

CONFORMED COPY

LOAN NUMBER 3754 IND

Loan Agreement

(University Research for Graduate Education Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 25, 1994

LOAN NUMBER 3754 IND

LOAN AGREEMENT

AGREEMENT, dated July 25, 1994, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS 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;

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "DGHE" means the Directorate General of Higher Education in the Borrower's Ministry of Education and Culture;

(b) "Fiscal Year" means the Borrower's fiscal year commencing April 1 and ending March 31;

(c) "Grant" means a grant made or proposed to be made by the Borrower in part out of the proceeds of the Loan to a Grantee for a Sub-project;

(d) "Grantee" means an individual, a group of individuals, a university or a unit thereof, to whom or to which the Borrower proposes to make or has made a Grant;

(e) "S1 level" degree means the first academic degree given by a higher education institution in Indonesia after at least eight semesters of study beyond high school;

(f) "S2 level" degree means the academic degree given by a higher education institution in Indonesia after at least four semesters of study beyond the S1 level degree;

(g) "S3 level" degree means a doctorate level degree;

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

(i) "Sub-project" means a specific research, education or technical support project to be carried out by a Grantee under Part B of the Project; and

(j) "URC" means the University Research Council established in the Borrower's Ministry of Education and Culture in accordance with the Minister of Education and Culture's Decree No. 096/U/1994 dated April 22, 1994.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, various currencies that shall have an aggregate value equivalent to the amount of fifty eight million nine hundred thousand dollars (\$58,900,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 deposit account in Bank Indonesia or in a commercial bank on terms and conditions satisfactory to the Bank, including 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 7 to this Agreement.

Section 2.03. The Closing Date shall be February 29, 2000, or such later

date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a 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 for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during 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 determined in respect of such Semester.

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on January 15 and July 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through DGHE with due diligence and efficiency and in conformity with appropriate administrative, educational and financial 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 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.

(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.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P. O. Box 2458
Jakarta 10710, Indonesia

Cable address:

FINMINISTRY
Jakarta

Telex:

45799 DJMLN-IA
44319 DEPKEU-IA

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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/ Arigfin M. Siregar

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marianne Haug

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 Dollar Equivalent)	% of Expenditures to be Financed
(1) Grants under:		70% of Grant amount
(a) Part B.1 of the Project	25,600,000	
(b) Part B.3 (b) of the Project	2,300,000	
(c) Part B.3 (c) of the Project	1,900,000	
(d) Part B.4 (a) of the Project	500,000	
(2) Grants under:		60% of Grant amount
(a) Part B.2 (a) of the Project	16,500,000	
(b) Part B.2 (b) of the Project	2,900,000	
(c) Part B.4 (b) of the Project	700,000	
(3) Fellowships and Training	7,200,000	50%
(4) Consultants' Services	1,100,000	100%
(5) Unallocated	200,000	
TOTAL	<u>58,900,000</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 in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under Grants, fellowships, training, contracts for the employment of consulting firms not exceeding \$100,000 equivalent, and contracts for the employment of individual consultants not exceeding \$50,000, under such terms and

conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the quality of graduate education and of university research in Indonesia.

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: Improving Planning and Management

1. Strengthening the capacity of the University Research Council to administer competitive grant and fellowship programs, through provision of technical assistance and overseas training for the staff of the University Research Council.

2. Provision of training to editors to improve the quality of their scientific writing and editing.

3. Provision of technical assistance for the carrying out of technical audits of the activities under Part B of the Project.

PART B: Competitive Grant and Fellowship Programs

Provision of grants and fellowships for research, education and technical support projects in the fields of basic sciences, engineering, agriculture, health, social sciences, education and humanities as follows:

1. Center Grant Program

Provision of grants to about 30 university units with integrated research and graduate education programs, for overseas fellowships, cost of visiting scholars from overseas, full-time research administrators and support staff, acquisition of scientific journals and books, and acquisition of equipment and consumables.

