

CONFORMED COPY

LOAN NUMBER 4198 IND

Loan Agreement

(Renewable Energy Small Power Project)

between

Republic of Indonesia

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 4, 1997

LOAN NUMBER 4198 IND

LOAN AGREEMENT

AGREEMENT, dated August 4, 1997, 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; and

(B) the Borrower has requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of the Project, the Bank has determined that such assistance would be in accordance with Resolution No. 94-2 of the Executive Directors dated May 24, 1994, establishing the GEF Trust Fund, and, by an agreement of even date herewith between the Borrower and the Bank, acting as an implementing agency of the GEF (the GEF Grant Agreement), GEF is agreeing to provide such assistance in an aggregate principal amount equivalent to three million Special Drawing Rights (SDR 3,000,000) (the GEF Grant); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 with the modification set forth below (the General Conditions), constitute an integral part of this Agreement: Section 6.03 is modified to read:

"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) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

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 wherever used in this Agreement:

(a) "Affected Person" means a person who, on account of the execution of SP Subprojects under Part A.1 of the Project had or would have his or her: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected, and "Affected Persons" means collectively all persons who qualify as an Affected Person.

(b) "BI" means Bank Indonesia, the central bank of the Borrower, established and operating under Law No. 13 of 1968 of the Borrower.

(c) "BI Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and BI pursuant to Section 3.02 (a) 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, and the term "BI Subsidiary Loan" means the loan provided under the BI Subsidiary Loan Agreement.

(d) "Developer" means a developer of a small power project to which a Participating Bank proposes to make or has made a Subloan.

(e) "DGEED" means the Directorate General of Electricity and Energy Development in the Borrower's Ministry of Mines and Energy.

(f) "Fiscal Year" means the twelve (12) month period corresponding to any of the Borrower's fiscal years, which period commences on April 1 and ends on March 31 in each calendar year.

(g) "General Policy for Land Acquisition, Compensation and Resettlement for Small-Scale Power Generation Projects" means the policy of the Borrower, satisfactory to the Bank, to compensate, resettle and rehabilitate the Affected Persons as well as all those persons similarly affected by small power projects.

(h) "Participating Banks" means, collectively, the Private Commercial Banks

and the State-owned Commercial Banks, and "Participating Bank" means any one of them.

(i) "Participating Bank Agreements" means, collectively, the Private Bank On-lending Agreements and the State Bank Subsidiary Loan Agreements, and "Participating Bank Agreement" means any one of them.

(j) "Pre-Investment Activities" means the conduct of pre-feasibility and feasibility studies with respect to an SP Subproject under Part A.2 of the Project.

(k) "Private Bank On-lending Agreement" means any agreement entered into between BI and a privately-owned commercial bank pursuant to Section 3.02 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to such Private Bank On-lending Agreement.

(l) "Private Commercial Banks" means the commercial banks other than commercial banks owned by the Borrower which propose to make or have made a Subloan to a Developer and which have entered into a Private Bank On-lending Agreement with BI, and "Private Commercial Bank" means any one of them.

(m) "PSKSK Regulation" means the regulation to promote participation of the private sector and cooperatives in the development and operation of small renewable energy power plants, including PLN's published small power purchase tariff and standard simplified power purchase contract governing the sales of electricity produced by small power projects to PLN.

(n) "PSG" means the Project Support Group established by the Borrower and maintained in accordance with paragraph A.1 of Schedule 5 to this Agreement.

(o) "PLN" means Perseroan Terbatas Perusahaan Perseroan (PERSERO) P.T. Perusahaan Listrik Negara, a limited liability company established and existing under the laws of the Borrower, and includes any successor or successors thereto.

(p) "Remedial Date" means the date referred to in Section 3.02(e) of this Agreement as the date prescribed for a Participating Bank to regain its Sehat status.

(q) "Rupiah" means the currency of the Borrower.

(r) "Sehat" means the classification of a Participating Bank as financially sound made by BI, from time to time, pursuant to Law No. 7 of 1992 of the Borrower.

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

(t) "State Bank Subsidiary Loan Agreement" means any agreement entered into between the Borrower and a commercial bank owned by the Borrower pursuant to Section 3.02(c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to such State Bank Subsidiary Loan Agreement.

(u) "State-owned Commercial Banks" means the commercial banks owned by the Borrower which propose to make or have made a Subloan to a Developer and which have entered into a State Bank Subsidiary Loan Agreement with the Borrower, and "State-owned Commercial Bank" means any one of them.

