

CONFORMED COPY

LOAN NUMBER 3040 IND

(Industrial Restructuring Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated June 1, 1989

LOAN NUMBER 3040 IND

LOAN AGREEMENT

AGREEMENT, dated June 1, 1989, 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) WHEREAS Part A of the Project will be carried out by Bank Negara Indonesia 1946 (Bank BNI), Bank Dagang Negara (BDN), Bank Rakyat Indonesia (BRI), Bank Bumi Daya (BBD), Bank Ekspor Impor Indonesia (BEII), Bank Niaga, Bank Duta, Bank Umum Nasional (BUN), Bank Bali (BB), Bank Pembangunan Indonesia (BAPINDO), Private Development Finance Company of Indonesia (PDFCI), and Usaha Pembiayaan Pembangunan Indonesia (UPPINDO) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Bank BNI, BDN, BRI, BBD, BEII, Bank Niaga, Bank Duta, BUN, BB, BAPINDO, PDFCI and UPPINDO part of

the proceeds of the Loan as provided in this Agreement;

(C) WHEREAS the Borrower intends to obtain from the Government of the Kingdom of Belgium (hereinafter called Belgium), a non-reimbursable contribution in an amount equivalent to one hundred fifty-two million Belgium Francs (BF 152,000,000) (hereinafter called the Belgium Grant) to assist in the financing of consultant services and training under Part B (i) and consultant services under Part B (ii) of the Project on terms and conditions set forth in an Agreement (hereinafter called the Belgium Grant Agreement) to be entered into between the Borrower and Belgium;

(D) WHEREAS the Borrower and the Government of the Kingdom of the Netherlands (hereinafter called the Netherlands) have entered into an agreement dated February 23, 1989, (hereinafter called the Netherlands Agreement) in an amount of one hundred eighty-two million Guilders (DFL 182,000,000), out of which eighty-nine million Guilders (DFL 89,000,000) shall be provided as a grant in-kind (hereinafter called the Netherlands Grant) to assist in the financing of consultant services under Part B (ii) of the Project on the terms and conditions set forth in the Netherlands Agreement;

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, in the Commercial Banks Project Agreement of even date herewith between the Bank and Bank BNI, BDN, BRI, BBD, BEII, Bank Niaga, Bank Duta, BUN and BB, in the BAPINDO Project Agreement of even date herewith between the Bank and BAPINDO, and in the Non-Commercial Banks Project Agreement of even date herewith between the Bank and PDFCI and UPPINDO;

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 in Schedule 4 to this Agreement (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) "MOI" means the Borrower's Ministry of Industry;
- (b) "BI" means Bank Indonesia, the central bank of the Borrower, established and operating under Law No. 13 of 1968 of the Borrower;
- (c) "BPPI" means Badan Penelitian Dan Pengembangan Industri (Agency for Industrial Research and Development) established and operating within MOI;
- (d) "LPPI" means Lembaga Pengembangan Perbankan Indonesia (Indonesia Banking Development Institute) established and operating since December 29, 1977, as an autonomous institution in accordance with the Borrower's laws;
- (e) "Commercial Banks Project Agreement" means the agreement between the Bank and Bank BNI, BDN, BRI, BBD, BEII, Bank Niaga, Bank Duta, BUN and BB 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 Commercial Banks Project Agreement;

(f) "BAPINDO Project Agreement" means the agreement between the Bank and BAPINDO 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 BAPINDO Project Agreement;

(g) "Non-Commercial Banks Project Agreement" means the agreement between the Bank and PDFCI and UPPINDO 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 Non-Commercial Banks Project Agreement;

(h) "Participating Financial Institutions" means Bank BNI, BDN, BRI, BEII, BBD, Bank Niaga, Bank Duta, BUN, BB, BAPINDO, PDFCI and UPPINDO collectively and "Participating Financial Institution" means any one of them;

(i) "Bank BNI Governing Law" means Act on Bank Negara Indonesia 1946 (Act No. 17 of year 1968), as amended to the date of this Agreement;

(j) "BDN Governing Law" means Act on Bank Dagang Negara (Act No. 18 of year 1968), as amended to the date of this Agreement;

