

PD-AAZ-317
61247

A.I.D. LOAN NO. 497-HG-001

PROGRAM AGREEMENT

BETWEEN

THE REPUBLIC OF INDONESIA

AND

THE UNITED STATES OF AMERICA

FOR

MUNICIPAL FINANCE AND SHELTER

Dated: May 9, 1989

Loan and Grant Agreements

FM/LMD (if Loan)

EM/PAFD

EM/CAD

GC/ANE

ANE/Desk

ANE/TR Officer

ANE/PD Officer & File

FPC/CDIE/DI

PROGRAM AGREEMENT

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PROGRAM AGREEMENT

Program Agreement ("Agreement"), dated May 9, 1989, between the Republic of Indonesia (sometimes referred to as the "Borrower"), acting by and through its Minister of Finance; and the United States of America, acting through the Agency for International Development ("A.I.D."), consisting of this document together with Annexes A and B attached hereto.

ARTICLE I

THE AGREEMENT

Section 1.01. Background and purpose.

A. This Agreement describes a program (the "Program") to be carried out in the Republic of Indonesia, with the cooperation and assistance of A.I.D.; and sets forth the implementation arrangements agreed to by the Ministry of Finance, Ministry of Home Affairs, Ministry of Public Works, and the National Development Planning Agency representing the Republic of Indonesia and A.I.D. (collectively the "Parties") for accomplishing the purposes of the Program.

B. To implement the Program, the following steps will be undertaken:

1. The Borrower will borrow funds, as specified in Article III, from a private U.S. lender ("Investor") pursuant to a Loan Agreement approved by A.I.D. and will expend no less than an amount equivalent to these funds in its budget for agreed purposes in support of the Program;

2. A.I.D. will guaranty the Borrower's payment obligation to the Investor under a contract of Guaranty between the Investor and A.I.D.;

3. The Republic of Indonesia will agree to reimburse A.I.D., pursuant to a Republic of Indonesia Guaranty Agreement, for any losses that A.I.D. may incur by virtue of the A.I.D. guaranty to the Investor; and

4. The Borrower and a U.S.-financed institution designated by A.I.D. will enter into a Paying and Transfer Agency Agreement, as further described in Article VI, providing for certain payment and other financial services relating to the Loan Agreement.

This Agreement shall be read in conjunction with, and subject to the provisions of, the documents described above when such documents are executed and/or approved.

ARTICLE II

THE PROGRAM

Section 2.01. Program Objectives. The agreed goal of the Program is to improve the shelter conditions of Eligible Beneficiaries, as defined below, by developing the means by which municipal governments can finance shelter-related urban services and infrastructure at a pace sufficient to overcome present deficits among low-income households and to match the pace of urban population growth. Toward this end, the Parties agree to work toward the development of a comprehensive system of municipal finance that will enable Indonesia municipalities to assume increased financial responsibility for urban infrastructure and services, create conditions favorable to private sector involvement in urban investment finance and service provision, and create a framework for partnership between the public and private sectors.

Specifically, the Parties agree to the following Program Objectives:

A. Continue improvement of the role of Central Government in funding urban infrastructure and services affordable to low-income households through a system of grants and loans that encourages local resource mobilization.

B. Continue strengthening the capacity of the local government (Level I and Level II) finance system to mobilize and manage resources.

C. Establish the basis for increased private sector participation in the provision and financing of urban infrastructure and services.

Section 2.02. Policy Action Plan. Attached as Part 1 of Annex A is a Policy Action Plan listing the Borrower's Program Objectives together with a series of steps or activities which, if implemented, will assist the Borrower to reach the Program Objectives set forth in Section 2.01. The Borrower agrees to use its best efforts to undertake the activities listed in Part 1 of Annex A.

Section 2.03. Investment Plans

A. General. The Parties agree to prepare jointly Investment Plans specifying the investments which will be eligible for financing under this Program. The term "Eligible

Expenditures" means investments, acceptable to the Parties, made after the date hereof, which confer substantial benefit upon households with incomes below the urban median by improving their shelter conditions through improved access to infrastructure and services.

B. Initial Investment Plan. Attached as Part 2 of Annex A is an Investment Plan listing the Borrower's estimated Eligible Expenditures under this Program. The Borrower agrees to implement these investments in a manner which principally benefits households below the urban median income level and supports the Program Objectives set forth in Section 2.01.

Section 2.04. Program Modification. Within the limits of the description of the Program in this Article, details of the Program, as set forth in Annex A, Parts 1 and 2, may be changed by written agreement of the Parties according to the procedure stated in Section 7.01. Periodically, throughout the term of this Agreement, the Parties will assess progress against the Action Plan and Investment Plan for the purpose of revising such Plans to meet the needs of the Program and adjusting to the realities of the development process.

