

CONFORMED COPY

LOAN NUMBER 2930 IND

(Forestry Institutions and Conservation Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 20, 1988

LOAN NUMBER 2930 IND

LOAN AGREEMENT

AGREEMENT, dated April 20, 1988, 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) the Ministry of Foreign Affairs of the Kingdom of the Netherlands (hereinafter referred to as the "Ministry" intends to make available to the Borrower a grant of Dutch Guilder 6,000,000 (hereinafter referred to as the "Dutch Grant") to assist in financing part of the Project on the terms and conditions set forth in an agreement (hereinafter referred to as the "Dutch Grant Agreement") to be entered into between the Borrower and the Ministry; and

(C) the Bank has agreed, on the basis, inter alia, of the

foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MOF" means the Borrower's Ministry of Forestry; and

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to thirty-four million dollars (\$34,000,000).

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 (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in United States dollars a special account in Bank Indonesia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1996 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 June 1 and December 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

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 forestry 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 the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; 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, including without limitation on

the foregoing, its unaudited accounts as soon as available, but not later than five months after the end of each such year.

(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 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

Other Covenants Effective Date; Termination

Section 5.01. 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 contracts with the consultants referred to: (a) in Schedule 2, Part A (1) (forest management strategy), and (b) in Schedule 2, Part A (4) (national forest resource survey), shall have been signed.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:

Telex:

MINISTRY FINANCE
Jakarta

DJMLN IA 45799
DEPKU IA 44319

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/ Dadang Sukandar
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Attila Karaosmanoglu
Regional Vice President
Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works:	8,900,000	91%
(a) for forestry research (Schedule 2, Part A (5))		
(b) for Wonogiri (Schedule 2, Part B (1))		
(c) for nature conservation, (Schedule 2, Part B (2))		
(d) all other		

(2) Goods:	4,100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 91%
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Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed of local ex- penditures for other items pro- cured locally
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(a) for forestry research
(Schedule 2,
Part A (5))

(b) for Wonogiri
(Schedule 2,
Part B (1))

(c) for nature conservation,
(Schedule 2,
Part B (2))

(d) all other

(3) Equipment hire and maintenance, maps, and aerial photos	5,000,000	91%
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(4) Technical assistance and training:	8,000,000	100%
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(a) for forestry research
(Schedule 2,
Part A (5))

(b) for Wonogiri
(Schedule 2,
Part B (1))

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
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(c) for nature conservation
(Schedule 2,
Part B (2))

(d) all other

(5) Farmer payments for terrace rehabilitation and waterways	4,500,000	100%
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(6) Forestry research, nursery and field trials	1,200,000	91%
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(7) Unallocated	2,300,000	
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TOTAL

34,000,000

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$500,000, may be made in respect of Categories (1) and (4) on account of payments made for expenditures before that date but after July 1, 1987;

(b) expenditures in respect of Categories (1)(a), (2)(a), (4)(a) and (6) of the table set forth in paragraph 1 of this Schedule until the consultants' contract for forestry research (Schedule 2, Part A.5) shall have been signed;

(c) expenditures in respect of Categories (1)(b), (2)(b), (4)(b) and (5) of the table set forth in paragraph 1 of this Schedule until the consultants' contract for Upper Solo watershed conservation (Schedule 2, Part B.1) shall have been signed; and

(d) expenditures in respect of Categories (1)(c), (2)(c) and (4)(c) of the table set forth in paragraph 1 of this Schedule until the consultants' contract for nature conservation (Schedule 2, Part B.2) shall have been signed.

SCHEDULE 2

Description of the Project

The objectives of the Project are to strengthen planning, management and conservation efforts in the forestry sector.

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. Carrying out a forest management strategy study focussing on forest management and timber concession policies, and suggesting incentives and control mechanisms for ensuring sustainable production from forests, consistent with environmental considerations and the welfare of people who depend on the forests.

2. Carrying out a shifting cultivation study which will analyze approaches for reducing environmental degradation and resource depletion and for improving the welfare of shifting cultivators. This study will include an assessment of the area under different forms of shifting cultivation, an evaluation of the economic impact of such activity, and a description of the practices of representative groups and their claims to land.

3. Preparing a forestry manpower development plan which will assess needs and propose a manpower development strategy and action plan for addressing structural deficiencies as well as manpower skills gaps.