(k) "BRI Governing Law" means Act on Bank Rakyat Indonesia (Act No. 21 of year 1968), as amended to the date of this Agreement;

(l) "BBD Governing Law" means Act on Bank Bumi Daya (Act No. 19 of year 1968), as amended to the date of this Agreement;

(m) "BEII Governing Law" means Act on Bank Ekspor Impor Indonesia (Act No. 22 of year 1968), as amended to the date of this Agreement;

(n) "Bank Niaga Charter" means the Articles of Association on Bank Niaga dated September 26, 1955, as amended to the date of this Agreement;

(o) "Bank Duta Charter" means the Articles of Association on Bank Duta dated August 30, 1966, as amended to the date of this Agreement;

(p) "BUN Charter" means the Articles of Association on BUN dated March 31, 1953, as amended to the date of this Agreement;

(q) "BB Charter" means the Articles of Association on BB dated March 18, 1955, as amended to the date of this Agreement;

(r) "BAPINDO Governing Law" means Act on Bank Pembangunan Indonesia (Act No. 21 of year 1960), as amended to the date of this Agreement;

(s) "PDFCI Charter" means the Articles of Association on PDFCI dated July 26, 1973, as amended to the date of this Agreement;

(t) "UPPINDO Charter" means the Articles of Association on UPPINDO dated February 15, 1972, as amended to the date of this Agreement;

(u) "Subsidiary" means any company of which a majority of the outstanding voting stock or other proprietary interest is owned or effectively controlled by a Participating Financial Institution or by any one or more subsidiaries of a Participating Financial Institution or by a Participating Financial Institution and one or more of its subsidiaries;

(v) "BI Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and BI pursuant to Section 3.01 (b) (i) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the BI Subsidiary

Loan Agreement;

(w) "Bank BNI Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Bank BNI pursuant to Section 3.01 (b) (ii) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Bank BNI Subsidiary Loan Agreement;

(x) "BDN Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and BDN pursuant to Section 3.01 (b) (iii) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the BDN Subsidiary Loan Agreement;

(y) "BRI Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and BRI pursuant to Section 3.01 (b) (iv) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the BRI Subsidiary Loan Agreement;

(z) "BBD Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and BBD pursuant to Section 3.01 (b) (v) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the BBD Subsidiary Loan Agreement;

(aa) "BEII Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and BEII pursuant to Section 3.01 (b) (vi) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the BEII Subsidiary Loan Agreement;

(bb) "BAPINDO Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and BAPINDO pursuant to Section 3.01 (b) (vii) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the BAPINDO Subsidiary Loan Agreement;

(cc) "Bank Duta On-lending Agreement" means the agreement to be entered into between BI and Bank Duta pursuant to Section 3.01 (c) (i) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Bank Duta On-lending Agreement;

(dd) "Bank Niaga On-lending Agreement" means the agreement to be entered into between BI and Bank Niaga pursuant to Section 3.01 (c) (ii) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Bank Niaga On-lending Agreement;

(ee) "BUN On-lending Agreement" means the agreement to be entered into between BI and BUN pursuant to Section 3.01 (c) (iii) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the BUN On-lending Agreement;

(ff) "BB On-lending Agreement" means the agreement to be entered into between BI and BB pursuant to Section 3.01 (c) (iv) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the BB On-lending Agreement;

(gg) "PDFCI On-lending Agreement" means the agreement to be entered into between BI and PDFCI pursuant to Section 3.01 (c) (v) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the PDFCI On-lending Agreement;

(hh) "UPPINDO On-lending Agreement" means the agreement to be entered into between BI and UPPINDO pursuant to Section 3.01 (c) (vi) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the UPPINDO On-

lending Agreement;

(ii) "LPPI Financial Arrangement" means the arrangement to be entered into between BI and LPPI pursuant to Section 3.01 (e) of this Agreement, as the same may be amended from time to time;

(jj) "Subsidiary Loan" means a loan provided for in the respective Subsidiary Loan Agreement or On-lending Agreement, as the case may be;

(kk) "Sub-loan" means a loan made or proposed to be made by a Participating Financial Institution to an Industrial Enterprise or an Industrial Enterprise Subsidiary for a Restructuring Investment funded in part or in whole out of the equivalent of the proceeds of the Loan relented to such Participating Financial Institution under the respective Subsidiary Loan Agreement or On-lending Agreement, as the case may be;