(v) "Subgrant" means a portion of the proceeds of the GEF Grant provided to a Developer for the carrying out of Pre-Investment Activities pursuant to the terms of the GEF Grant Agreement.

(w) "Subloan" means a loan made or proposed to be made by a Participating Bank to a Developer to finance an SP Subproject, funded in part out of the equivalent of the proceeds of the Loan relent to such Participating Bank under the respective State Bank Subsidiary Loan Agreement or Private Bank On-lending Agreement, as the case may be, and "Subloan Agreement" means the agreement to be entered into between a Participating Bank and a Developer setting forth the terms and conditions under which a Subloan is to be made.

(x) "SP Subproject" means a specific investment project for the development of a small power project under Part A.1 of the Project.

(y) "Subsidiary Loan" means a loan provided for in the respective State Bank Subsidiary Loan Agreement or Private Bank On-lending Agreement, as the case may be.

(z) "Supervision Date" means the date referred to in Section 3.02(e) of this Agreement as the date on which BI determines that a Participating Bank is not in compliance with its Sehat requirements.

(aa) "Uncommitted Funds" means, as of a given date, the aggregate amount of the proceeds of the Loan on-lent to a Participating Bank pursuant to a Participating Bank Agreement, which at such date has not been committed by such Participating Bank to finance Subloans approved by the Bank.

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 equal to sixty six million four hundred thousand Dollars (\$66,400,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Bank shall so agree, to be paid) by a Participating Bank on account of withdrawals made by a Developer under a Subloan under Part A.1 of the Project as described in Schedule 2 to this Agreement to meet the reasonable cost of goods and services required for the SP Subproject in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of Part A.1 of the Project, open and maintain in Dollars a special deposit account in Bank Indonesia or in a commercial bank on terms and conditions satisfactory to the Bank, including, in the case of a commercial bank, appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be October 31, 2001 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. 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 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable in arrears on May 15 and November 15 in each year.

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

ARTICLE III

Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall

carry out Part A.1 of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) The Borrower shall relend to BI an amount out of the proceeds of the Loan corresponding to the aggregate amount of Subloans to be made from time to time by the Private Commercial Banks, 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 the terms and conditions set forth in paragraph B.1 of Schedule 5 to this Agreement.

(b) The Borrower shall cause BI to on-lend to each Private Commercial Bank the amount out of the proceeds of the BI Subsidiary Loan corresponding to the aggregate amount of Subloans approved to be made by such Private Commercial Bank from time to time, under an on-lending agreement between BI and such Private Commercial Bank, under terms and conditions which shall have been approved by the Bank which shall include the terms and conditions set forth in paragraph B.2 of Schedule 5 to this Agreement.

(c) The Borrower shall relend to each State-owned Commercial Bank the amount out of the proceeds of the Loan corresponding to the aggregate amount of Subloans approved to be made by such State-owned Commercial Bank from time to time, under a subsidiary loan agreement between the Borrower and such State-owned Commercial Bank, under terms and conditions which shall have been approved by the Bank which shall include the terms and conditions set forth in paragraph B.2 of Schedule 5 to this Agreement.

(d) The Borrower shall exercise its rights under the BI Subsidiary Loan Agreement and the State Bank Subsidiary Loan Agreements, and shall ensure that BI shall exercise its rights under the Private Bank On-lending Agreements, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the BI Subsidiary Loan Agreement or the State Bank Subsidiary Loan Agreements or any provision thereof, and shall ensure that BI shall not assign, amend, abrogate or waive the Private Bank On-lending Agreements or any provision thereof.

(e) If at any time (the Supervision Date) the Borrower, through BI, determines that a Participating Bank is not in compliance with BI requirements so as to maintain its Sehat classification, the Borrower shall promptly, but in any event not later than thirty (30) days after the Supervision Date, require such Participating Bank to undertake measures to regain its Sehat status by a prescribed date (the Remedial Date). Promptly thereafter the Borrower shall inform the Bank that a situation has arisen that may require by the Remedial Date the reallocation of the Uncommitted Funds of such Participating Bank. If by the Remedial Date, in the opinion of BI, such Participating Bank has not regained its Sehat status, the Uncommitted Funds of such Participating Bank may, with the Bank's prior approval, be allocated, in part or in total, by the Borrower or BI, as the case may be, to other Participating Banks for the financing of Subloans and the amount of the Subsidiary Loans made to each of such Participating Banks shall be revised accordingly.