2. Research Grant Programs

(a) Team Grant Program for Graduate Research

Provision of about 160 grants to research teams that promote high quality research activities, integrate graduate students as part of the research team, and encourage collaboration with the international scientific community, for cost of visiting scholars, full-time researchers, research assistantship, post-doctoral fellowships, related research costs, and acquisition of research equipment and consumables.

(b) Young Academics Program

Provision of about 200 grants to university teaching staff having recently graduated from doctoral programs for cost of full-time researchers, related research costs, and acquisition of research equipment and consumables.

3. Graduate Education Programs

(a) In-Country Merit Fellowships

Provision of about 800 S2 level fellowships and about 130 S3 level fellowships to S1 and S2 graduates, including about 420 S2 level and about 70 S3 level fellowships to recent S1 and S2 graduates.

(b) In-Country Pre-Graduate Training Program

Provision of about five grants to graduate schools for the establishment of one-year training programs for prospective graduate students to improve the quality of such students.

(c) Program with Foreign Institutions Linkages

Provision of about 20 grants to graduate schools having agreements with foreign institutions for partial S3 training overseas, including cost of overseas fellowships, visiting scholars and related travel costs.

4. Scientific Publication Programs

(a) Provision of about 25 grants to universities and professional societies for editorial assistance and publication of academic journals.

(b) Provision of about 350 grants to researchers for the preparation and publication of articles in scientific and technical international journals.

* * *

The Project is expected to be completed by August 31, 1999.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
January 15, 2000	1,115,000
July 15, 2000	1,155,000
January 15, 2001	1,200,000
July 15, 2001	1,240,000
January 15, 2002	1,285,000
July 15, 2002	1,335,000
January 15, 2003	1,380,000
July 15, 2003	1,435,000
January 15, 2004	1,485,000
July 15, 2004	1,540,000
January 15, 2005	1,595,000
July 15, 2005	1,655,000
January 15, 2006	1,715,000
July 15, 2006	1,775,000
January 15, 2007	1,840,000
July 15, 2007	1,905,000
January 15, 2008	1,975,000
July 15, 2008	2,045,000
January 15, 2009	2,120,000
July 15, 2009	2,200,000
January 15, 2010	2,280,000
July 15, 2010	2,360,000
January 15, 2011	2,450,000
July 15, 2011	2,535,000
January 15, 2012	2,630,000
July 15, 2012	2,725,000
January 15, 2013	2,825,000
July 15, 2013	2,925,000
January 15, 2014	3,030,000
July 15, 2014	3,145,000

* 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

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
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	The interest rate (expressed as a percentage per annum) applicable to 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

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods 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 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall cause the relevant standard bidding documents issued by the Bank to be used, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall cause to be used bidding documents based on other internationally recognized standard forms agreed with the Bank.

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. Items or group of items of specialized equipment for which there are

only a limited number of suppliers, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

2. Goods estimated to cost less than the equivalent of \$500,000 per contract may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Standardized equipment and spare parts, and proprietary goods, may be procured under contracts awarded after direct negotiations with the suppliers thereof, in accordance with procedures acceptable to the Bank.

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 goods to be procured in accordance with the provisions of Part A of this Section, 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 7 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (B) who 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e)

amendments to contracts for the employment of individuals raising the contract value to \$50,000 equivalent or more.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain the Secretariat of the URC and the Project implementation unit, within DGHE, in accordance with terms of reference, staffing and other resources, acceptable to the Bank.
2. The Borrower shall ensure that URC's activities shall be carried out in accordance with policies and operating guidelines acceptable to the Bank.
3. In carrying out Part A.3 of the Project, the Borrower shall:
 - (a) not later than June 1, 1995, prepare and furnish to the Bank for comments, the terms of reference and proposed organizational arrangements for the carrying out of technical audits under Part B of the Project;
 - (b) cause technical audits to be carried out annually, in a manner acceptable to the Bank, during the implementation of the Project, commencing not later than April 1, 1996; and
 - (c) annually, commencing not later than October 1, 1996, furnish to the Bank for comments a copy of such audit.
4. The Borrower shall make Grants in accordance with the procedures and on the conditions set forth or referred to in Schedule 6 to this Agreement.
5. Without limitation upon Section 9.07 of the General Conditions, the Borrower shall:
 - (a) not later than March 31, 1998, carry out a review of the implementation of the Project in accordance with terms of reference acceptable to the Bank, and furnish the recommendations of such review to the Bank for comments; and
 - (b) promptly thereafter carry out the recommendations of the review taking into account the comments of the Bank.