(ll) "Free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 2 (b) of the Schedule to the Commercial Banks Project Agreement, paragraph 2 (b) of the Schedule to the BAPINDO Project Agreement, and paragraph 2 (b) of the Schedule to the Non-Commercial Banks Project Agreement;

(mm) "Industrial Enterprise" means an industrial enterprise established and operating in Indonesia at the date of this Agreement in any of the engineering, pulp and paper, and textiles industrial subsectors to which: (a) a Participating Financial Institution proposes to make or has made a Sub-loan; or (b) technical services under Part B (ii) of the Project shall be provided;

(nn) "Industrial Enterprise Subsidiary" means any company of which a majority of the voting stock or other proprietary interest is owned or effectively controlled by an Industrial Enterprise;

(oo) "Restructuring Investment" means a specific investment to be carried out by an Industrial Enterprise and/or an Industrial Enterprise Subsidiary utilizing the proceeds of a Sub-loan and consisting of one or more of the following activities: rehabilitation, modernization, rationalization of product mix, balancing of production line, improvements to product quality, upgrading of technology, strengthening of organizational and managerial capabilities, and amelioration of industrial pollution impact; and

(pp) "Rupiah" and "Rp" mean the currency of the Borrower.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to two hundred eighty-four million dollars (\$284,000,000).

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

Section 2.03. The Closing Date shall be June 30, 1994, 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 of one 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 April 1 and October 1 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

Description of the Project;  
Use of Proceeds of the Loan

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 the Loan Agreement, shall: (i) cause Bank BNI, BDN, BRI, BBD, BEII, Bank Niaga, Bank Duta, BUN, BB, BAPINDO, PDFCI and UPPINDO each to perform in accordance with the provisions of the Commercial Banks Project Agreement, the BAPINDO Project Agreement and the Non-Commercial Banks Project Agreement, respectively, all the obligations of Bank BNI, BDN, BRI, BBD, BEII, Bank Niaga, Bank Duta, BUN, BB, BAPINDO, PDFCI and UPPINDO therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Bank BNI, BDN, BRI, BBD, BEII, Bank Niaga, Bank Duta, BUN, BB, BAPINDO, PDFCI and UPPINDO each to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance; (ii) cause LPPI to carry out Part B (iii) of the Project in accordance with the provisions of the LPPI Financial Arrangement therein set forth and the provisions of paragraph (e) of this Section, and shall take and cause LPPI to take all action including the provision of funds, facilities, services and other resources, necessary or appropriate to enable LPPI to perform its obligations therein set forth, and shall not take or permit to be taken any action which would prevent or interfere with such performance; (iii) carry out Parts B (i), B (ii) and C of the Project through MOI/BPPI, and shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to carry out such Parts of the Project; all of the aforesaid with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, economic, managerial, engineering and quality and pollution control practices. Without limitation to the foregoing, the Borrower shall, and shall cause

to, carry out Parts B (i), B (ii) and C of the Project in accordance with the Implementation Program set forth in Schedule 6 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank.

(b) The Borrower shall, out of the proceeds of the Loan, relend to:

- (i) BI an amount equivalent to \$52,900,000 under a subsidiary loan agreement to be entered into between the Borrower and BI under terms and conditions which shall have been approved by the Bank which shall include: (A) those set forth in paragraph (d) of this Section and the obligation of BI to on-lend the funds so relend under the BI Subsidiary Loan Agreement to Bank Niaga, Bank Duta, BUN, BB, PDFCI and UPPINDO pursuant to the provisions of paragraph (c) of this Section; and (B) those set forth in paragraph (e) of this Section;
- (ii) Bank BNI an amount equivalent to \$63,000,000 under a subsidiary loan agreement to be entered into between the Borrower and Bank BNI under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section;
- (iii) BDN an amount equivalent to \$40,000,000 under a subsidiary loan agreement to be entered into between the Borrower and BDN under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section;
- (iv) BRI an amount equivalent to \$25,000,000 under a subsidiary loan agreement to be entered into between the Borrower and BRI under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section;
- (v) BBD an amount equivalent to \$20,000,000 under a subsidiary loan agreement to be entered into between the Borrower and BBD under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section;
- (vi) BEII an amount equivalent to \$35,000,000 under a subsidiary loan agreement to be entered into between the Borrower and BEII under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section; and
- (vii) BAPINDO an amount equivalent to \$29,500,000 under a subsidiary loan agreement to be entered into between the Borrower and BAPINDO under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section.