Section 3.03. Except as the Bank shall otherwise agree, procurement of goods required for Part A.1 of 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 3.04. The Borrower undertakes that, unless the Bank shall otherwise agree, Subloans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in paragraph B.3 of Schedule 5 to this Agreement.

Section 3.05. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the objectives of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the

Borrower on said plan.

Section 3.06. The Borrower shall ensure that the compensation, resettlement and rehabilitation of Affected Persons shall be carried out in accordance with the General Policy for Land Acquisition, Compensation and Resettlement for Small-Scale Power Generation Projects.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall, and shall cause BI and the Participating Banks to:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each Fiscal Year audited, in accordance with Appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

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

Section 4.02. Except as the Bank shall otherwise agree, the Borrower shall not provide to any Developer, whether directly or indirectly, in cash or in kind, any loan, subsidy, grant, credit enhancement or financing of any kind other than out of the proceeds of the Loan pursuant to this Agreement and the proceeds of the GEF Grant pursuant to the terms of the GEF Grant Agreement.

Section 4.03. The Borrower shall ensure that:

(a) PLN shall purchase all power generated by the SP Subprojects, at rates and in a manner in accordance with the PSKSK Regulation; and

(b) PLN shall, by June 30 (or such other date as may be agreed by the Bank) in each year, commencing June 30, 1998, revise and publish the PSKSK Regulation small power purchase tariff schedule, including the form of the standard power purchase contract, in accordance with a methodology agreed with the Bank.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely that the right of the Borrower to withdraw the proceeds of the GEF Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the GEF Grant Agreement.

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:

(a) the BI Subsidiary Loan Agreement has been executed on behalf of the Borrower and BI;

(b) the GEF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness, except only the effectiveness of this Agreement, have been fulfilled; and

(c) at least two of the Participating Bank Agreements have been entered into between the respective Participating Banks and the Borrower or BI, as the case may be.

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 BI Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and BI and is legally binding upon the Borrower and BI in accordance with its terms; and

(b) that the agreements referred to in Section 6.01 (c) of this Agreement have been duly authorized or ratified by the parties thereto and are legally binding upon such parties in accordance with their 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

Representatives 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
Jakarta 10710, Indonesia

Cable address:

Telex:

FINMINISTRY
Jakarta

45799 DJMLN - IA
44319 DEPKEU - IA

For the Bank:

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

Cable address:

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/ Arifin M. Siregar

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Javad Khalilzadeh-Shirazi

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Subloans under Part A.1 of the Project	66,400,000	70% of amounts disbursed
TOTAL	<u>66,400,000</u> =====	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be in respect of payments made for expenditures:

(a) prior to the date of this Agreement; or

(b) made in respect of a Subloan under Category (1): (i) unless the SP Subproject in respect of which the Subloan is to be made has been approved by the Bank in accordance with paragraph B.3 of Schedule 5 to this Agreement; and (ii) until the Participating Bank Agreement under which the Subloan 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 to the effect that such Participating Bank Agreement has been duly authorized and ratified by the parties thereto, and is legally binding upon such parties in accordance with its terms.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to: (a) facilitate participation by the private sector in the development of small renewable energy projects in Indonesia on a commercially sustainable basis; (b) promote environmentally sound energy resource development and reduce the dependence of the Borrower's energy sector on fossil fuels; (c) bring about cost effective mitigation of carbon dioxide (CO2) emissions; and (d) strengthen the Borrower's institutional capacity to support and sustain renewable energy development.

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

Part A:

1. Financing of about 15 small power projects (SP Subprojects), each consisting of the installation within the territory of the Borrower of a renewable resource-based power generation unit by a developer, for the generation and sale of electricity to PLN under the PSKSK Regulation.

2. Financing of pre-feasibility and feasibility studies in further preparation of about 15 potential SP Subprojects.

Part B:

1. Strengthening Borrower's capacity for Project implementation through provision of consultants' services in connection with:

- a. the environmental review of SP Subprojects;
- b. pre-investment activities under Part A.2 of the Project; and
- c. technical advice to developers of SP Subprojects.

2. Strengthening Borrower's capacity to design and implement a long-term strategy for the development of renewable energy small power projects, through the development of a plan for ongoing resource information collection and dissemination.

* * * * *

The Project is expected to be completed by April 30, 2001.

