any action with respect to fertilizer sold in the Republic of Indonesia which would prevent PUSRI, operating efficiently, from earning a reasonable return, after taxes, on its assets (except fixed assets not yet in service).

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) KONEBA shall have failed to perform any of its obligations under the KONEBA Project Agreement.

(b) PUSRI shall have failed to perform any of its obligations under the PUSRI Project Agreement.

(c) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that KONEBA will be able to perform its obligations under the

KONEBA Project Agreement.

(d) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that PUSRI will be able to perform its obligations under the PUSRI Project Agreement.

(e) KONEBA's Charter, dated January 28, 1987, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of KONEBA to perform any of its obligations under the KONEBA Project Agreement.

(f) PUSRI's Charter, as amended on July 20, 1984, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of PUSRI to perform any of its obligations under the PUSRI Project Agreement.

(g) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of KONEBA or for the suspension of its operations.

(h) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PUSRI or for the suspension of its operations.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraphs (a) and (b) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraphs (e), (f), (g) and (h) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. 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) the KONEBA Subsidiary Loan Agreement has been executed on behalf of the Borrower and KONEBA; and

(b) the PUSRI Subsidiary Loan Agreement has been executed on behalf of the Borrower and PUSRI.

Section 7.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the KONEBA Project Agreement has been duly authorized or ratified by KONEBA, and is legally binding upon KONEBA in accordance with its terms;

(b) that the PUSRI Project Agreement has been duly authorized or ratified by PUSRI, and is legally binding upon PUSRI in accordance with its terms:

(c) that the KONEBA Subsidiary Loan Agreement has

been duly authorized or ratified by the Borrower and KONEBA and is legally binding upon the Borrower and KONEBA in accordance with its terms; and

(d) that the PUSRI Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and PUSRI and is legally binding upon the Borrower and PUSRI in accordance with its terms.

Section 7.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. 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 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
c/o Director General for
International Monetary Affairs
Jalan Lapangan Banteng Timur 2-4
Jakarta, Indonesia

Cable address: Telex:

MINISTRY FINANCE Jakarta	DJMLN JKT 45799 DITJMON JKT 46415 DEPKU JKT 44319
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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 Washington, D.C.	440098 (ITT) 248423 (RCA)
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or

64145 (WUI)

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

REPUBLIC OF INDONESIA

By /s/ S. Soedarman
Authorized Representative

INTERNATIONAL BANK FOR

RECONSTRUCTION AND DEVELOPMENT

By /s/ A. Karaosmanoglu
Regional Vice President
Asia

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
(1) Equipment, materials and spare parts:		100% of foreign expenditures, 95% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(a) Part A of the Project	300,000	
(b) Part B of the Project	6,600,000	
(2) Consultants' services under Part A of the Project	1,750,000	100%
(3) Training under Part A of the Project	250,000	100%
(4) Engineering services (including royalties and license fees) under Part B of the Project	6,000,000	100%
(5) Studies and energy audits under Part A of the Project	1,700,000	100%
(6) Unallocated	4,400,000	
TOTAL	21,000,000	

2. For the purposes of this Schedule:

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

Borrower; and

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$1,000,000, may be made in respect of Categories (2) and (4) on account of payments made for expenditures before that date but after January 1, 1986.

SCHEDULE 2

Description of the Project

The objectives of the Project are (i) to assist the Borrower in establishing the institutional framework and the policies for planning, promoting, coordinating, implementing and monitoring energy conservation activities, and (ii) to demonstrate the benefits of energy conservation in industry through the carrying out of energy efficiency schemes in large fertilizer plants.

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: KONEBA

1. Preparation of publications, dissemination of information and carrying out of a comprehensive promotional campaign related to energy conservation.
2. Design, organization and carrying out of a national energy survey and establishment of a national energy data base.
3. Organization, initiation and supervision of energy audits and feasibility studies in priority industries (e.g. fertilizers, textiles, sugar, pulp and paper).
4. Development and carrying out of training programs for the staff of KONEBA and for industrial energy managers.
5. Preparation of subsector energy manuals.

Part B: PUSRI

Modification and upgrading of existing equipment and acquisition and installation of new equipment in the PUSRI II, III and IV ammonia plants which will reduce by at least 10% the energy consumption per ton of ammonia produced by said plants, and which will increase the effective production capacity of said plants by at least 120% of their respective design capacity.

* * *

The Project is expected to be completed by December 31, 1992.

SCHEDULE 3

Amortization Schedule

Payment of Principal

Date Payment Due (Expressed in dollars)*

On each March 15 and September 15

beginning March 15, 1993
through September 15, 2007 700,000

* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on 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 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A. International Competitive Bidding

Except as provided in Part C 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 1985 (the Guidelines).

Part B. Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A 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 1 through 4 of Appendix 2 thereto.

Part C. Other Procurement Procedures

1. Goods estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount not to exceed the equivalent of \$1,400,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Civil works may be procured under contracts awarded in accordance with the Borrower's local competitive bidding procedures in effect as of the date of this Agreement.

3. Equipment proprietary to the process design, up to an aggregate amount not to exceed the equivalent of \$2,000,000, may be procured from original suppliers through direct contracting on terms and conditions acceptable to the Bank.

Part D. Review by the Bank of Procurement Decisions

1. Review of invitation to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$1,000,000 or more, and each contract for civil works, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c)(ii) of this Agreement.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist KONEBA in carrying out Part A of

the Project and PUSRI in carrying out Part B of the Project, KONEBA and PUSRI, respectively, shall 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.