Provided, however, that after December 31, 1990, the Borrower may, with the prior approval of the Bank, amend the amount of the Subsidiary Loan of those Participating Financial Institutions which by such date have not fully committed the amounts on-lent pursuant to paragraph (b) of this Section by reducing such Subsidiary Loan in the amount not committed, and amend the amount of the Subsidiary Loan of those Participating Financial Institutions which by such date have fully committed the amounts on-lent pursuant to paragraph (b) of this Section and which have requests for

financing Restructuring Investments, which increases in the aggregate not to exceed the aggregate amount of Subsidiary Loans being reduced and in each case to represent the actual demand for financing Restructuring Investments by each such Participating Financial Institutions; provided, further, that with the prior approval of the Bank, the Borrower may, prior to December 31, 1990, and at the request of a Participating Financial Institution(s) reduce its (their) Subsidiary Loan(s) provided pursuant to paragraph (b) of this Section in an amount(s) equivalent to the non-committed amount(s) and increase the Subsidiary Loan provided pursuant to paragraph (b) of this Section of those Participating Financial Institutions which by such date have fully committed the amount of their Subsidiary Loans and which have requests for financing Restructuring Investments, which increases in the aggregate not to exceed the aggregate amount of Subsidiary Loans being reduced and in each case to represent the actual demand for financing Restructuring Investments.

(c) BI shall, out of the amount of the Subsidiary Loan under the BI Subsidiary Loan Agreement, on-lend to:

- (i) Bank Duta an amount equivalent to \$4,000,000 under an on-lending agreement to be entered into between BI and Bank Duta under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section;
- (ii) Bank Niaga an amount equivalent to \$4,000,000 under an on-lending agreement to be entered into between BI and Bank Niaga under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section;
- (iii) BUN an amount equivalent to \$11,500,000 under an on-lending agreement to be entered into between BI and BUN under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section;
- (iv) BB an amount equivalent to \$8,000,000 under an on-lending agreement to be entered into between BI and BB under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section;
- (v) PDFCI an amount equivalent to \$20,000,000 under an on-lending agreement to be entered into between BI and PDFCI under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section; and
- (vi) UPPINDO an amount equivalent to \$5,000,000 under an on-lending agreement to be entered into between BI and UPPINDO under terms and conditions which shall have been approved by the Bank which shall include those set forth in paragraph (d) of this Section.

Provided, however, that after December 31, 1990, BI may, with the prior approval of the Borrower and the Bank, amend the amount of the Subsidiary Loan of those Participating Financial Institutions which by such date have not fully committed the amounts on-lent pursuant to paragraph (c) of this Section by reducing such Subsidiary Loan in the amount not committed, and amend the amount of the Subsidiary Loans of those Participating Financial Institutions which by such date have fully committed the amounts on-lent pursuant to paragraph (c) of this Section and which have requests for financing Restructuring Investments, which increases in the aggregate not to exceed the aggregate amount of Subsidiary Loans being reduced and in each case to represent the actual demand for



financing Restructuring Investments by each such Participating Financial Institutions; provided, further, that with the prior approval of the Bank, BI may, prior to December 31, 1990, and at the request of a Participating Financial Institution(s) reduce its (their) Subsidiary Loan(s) provided pursuant to paragraph (c) of this Section in an amount(s) equivalent to the non-committed amount(s) and increase the Subsidiary Loan provided pursuant to paragraph (c) of this Section of those Participating Financial Institutions which by such date have fully committed the amount of their Subsidiary Loan and which have request for financing Restructuring Investments, which increases in the aggregate not to exceed the aggregate amount of Subsidiary Loans being reduced and in each case to represent the actual demand for financing Restructuring Investments.