SCHEDULE 3

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) one half of one percent (1/2 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 single currency 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) one-half of one percent (1/2 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 semiannual installments payable on each May 15 and November 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 eighteenth (18th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-twelfth (1/12) 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 November 15, 2012, 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 4

Procurement

Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this part B.

(a) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under Paragraph 2.8 of the Guidelines.

(b) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

Established Commercial Practices

Goods estimated to cost less than \$5,000,000 equivalent per contract may be procured under contracts awarded on the basis of established commercial practices in Indonesia which are acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract estimated to cost the equivalent of \$5,000,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

SCHEDULE 5

Implementation Program

A. Project Management.

1. The Borrower shall establish, no later than November 15, 1997, and shall maintain throughout the period of Project implementation, a project support group, with terms of reference, staffing and other resources acceptable to the Bank, to be responsible for, inter alia, (i) environmental review of proposed SP Subprojects; (ii) administration of Subgrants for Pre-Investment Activities; and (iii) SP Subproject implementation support through technical advice to Developers.

2. The Borrower shall establish, no later than March 31, 1998, a working group to be headed by the Director of Electric Power Planning of DGEED and with representation from Borrower's National Development Planning Agency (BAPPENAS), the Borrower's Ministry of Mines and Energy, Ministry of Finance, Ministry of Public Works and

Ministry of Cooperatives and Small Enterprise Development, PLN and the Indonesian Sugar Council, to be responsible for assisting consultants engaged in connection with the implementation of Part B.2 of the Project.

B. Financial Arrangements for Subloans under Part A.1 of the Project.

1. BI Subsidiary Loan Agreement. The terms and conditions of the BI Subsidiary Loan Agreement shall include:

a. the obligation of BI to on-lend funds so re-lent under the BI Subsidiary Loan Agreement to the Private Commercial Banks, on terms and conditions satisfactory to the Bank which shall include, without limitation, the terms and conditions set forth in paragraph B.2 of this Schedule;

b. the obligation of BI to supervise the financial performance of each Participating Bank and to require that each Participating Bank undertakes measures to maintain or regain, as the case may be, its Sehat classification; and

c. the obligation of BI to require that Participating Banks party to Private Bank On-Lending Agreements agree to make Subloans to Developers only on the terms and conditions set forth in paragraph B.3 of this Schedule.

2. Private Bank On-lending Agreements and State Bank Subsidiary Loan Agreements. The terms and conditions of the respective Private Bank On-lending Agreements and the State Bank Subsidiary Loan Agreements shall include:

a. the obligation of each Participating Bank to:

(i) pay interest on the Subsidiary Loan at a variable rate per annum equal to the average six months interest rate per annum of Bank Indonesia's Sertifikat Bank Indonesia (SBI) with three month maturity. Such rate is to be adjusted on January 1 and July 1 of each year, commencing on January 1, 1998, and calculated based on the average of SBI three month maturity quotations during the preceding six months; provided, however, that the interest rate on the Subsidiary Loan for the period from the date of the Subsidiary Loan Agreement through January 1, 1998, shall be determined on the basis of the average of the per annum interest rate of SBI three month maturity quotations during the six months preceding January 1, 1998; provided further, however, that each Participating Bank and the Borrower or BI, as the case may be, may, with the Bank's approval, agree on an alternate basis for determining the interest rate payable by such Participating Bank on its Subsidiary Loan that better reflects the cost of domestic term funds;

(ii) repay in Rupiah the principal amount of the Subsidiary Loan over a period of 15 years, including a grace period of three years;

(iii) the principal amount of the Subsidiary Loan repayable by the Participating Bank shall be the equivalent in Rupiah (determined as of the date, or respective dates, of withdrawal) of the value of the currency or currencies withdrawn from the Loan Account in respect of such Subsidiary Loan; and

(iv) pay the Borrower in the case of each State-owned Commercial Bank, or BI in the case of each Private Commercial Bank, a commitment charge on the undisbursed portion of its respective Subsidiary Loan at a per annum rate identical to the rate paid by the Borrower to the Bank pursuant to Section 2.04 of this Agreement;

b. the obligation of each Participating Bank to:

(i) on-lend funds so re-lent under the Private Bank On-lending Agreements and the State Bank Subsidiary Loan Agreements to the Developers, on terms and conditions satisfactory to the Bank which shall include the terms and conditions set forth in paragraph B.3.c of this Schedule;

(ii) exercise its rights in relation to each such Subloan made by it, in such manner as to protect the interests of the Borrower and such Participating Bank;