SCHEDULE 6

Procedures and Conditions for Grants under Part B of the Project

1. Each Grant shall be made by the Borrower only:
 - (a) to a Grantee who or which shall have established, to the satisfaction of the Borrower, acting through URC, on the basis of criteria and procedures, acceptable to the Bank, that said Grantee: (i) (A) in the case of an individual Grantee, has the qualifications and experience necessary for the efficient carrying out of the Sub-project, and (B) in all other cases, has the organization, management, staffing and other resources required for the efficient carrying out of the Sub-project; and (ii) has prepared an acceptable plan, including terms of reference, for the carrying out of the Sub-project; and
 - (b) for a Sub-project which is determined by the Borrower, acting through URC, on the basis of guidelines acceptable to the Bank: (i) to be technically feasible and cost-effective, and (ii) to have been designed in accordance with appropriate educational standards.
2. Grants, as described in Schedule 2 to this Agreement, shall be made on terms whereby the Borrower shall obtain, through a single written agreement with each of the Grantees, rights adequate to protect the interests of the Borrower and the Bank, including the right, as applicable, to:
 - (a) require the Grantee to carry out the Sub-project with due diligence and efficiency and in accordance with sound financial, educational and managerial standards and to maintain adequate records;

(b) require that (i) the goods and services required for the Sub-project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement, (ii) such services shall be used exclusively in the carrying out of the Sub-project, and (iii) such goods shall be used primarily in the carrying out of the Sub-project;

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

(d) require that the Grantee shall take out and maintain with responsible insurers insurance to cover the hazards incident to the acquisition, transportation and delivery of goods required for the Sub-project and to be 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 Grantee to replace or repair such goods;

(e) obtain all such information as the Borrower and the Bank shall reasonably request relating to the foregoing and to the benefits to be derived from the Sub-project; and

(f) suspend or terminate the right of the Grantee to the use of the proceeds of the Loan upon failure by such grantee to perform its obligations under its agreement with the Borrower providing for the Grant.

3. Grants for the Sub-projects listed below shall be made by the Borrower only if the Bank shall have notified the Borrower of the Bank's approval of said Sub-project.

(a) Sub-projects under Part B.1, B.3(b), B.3(c), and B.4(a) of the Project, approved by the Borrower as a result of the first program advertisement under the Project;

(b) the five highest ranked and the five lowest ranked Sub-projects under Part B.2(a) of the Project, approved by the Borrower as a result of the first program advertisement under the Project;

(c) Sub-projects which include proposed procurement of goods estimated to cost the equivalent of \$500,000 or more;

(d) Sub-projects under Part B.1, B.3(b), B.3(c) and B.4(a), estimated to cost more than the equivalent of \$2,000,000 each; and

(e) Sub-projects under Part B.2(a), B.2(b) and B.4(b) estimated to cost more than the equivalent of \$250,000 each.

4. When presenting a Sub-project to the Bank for review, the Borrower shall furnish to the Bank a draft grant agreement, in form satisfactory to the Bank, together with a description of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan and such other information as the Bank shall reasonably request.

5. The Borrower shall ensure that all university staff assigned to work on any Sub-project shall be paid, for such work, remuneration at levels at least equal to the levels applicable to the employment of local consultants as set forth in the applicable decree on the procedures for the employment and remuneration of consultants of the Borrower's National Development Planning Agency (Badan Perencanaan Pembangunan Nasional).

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) 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 \$3,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 the aggregate 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 Categories, 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) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, 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 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 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.