(d) The terms and conditions of the respective Subsidiary Loan Agreements and On-lending Agreements shall include:

- (i) interest on Subsidiary Loans shall be payable at a variable rate per annum as set forth in Schedule 5 to this Agreement, provided that such rate shall not be less than the interest rate applicable to the Loan during the relevant Interest Period plus a spread of 1.75% or such other spread as the Bank may agree;
- (ii) Subsidiary Loans shall be repaid over a period of fifteen years, including a grace period of three years;
- (iii) the Participating Financial Institutions shall pay to the Borrower a commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the undisbursed portion of their respective Subsidiary Loans; and
- (iv) the Borrower to bear the foreign exchange risk on the Loan.

(e) BI shall, out of the proceeds of the Loan, make available to LPPI, as a grant, an amount equivalent to \$400,000 under a financial arrangement under terms and conditions satisfactory to the Bank which shall include:

- (i) the proceeds of the Loan so made available shall be exclusively used for purposes of carrying out the training programs under Part B (iii) of the Project;
- (ii) training fees for participants shall be established at such levels as shall be necessary to ensure the recovery of a reasonable amount of the total cost of providing the training under Part B (iii) of the Project, but in no case at levels representing less than 75% of such total costs; and
- (iii) on October 31 of each year, commencing on October 31, 1989, and thereafter, prepare and furnish to the Bank, for its review and comments, a proposed annual training program and budget for the forthcoming fiscal year, and, thereafter, taking into account the Bank's comments, if any, finalize and implement such annual training program and budget;

(f) The Borrower shall exercise its rights under the BI Subsidiary Loan Agreement, Bank BNI Subsidiary Loan Agreement, BDN Subsidiary Loan Agreement, BRI Subsidiary Loan Agreement, BBD Subsidiary Loan Agreement, BEII Subsidiary Loan Agreement and BAPINDO Subsidiary Loan Agreement, and shall cause BI to exercise its rights under the Bank Niaga On-lending Agreement, Bank Duta On-lending Agreement, BUN On-lending Agreement, BB On-lending

Agreement, PDFCI On-lending Agreement, UPPINDO On-lending Agreement and LPPI Financial Arrangement, all 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 such Subsidiary Loan Agreements or any provision thereof, and shall cause BI not to assign, amend, abrogate or waive such On-lending Agreement or the LPPI Financial Arrangement, or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Parts B (ii), B (iii) and C of the Project and to be financed out of the proceeds of the Loan, shall be governed by the provisions of Schedule 7 to this Agreement.

Section 3.03. The Borrower and the Bank hereby agree that in respect of Part A of the Project 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) shall be carried out by the Participating Financial Institutions pursuant to Section 2.03 of the Commercial Banks Project Agreement, Section 2.03 of the BAPINDO Project Agreement, and Section 2.03 of the Non-Commercial Banks Project Agreement, respectively.

#### 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 financial practices the operations, resources and expenditures in respect of Parts B and C of the Project of each of the departments and agencies of the Borrower carrying out such Parts of the Project or any part thereof.

(b) The Borrower shall, or shall cause each of its departments and agencies carrying out the Project or any part thereof to:

- (i) have the records and accounts referred to in paragraph (a) 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, 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
- (iii) furnish to the Bank such other information concerning said records, 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 expenditures, the Borrower shall, or shall cause each of its departments and agencies carrying out the Project or any part thereof to:

- (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 for the fiscal year in which the

last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

#### ARTICLE V

##### Remedies of the Bank

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

(a) A Participating Financial Institution shall have failed to perform any of its obligations under the Commercial Banks Project Agreement, the Non-Commercial Banks Project Agreement and the BAPINDO Project Agreement, respectively.

(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 a Participating Financial Institution or LPPI will be able to perform their respective obligations under the Commercial Banks Project Agreement, the Non-Commercial Banks Project Agreement, the BAPINDO Project Agreement, and LPPI Financial Arrangement, respectively.

(c) The Governing Law or the Charter, as the case may be, of any Participating Financial Institution shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of the respective Participating Financial Institution or its ability to carry out Part A of the Project or to perform any of its obligations under the Commercial Banks Project Agreement, the BAPINDO Project Agreement, and the Non-Commercial Banks Project Agreement, as the case may be.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of a Participating Financial Institution or for the suspension of its operations.