ARTICLE III

FINANCING

Section 3.01. Financing and Payment Provisions. Financing of the Program will be provided as follows:

A. A.I.D. Resources

1. United States Government Guarantied Loan.

(a) A.I.D. will provide, on behalf of the Government of the United States, a guaranty of payment of principal and interest for United States Dollar Loans of up to \$25,000,000 in principal amount made by Investors to the Borrower to finance the Program. The Borrower shall select investors and negotiate the guarantied loans in accordance with criteria and procedures mutually agreed upon. The selection of the Investors and the terms and conditions of the Loan Agreement(s) (including any amendments) are subject to A.I.D.'s approval.

(b) This is the first part of a multi-year program amounting to \$100 million in A.I.D.-guarantied loans. Successive guaranty increments shall be authorized separately based upon periodic program reviews, the mutual agreement of the Parties to proceed, and the availability of A.I.D. guaranty funding authority.

2. Additional A.I.D. Resources. Pursuant to a separate grant agreement dated August 31, 1988, A.I.D. shall make available additional grant funding in support of the Program, as described in such agreement.

B. Borrower Resources. The Borrower agrees to provide or cause to be provided for the Program, additional resources as specified in the Grant Agreement.

ARTICLE IV

LOAN DISBURSEMENTS

Section 4.01. Investor Selection. The Borrower shall select an Investor and enter into the agreements referred to in subsections 1.01.B.1, 1.01.B.3, and 1.01.B.4. The timing and procedures for investor selection shall be mutually agreed upon by the Parties.

Section 4.02. Disbursements and Advances. A.I.D. shall authorize disbursement of guaranteed loan funds to cover Eligible Expenditures, as defined in Section 2.03.A. A.I.D. shall authorize an advance disbursement of the Loan in the amount of \$25,000,000 upon the Borrower's meeting the Conditions Precedent in the Loan Agreement(s) and Section 5.01 below. This disbursement shall be deemed an advance subject to the accounting and liquidation requirements of Section 5.02, below. The amount of subsequent disbursements and advances authorized by A.I.D. shall be determined by the Parties based upon progress in liquidating the prior advances and consideration of the Borrower's commitment to the Investment Plan, described in Section 2.03.

Section 4.03. Exchange Rate. The rate of exchange used for the purpose of liquidating advances shall be specified in the Borrower's initial Request for Disbursement (Annex B). Such rate shall be a mutually agreed-upon, lawful rate of exchange as quoted by Bank Indonesia for foreign exchange lending transactions of the type contemplated hereunder in Indonesia.

ARTICLE V

CONDITIONS TO A.I.D. GUARANTY

Section 5.01. Conditions Precedent to A.I.D.'s Guaranty of the Disbursement. Prior to A.I.D.'s guaranty of the disbursement under the Loan, the Borrower shall, except as A.I.D. may otherwise agree in writing, deliver to A.I.D., in form and substance satisfactory to A.I.D.:

A. A legal opinion issued by a duly authorized official of the Ministry of Justice of the Republic of Indonesia to the effect that this Agreement and the Indonesia Guaranty Agreement have been duly authorized, executed, and delivered by the Republic of Indonesia and constitute legal, valid and binding obligations to the Republic of Indonesia; and

B. All documents required by the terms of the Loan agreement to satisfy conditions precedent therein; and

C. A Request for Disbursement and Certification in the form of Annex B, duly completed and signed.

Section 5.02. Condition Subsequent to A.I.D. Guaranteed Disbursement. Within one year after each disbursement of the Loan or prior to the next successive disbursement, whichever is earlier, the Borrower shall submit to A.I.D. a final accounting of Eligible Expenditures as defined above. The total of Eligible Expenditures shall equal or exceed the sum of the Loan disbursement. Failure on the Borrower's part to fulfill this condition subsequent shall constitute cause for A.I.D.'s exercise, at its option, of any of the remedies in Article VIII in accordance with the provisions of that article, or any other remedy available to A.I.D. for breach of this Agreement according to the terms of any of the agreements recited in Section 1.01.

ARTICLE VI

LOAN SERVICING AND FEES

Section 6.01. Paying and Transfer Agency Agreement. In order to assure efficient administration of payment and other financial requirements of the servicing of Housing Guaranty Programs, the Borrower shall enter into a standard Paying and Transfer Agency Agreement with the Riggs National Bank of Washington, D.C. ("Paying Agent") at the time of signing the Loan Agreement. The cost for the services of the Paying Agent, as specified in the Paying and Transfer Agency Agreement, shall be borne by the Borrower. The Paying Agent shall distribute the Borrower's payments on the Notes, transmit periodic A.I.D. fee payments, transfer Notes to new Noteholders, and otherwise provide the necessary servicing of such Notes.