4. Carrying out a national forest resource survey to provide

reliable estimates of standing volumes by major forest types, species and marketing groups, emphasizing areas that have high potential for development or that have special problems and pressures on forestry resources.

5. Strengthening forestry research through improved planning, management and funding with emphasis on development of applied technology for improved regeneration of logged over forests, and on tree improvement research for increasing productivity of forest plantation, by providing, inter alia, support for research facilities and activities in Sumatra and Kalimantan and at Bogor.

Part B:

1. Improve conservation in the Upper Solo watershed (Wonogiri District (Kabupaten)) by:

- (a) building soil conservation structures;
- (b) strengthening on-farm conservation practices by improving terraces on about 22,000 ha of erodable slopes and providing stable waterways and drop structures;
- (c) planting of about 5,000 ha of community forests (food, fodder and fuelwood trees) in the Wonogiri area on steeply sloping private lands; and
- (d) reforesting about 3,500 ha of state forest land together with about 500 ha of conservation forest planting on critical slopes on the Wonogiri reservoir periphery.

2. Strengthening the management of five existing nature conservation areas in Aceh, North Sumatra, East Java, Bali and North Sulawesi.

* * *

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each June 1 and December 1	
beginning December 1, 1993 through December 1, 2007	1,135,000
On June 1, 2008	1,085,000

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

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of

prepayment multiplied by:

Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Contracts for civil works may be awarded on the basis of the Borrower's local competitive bidding procedures in effect at the date of this Agreement.

2. Equipment hire, maintenance of civil works and equipment, maps, on-farm improvements, research plots, nursery and field trials may be procured under contracts awarded on the basis of the Borrower's local procedures in effect at the date of this Agreement.

3. Equipment estimated to cost less than \$60,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with the Borrower's local procedures in effect on the date of this Agreement.

Part D: 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 civil works estimated

to cost the equivalent of \$500,000 or more, and with respect to each contract for equipment estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract, together with the other information required to be furnished to the Bank pursuant to said paragraph 3, shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding 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 the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Implementation Program

1. The Borrower shall furnish to the Bank by September 30, 1990, an action plan based on the forest management strategy study (Schedule 2, Part A.1) and an action plan based on the shifting cultivation study (Schedule 2, Part A.2) and shall adopt by March 31, 1991, plans and implementation schedules satisfactory to the Bank. Detailed investment preparation work shall be undertaken only after the respective plans shall have been adopted.

2. In order to carry out the manpower development plan, MOF shall establish, by September 30, 1988, and thereafter maintain, a technical team consisting of representatives from each Directorate-General and Agency within MOF.

3. The Borrower shall establish by September 30, 1988, and thereafter maintain, a national forestry information users group, satisfactory to the Bank, consisting of representatives from each Directorate-General and Agency within MOF, as well as a representative of private industry.

4. The Borrower shall establish by September 30, 1988, a Forestry Research Advisory Council, satisfactory to the Bank, to set research goals and priorities and to recommend budget allocation and implementation responsibilities. Such Council shall be assisted by a Secretariat, to be established by September 30, 1988. The Secretariat, consisting of qualified and experienced staff, shall assist in analyzing and assessing economic and scientific aspects of forest research proposals and policies.

5. The Borrower shall establish by September 30, 1988 a District level coordinating committee. The District Administrator (Bupati) shall be responsible for field implementation assisted by a team headed by the head of the District Planning Agency with members from all agencies involved.

6. The Borrower shall appoint by September 30, 1988, a Project Manager (Field), satisfactory to the Bank, to assist the District Administrator's (Bupati's) office in supervising and coordinating field implementation activities of agricultural, forest and public works staff. Additionally, the Project Manager (Field) will coordinate activities of agriculture and soil conservation extension workers in the Upper Solo watershed conservation area.

7. The Borrower shall by March 31, 1989, furnish to the Bank for comment a socio-economic sample survey of the Upper Solo watershed conservation area.

8. The Borrower shall, by September 30, 1992, furnish to the Bank for comment, a mid-term review of the Project.

9. The Borrower shall ensure that a sufficient and timely supply of vehicles is available for the purposes of the Project.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4), (5) and (6) 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 the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, 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 may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, 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) The Borrower shall furnish to the Bank requests for replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence

supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) 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
- (ii) the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus 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 be equal to the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for any expenditure or in any 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, 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. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(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 for crediting to the Loan Account.