(e) Any part of the principal amount of any loan to a Participating Financial Institution having an original maturity of one year or more shall, in accordance with its terms, have become due and payable in advance of maturity as provided in the related contractual instruments, or any security for any such loan shall have become enforceable.

(f) A subsidiary or any other entity shall have been created or acquired or taken over by a Participating Financial Institution, if such creation, acquisition or taking over would adversely affect the conduct of such Participating Financial Institution's business or such Participating Financial Institution's financial condition or the efficiency of such Participating Financial Institution's management and personnel or the carrying out of Part A of the Project.

(g) The Charter of LPPI shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of LPPI or its

ability to carry out Part B (iii) of the Project.

(h) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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) or (f) of Section 5.01 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 the respective Participating Financial Institution;

(b) any event specified in paragraph (c), (d), (e) or (g) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (h)(i) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (h)(ii) of such Section.

#### 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 that:

(a) the BI Subsidiary Loan Agreement has been entered into between the Borrower and BI, respectively; and

(b) Subsidiary Loan Agreements have been entered into between the Borrower and at least three of the Participating Financial Institutions amongst Bank BNI, BDN, BEII, BBD or BRI.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Commercial Banks Project Agreement has been duly authorized or ratified by each of the Bank BNI, BDN, BRI, BBD, BEII, Bank Niaga, Bank Duta, BUN and BB, and is legally binding upon each of the Bank BNI, BDN, BRI, BBD, BEII, Bank Niaga, Bank Duta, BUN and BB in accordance with its terms;

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

(c) that the Non-Commercial Banks Project Agreement has been duly authorized or ratified by each of PDFCI and UPPINDO, and is legally binding upon each of PDFCI and UPPINDO in accordance with its terms;

(d) that the Subsidiary Loan Agreements referred to in

Section 6.01 (b) of this Agreement have been duly authorized or ratified by, and are legally binding upon the Borrower and the relevant Participating Financial Institutions in accordance with its terms; and

(e) that the BI Subsidiary Loan Agreement has been ratified by, and is legally binding upon the Borrower and BI in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

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

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

For the Borrower:

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

Cable address:

FINMINISTRY  
Jakarta

Telex:

44319 DEPKEU-IA  
45799 DJMLN-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:

440098 (ITT)  
248423 (RCA) 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/ Abdul Rachman Ramly  
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Regional Vice President By /s/ Attila Karaosmanoglu

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 Expenditure to be Financed
(1) Sub-loans under Part A of the Project:	265,000,000	
(a) Civil works		50%
(b) Goods		100% of foreign expenditures, 90% of local expenditures (ex-factory cost) and 60% of other locally procured items
(c) Consultant services		100%
(2) Equipment under Part B (i) of the Project and equipment and materials under Part B (ii) of the Project	3,000,000	100% of foreign expenditures, 90% of local expenditures (ex-factory cost) and 60% of other locally procured items
Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditure to be Financed
(3) Consultant services under Part B (ii) of the Project	12,000,000	100%
(4) Training under Part B (iii) of the Project	400,000	100%
(5) Studies under Part C of the Project	1,900,000	100%
(6) Unallocated	1,700,000	
TOTAL	<u>284,000,000</u>	

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:

(a) in respect of a Sub-loan: (i) unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in the Schedule to the Commercial Banks Project Agreement, the Schedule to the BAPINDO Project Agreement, and the Schedule to the Non-Commercial Banks Project Agreement; (ii) until the Subsidiary Loan Agreement or On-lending Agreement, as the case may be, under which the Sub-loan is to be financed has been approved by the Bank and the Bank has been furnished with an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank showing that such Subsidiary Loan Agreement or On-lending Agreement, as the case may be, has been duly authorized or ratified by the Borrower or BI, as the case may be, and the relevant Participating Financial Institution and is legally binding upon the Borrower or BI, as the case may be, and such Participating Financial Institution in accordance with its terms; (iii) unless the Participating Financial Institution requesting the withdrawal complies with portfolio, financial and operational performance criteria satisfactory to the Bank; and (iv) except as the Borrower and the Bank shall otherwise agree, on account of expenditures by an Industrial Enterprise in respect of a Sub-loan subject to the Bank's approval, unless such expenditures shall have been made not more than ninety days prior to the date on which the Bank shall have received, in respect of such Sub-loan, the application and information required by paragraph 4 (a) of the Schedule to the Commercial Banks Project Agreement, paragraph 4 (a) of the Schedule to the BAPINDO Project Agreement, and paragraph 4 (a) of the Schedule to the Non-Commercial Banks Project Agreement or, in respect of a free-limit Sub-loan, not more than ninety days prior to the date on which the Bank shall have received in respect of such free-limit Sub-loan the request and information required by paragraph 4 (b) of the Schedule to the Commercial Banks Project Agreement, paragraph 4 (b) of the Schedule to the BAPINDO Project Agreement and paragraph 4 (b) of the Schedule to the Non-Commercial Banks Project Agreement; provided, however, that withdrawals may be made in respect of Category 1 of the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after September 26, 1988, in an aggregate amount not exceeding the equivalent of \$26,500,000 and, in respect of each Participating Financial Institution, limited to 10% of their respective Subsidiary Loan;

(b) in respect of payments made for expenditures in respect of Category 3 of the table in paragraph 1 of this Schedule until the consultants financed out of the proceeds of the Belgium Grant and the Netherlands Grant have been retained; and

(c) in respect of payments made for expenditures in respect of Category 4 of the table in paragraph 1 of this Schedule until the LPPI Financial Arrangement, satisfactory to the Bank, has been entered into between BI and LPPI, and the Bank has been furnished with an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank showing that the LPPI Financial Arrangement has been duly authorized or ratified by BI and LPPI and is legally binding upon BI and LPPI.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to assist the Borrower to: (a) finance technically, financially and economically viable and environmentally sound Restructuring Investments by Industrial Enterprises; (b) strengthen institutional capabilities and technical services in the engineering, pulp and paper, and textiles industrial subsectors; and (c) evaluate the restructuring potential of industrial enterprises in other industrial subsectors.

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

Part A: The granting of Sub-loans

Part B: (i) Strengthening of MOI's in-house capacity to provide key technical support to Industrial Enterprises.

(ii) Provision of technical services to Industrial Enterprises to improve their managerial and operational efficiency.

(iii) Enhancement of the capability of each of the Participating Financial Institutions to evaluate the technical, environmental, financial and economic aspects of a Restructuring Investment.

Part C: Carrying out of studies relating to future industrial restructuring activities.

\* \* \*

The Project is expected to be completed by December 31, 1993.

### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
October 1, 1994	5,215,000
April 1, 1995	5,415,000
October 1, 1995	5,620,000
April 1, 1996	5,835,000
October 1, 1996	6,060,000
April 1, 1997	6,290,000
October 1, 1997	6,530,000
April 1, 1998	6,780,000
October 1, 1998	7,040,000
April 1, 1999	7,310,000
October 1, 1999	7,590,000
April 1, 2000	7,880,000
October 1, 2000	8,180,000
April 1, 2001	8,495,000
October 1, 2001	8,820,000
April 1, 2002	9,155,000
October 1, 2002	9,505,000
April 1, 2003	9,870,000
October 1, 2003	10,245,000
April 1, 2004	10,640,000
October 1, 2004	11,045,000
April 1, 2005	11,470,000
October 1, 2005	11,905,000
April 1, 2006	12,360,000
October 1, 2006	12,835,000
April 1, 2007	13,325,000
October 1, 2007	13,835,000
April 1, 2008	14,365,000
October 1, 2008	14,915,000
April 1, 2009	15,470,000



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\* 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

Modifications of the General Conditions

For purposes of this Agreement, the provisions of the General Conditions are modified as follows:

- (1) The last sentence of Section 3.02 is deleted.
- (2) The words "or for Investment Projects" are added after the words "the Project" at the end of Section 5.03.
- (3) Section 6.03 is deleted and replaced by the following new Section:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) by the date specified in paragraph 3 (c) of the Schedule to the Commercial Banks Project Agreement, the BAPINDO Project Agreement, and the Non-Commercial Banks Project Agreement no applications or requests permitted under paragraph (a) or paragraph (b) of such Section shall have been received by the Bank in respect of any portion of the Loan, or having been so received, shall have been denied, or (c) at any time, the Bank determines that the procurement of any item is inconsistent with the procedures set forth or referred

to in the Loan Agreement and establishes the amount of expenditures in respect of such item which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) after the Closing Date an amount of the Loan shall remain unwithdrawn from the Loan Account, the Bank may, by notice to the Borrower, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice such amount or portion of the Loan shall be cancelled."

