

CONFORMED COPY

LOAN NUMBER 4469 IND

Loan Agreement

(Water Resources Sector Adjustment Loan)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated May 28, 1999

LOAN NUMBER 4469 IND

LOAN AGREEMENT

AGREEMENT, dated May 28, 1999, between the REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank):

WHEREAS the Bank has received a letter dated April 21, 1999, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's water sector (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

WHEREAS on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided;

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 December 2, 1997, and with the modifications set forth below (the General

Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 18, is modified to read:

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

(b) Section 4.01 is modified to read: "Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement.";

(c) Section 5.01 is modified to read: "The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions";

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.07 (c) shall be modified to read: "(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings: the term "Balai PSDA" means a provincial basin management unit; the term "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement; the term "Perum Otorita Jatiluhur" means the Perum established by PP 42/1990 of August 22, 1990; the term "PJT Brantas" means the Perum Jasa Tirta established by PP 5/1990 of February 12, 1990; the term "PPTPA" means a river basin water coordination committee; and the term "PTPA" means a provincial water coordination committee.

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 three hundred million Dollars (\$300,000,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c), (d) and (e) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account in dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the

equivalent of \$50,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (i) with the progress achieved by the Borrower in the carrying out of the Program, and (ii) that the actions described in Part A of Schedule 3 to this Agreement have been taken. If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

(e) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of \$150,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (i) with the progress achieved by the Borrower in the carrying out of the Program, and (ii) that the actions described in Part B of Schedule 3 to this Agreement have been taken. If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be December 31, 2000, 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. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 2 to this Agreement.

Section 2.07. Interest and other charges shall be payable semi-annually on April 15 and October 15 in each year.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 3 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of

the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. 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:

FINMINISTRY
Jakarta

Telex:

45799 DJMLN-IA
44319 DEPKEU-IA

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF INDONESIA

By /s/ Dorodjatun Kuntjoro-Jakti

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Julian Schweitzer

Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122 containing	-	Tobacco, manufactured (whether or not tobacco substitutes)
525	-	Radioactive and associated materials
667 stones,	-	Pearls, precious and semiprecious unworked or worked
718 fuel for	718.7	Nuclear reactors, and parts thereof; elements (cartridges), non-irradiated, nuclear reactors
728.43	-	Tobacco processing machinery
897 platinum group metals goldsmiths' gems)	897.3	Jewelry of gold, silver or (except watches and watch cases) and or silversmiths' wares (including set
971 and	-	Gold, non-monetary (excluding gold ores

concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);
6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

- (a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.
- (b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.
- (c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

- (i) LIBOR Base Rate; plus
- (ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

- (i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

(i) three-quarters of one percent (3/4 of 1%);

(ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period;

as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

(i) three-quarters of one percent (3/4 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount; as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semi-annual installments payable on each

April 15 and October 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the twenty-fourth (24th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-eighteenth (1/18) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after October 15, 2014, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

SCHEDULE 3

Actions Referred to in Section 2.02 (d) and (e) of this Agreement

Part A:

1. Actions Referred to in Section 2.02 (d) of this Agreement Maintenance of a macro-economic framework, consistent with the objectives of the Program, as determined on the basis of indicators agreed to by the Borrower and the Bank. Establishment of a framework, acceptable to the Bank, on water pollution control and water quality management, including incentives for corporate wastewater treatment.

2. Issuance of procedures, acceptable to the Bank, for the establishment of autonomous water user associations and water user association federations for:

(a) the management of irrigation networks transferred to the control of the associations and federations; and

(b) the joint management with the Government or government-owned entities of irrigation schemes through scheme-level management fora.

3. Establishment of a framework for water resources development which provides for the participation of non-government stakeholders in policy and decision-making in PTPAs and PPTPAs, in a manner acceptable to the Bank.

4. Adoption of a framework, acceptable to the Bank, for a water resources and irrigation decision-support system, including administrative procedures and implementation arrangements.

(a) Establishment of a national hydrology management system responsible for the upgrading of surface and groundwater data collection networks.

(b) Strengthening of hydrological data collection in selected provinces as agreed with the Bank, including establishment of provincial hydrological units and strengthening of existing provincial hydrological units through appropriate staffing and funding of activities.

5. Establishment of a framework, acceptable to the Bank, for the organization, financing (including financing from bulk water supply service fees and wastewater discharge fees) and management of river basin management corporations.

Part B:

1. Actions Referred to in Section 2.02 (e) of this Agreement Maintenance of a macro-economic framework, consistent with the objectives of the Program, as determined on the basis of indicators agreed to by the Borrower and the Bank. Adoption of a national water resources policy and related implementation plan, acceptable to the Bank, including provision for the establishment of a national apex body for water resources.

2. Establishment of PTPAs and PPTPAs and introduction of non-government stakeholder participation in PTPAs and PPTPAs, in selected provinces agreed with the Bank.

3. Establishment of a national water quality sampling network.
 4. Establishment of Balai PSDA in selected provinces as agreed with the Bank.
 5. Strengthening the governance mechanisms of PJT Brantas and Perum Otorita Jatiluhur by the introduction of provincial government management participation in a manner acceptable to the Bank.
 6. Establishment of a river basin corporation in each of the Bengawan Solo river basin, Jeneberang river basin, Jratunseluna river basin, and Serayu-Bogowonto river basin.
 7. Establishment of a framework, acceptable to the Bank, on water use rights and provincial water abstraction licensing and allocation of water use rights.
 8. Establishment of integrated water pollution control and water quality management by provincial environmental impact control agencies in the Bengawan Solo river basin, Jeneberang river basin, Jratunseluna river basin, Serayu-Bogowonto river basin, Brantas river basin and Citarum river basin, through operational concessions to basin management corporations acceptable to the Bank.
 9. Establishment of revised roles and responsibilities of central, provincial and district government irrigation agencies: to take into account the Borrower's policy on decentralization; and to provide support services to water user associations and water user association federations.
 10. Adoption of a framework, acceptable to the Bank, for:
 - (a) the financing of operation and maintenance of irrigation schemes by the Government, the water user associations, and the water user association federations, to ensure fiscal sustainability of maintenance and rehabilitation of irrigation schemes; and
 - (b) the establishment of an irrigation improvement fund for the financing of prioritized rehabilitation and improvement of irrigation networks managed by water user associations and water user association federations.
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