(iii) take all such measures as may be necessary, including, without limitation, enforcement of collateral security, to ensure timely performance of the Developer's obligations to such Participating Bank in respect of such Subloan; and

(iv) exchange views with the Borrower and the Bank, upon the request of the Borrower or the Bank, on matters relating to collection and repayment of such Subloan;

c. the obligation of each Participating Bank to ensure that Developers have accounting and internal controls, including auditing arrangements, adequate to provide the financial information needed by the Participating Bank to monitor and supervise the operations and SP Subproject implementation performance by the Developers;

d. the agreement of each Participating Bank that:

(i) the Participating Bank Agreement to which it is a party will be amended from time to time to reflect the amount of the Subsidiary Loan made or proposed to be made to such Participating Bank; and

(ii) the Borrower or BI, as the case may be, may reduce the amount of such Participating Bank's Subsidiary Loan by an amount equal to such Participating Bank's Uncommitted Funds, and that the Participating Bank Agreement to which such Participating Bank is a party will be amended accordingly; and

e. no obligation to pay any administration or banking fee (other than interest charged in accordance with paragraph B.2.a.(i) of this Schedule) to the Borrower or BI, as the case may be, on the proceeds of the Subsidiary Loan disbursed to such Participating Bank.

3. Subloans to Developers.

a. No expenditures for goods required for an SP Subproject shall be eligible for financing out of the proceeds of the Loan unless the Subloan for such SP Subproject shall have been approved by the Bank.

b. When presenting a Subloan to the Bank for approval, the Participating Bank shall furnish to the Borrower and the Bank an application, in form satisfactory to the Bank, together with:

(i) a description of the Developer and an appraisal of the proposed SP Subproject, including the Developer's business plan;

(ii) the proposed terms and conditions of the Subloan, including the schedule of amortization thereof;

(iii) evidence satisfactory to the Bank of SP Subproject compliance with applicable environmental regulations of the Borrower together with a completed environmental compliance report, in form and substance satisfactory to the Bank, with respect to such SP Subproject;

(iv) if required by the Bank, a land acquisition and compensation report, in form and substance satisfactory to the Bank; and

(v) such other information as the Bank shall reasonably request.

c. Subloans shall be made on terms whereby the Participating Bank shall obtain, by written contract with the Developer or by other appropriate legal means, rights adequate to protect the interests of the Bank, the Borrower and the Participating Bank, including the right to:

(i) require the Developer to carry out the SP Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards, and to maintain adequate records;

(ii) require the Developer to carry out the compensation, resettlement and rehabilitation of Affected Persons in accordance with the General Policy for Land Acquisition, Compensation and Resettlement for Small-Scale Power Generation Projects and in a manner satisfactory to the Bank;

(iii) require that: (a) the goods to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement and, if the provisions of Part C of Schedule 4 are applicable, at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and (b) such goods shall be used exclusively in the carrying out of the SP Subproject;

(iv) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the operation thereof and any relevant records and documents;

(v) require that: (A) the Developer shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (B) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Developer to replace or repair such goods;

(vi) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Developer and to the benefits to be derived from the Subproject; and

(vii) suspend or terminate the right of the Developer to the use of the proceeds of the Loan upon failure by such Developer to perform its obligations under its contract with the Participating Bank.

4. Payment Procedures.

Disbursement of the proceeds of the Subsidiary Loans by the Borrower and BI shall be made pursuant to procedures and subject to documentation acceptable to the Bank.

C. Monitoring and Reporting

1. Without limitation to Section 9.07 of the General Conditions, the Borrower shall:

a. maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 7 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

b. prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31 in each year, commencing December 31, 1997, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph a. above, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

c. review with the Bank, by February 28 in each year, commencing February 28, 1998, or such later date as the Bank shall request, the report referred to in sub-paragraph b. above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter;

d. prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank on or about October 1, 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph a. above on the progress achieved in the carrying out of the Project during the period since its inception, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

e. review with the Bank, by December 1, 1999, or such later date as the Bank shall request, the report referred to in sub-paragraph d above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (1) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Part A.1 of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$10,000,000.

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

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

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis

of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

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

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account:

(i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or

(ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank:

(A) provide such additional evidence as the Bank may request; or

(B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the

Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 7

Performance Indicators

(PLEASE SEE ORIGINAL FOR PERFORMANCE INDICATORS TABLE, FORMAT IS TOO BIG)