SCHEDULE 5

Formula for Calculation of Relending Rate  
from the Borrower to Participating  
Financial Institutions

1. The interest rate payable by Participating Financial Institutions to the Borrower on funds out of the Loan shall be a variable rate per annum equal to the average weighted interest cost of the Participating Financial Institutions' (excluding BAPINDO, PDFCI and UPPINDO) loanable funds arising out of their customer deposits (i.e., excluding free funds from government and parastatal agencies) over a six-month period. This rate will be determined according to the following formula and adjusted every six months or such other period of time to be determined by the Borrower in consultation with the Bank:

$$I = (1/6) \frac{rTt (Tt) + rSt (St) + rDt (MDt)}{(Tt + St + Dt) - (RTt + RSt + RDt)}$$

t = 1

Definitions

- t = the last day of each of the most recent six months prior to an Interest Period for which BI has consolidated data on the deposit base of the PFIs
- rDt = interest rate payable on PFIs' demand deposits, at time t
- rTt = interest rate payable on PFIs' time deposits, at time t
- rSt = interest rate payable on PFIs' saving deposits, at time t
- Dt = the amount of PFIs' demand deposits, at time t
- Tt = the amount of PFIs' time deposits, at time t
- St = the amount of PFIs' saving deposits, at time t
- MDt = minimum average balance of PFIs' demand deposits outstanding during month immediately preceding time t
- RTt = reserves on time deposits of PFIs' at time t
- RSt = reserves on savings deposits of PFIs' at time t
- RDt = reserves on demand deposits of PFIs' at time t
- I = interest rate applicable on Subsidiary Loan (from the Borrower to all PFIs) for each interest period.

2. Notwithstanding the above cost-of-funds formula, the relending rate of the Participating Financial Institutions, shall not be less than the interest rate on the Loan plus a margin of 1.75%.

#### SCHEDULE 6

##### Implementation Program

1. The Borrower shall, on December 1 of each year commencing on December 1, 1989 and thereafter, prepare and furnish to the Bank, for its review and comments, proposed annual work plans and budgetary allocation(s) for purposes of enabling MOI/BPPI to carry out Parts B (i) and B (ii) of the Project during the forthcoming fiscal year, and thereafter, taking into account Bank's comments, if any, make such budgetary allocations and cause MOI/BPPI to carry out such Parts of the Project in accordance with the respective annual work plans.

2. The Borrower shall:

(a) cause MOI/BPPI to charge and collect from Industrial Enterprises in the engineering subsector a fee for the technical services provided under Part B (ii) of the Project. The fee shall be established taking into account the financial condition of the Industrial Enterprise recipient of the service, but shall not be less than 10% of the total cost of the service; and

(b) take all such action as shall be necessary to enable MOI/BPPI to retain the proceeds of the fees referred to in (a) above for providing further technical services under Part B (ii) of the Project.

3. The Borrower shall, through MOI, by December 31, 1990, or such other date as the Borrower and the Bank shall otherwise agree, carry out a review of the activities under Part B (ii) of the Project, such review to include recommendations for the carrying out of such activities beyond the completion date of the Project.

#### SCHEDULE 7

##### Procurement and Consultants' Services

###### Section I. Procurement of Goods

###### Part A: Procurement Procedures

Equipment and materials shall be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers eligible under the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), in accordance with procedures satisfactory to the Bank; provided, however, that equipment and materials estimated to cost in the aggregate \$500,000 equivalent or less may be procured through prudent shopping in accordance with procedures satisfactory to the Bank.

###### Part B: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for equipment and materials estimated to cost the equivalent of \$500,000 or more, 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 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

In order to assist the Borrower in carrying out Parts B (ii), B (iii) and C of the Project, the Borrower shall employ, and shall cause 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.