Section 6.02. A.I.D. Guaranty Fees. The Borrower shall pay to A.I.D. the following fees:

A. Initial Fee. The Borrower shall pay to A.I.D. a fixed initial fee equal to one percent (1%) of each Loan as defined in the Loan Agreement(s) approved by A.I.D. for the Program. Such fee shall be paid to A.I.D. upon the first disbursement of the A.I.D.-Guaranteed Loan. This fee shall be non-refundable, notwithstanding the failure of the Borrower to subsequently receive additional disbursements or the full amount of the Loan. The fee is payable by electronic funds transfer to the Federal Reserve Bank of New York by specifying "credit to the U.S. Treasury, New York City, A.I.D. Agency Location Code 72000001, A.I.D. Housing Guaranty Project No. 497-HG-001, in payment of the A.I.D. Fee." The fee may be deducted from the amount disbursed upon instruction to the Investor in the "Request for Borrowing" as required by the Loan Agreement(s).

B. Periodic Fee. In addition, the Borrower shall pay to A.I.D. a periodic fee calculated at the rate of one-half of one percent (1/2%) per annum of the aggregate unpaid principal amount of all A.I.D.-guaranteed Notes issued and outstanding under the Loan Agreement(s). This Fee shall accrue from the date each guaranteed Note is issued under the Loan Agreement(s), and shall be payable to A.I.D. on the same due dates as provided in the Notes until each Note is fully repaid.

Section 6.03. Place of Payment. The Borrower agrees to remit all principal and interest payments due the Investor and periodic fee due to A.I.D. to the Paying Agent, at the address specified herein, or as otherwise provided in the Loan Paying and Transfer Agency Agreement. It is understood that the Paying Agent shall apply such remittances in accordance with the Loan Agreement, the Loan Paying and Transfer Agency Agreement and this Agreement. Other fees due the Investor, such as the Investor's commitment fee, shall be paid as agreed between the Borrower and the Investor.

Section 6.04. Late Payment Charge. In the event of a late payment of amounts due A.I.D., either directly or by way of reimbursement for amounts A.I.D. has paid on behalf of the Borrower, a Late Payment Charge will accrue on all such amounts. This Late Payment Charge shall accrue to A.I.D. under the same terms and conditions as Late Payment Charges due the Investor as such charges are prescribed in the Loan Agreement(s).

Section 6.05. Reimbursement and Subrogation. The Borrower agrees that if A.I.D. makes any payment on the Borrower's behalf due to the Investor pursuant to the Contract of Guaranty, whether or not the Investor has applied to A.I.D. for such payment and whether or not an Event of Default has occurred under the terms of the Loan Agreement, the Borrower will reimburse A.I.D. for such payment. In such event, by operation of this Agreement and any existing applicable common law rights as may exist, A.I.D. shall become subrogated to all the rights of the Investor against the Borrower.

ARTICLE VII

SPECIAL AND GENERAL PROVISIONS

Section 7.01. Program Implementation Letters. To assist in the implementation of this Program, A.I.D., from time to time will issue Program Implementation Letters which will furnish additional information about matters stated in this Agreement. A.I.D. agrees, upon request of the Borrower, to consult promptly on any such Program Implementation Letter if the Borrower deems mutual agreement is required. The Parties may also use jointly agreed-upon Program Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Program Implementation Letters will not be used to amend the text of the Agreement, but can be used to record mutually agreed upon revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Program in Annex A, or waivers of rights by Parties for whose benefit such rights exist.

Section 7.02 Program Evaluation. The Parties agree to establish an evaluation program as part of the Program. Except as the Parties otherwise agree in writing, the Program will include, during the implementation of the Program and at one or more points thereafter: (a) an evaluation of progress toward attainment of the objectives of the Program; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems, and (d) evaluation, to the degree feasible, of the overall development impact of the Program.

Section 7.03. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of any party, will exchange views on the progress of the Program, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged in the Program, and other matters relating to the Program.

Section 7.04. Execution of the Program.

A. The Borrower will:

1. Carry out the Program or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement;

2. Provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Program and as applicable for continuing activities, and cause the Program to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Program as specified in the Program Agreement; and

3. Use the proceeds of the Loan, or any and all currencies exchanged for the United States Dollars received under the Loan, for the sole purpose of financing the Program in accordance with and subject to the provisions of this Agreement.

B. The effect of Program investments on the environment surrounding the areas where they are carried out is a concern of all the parties. In light of this concern, every effort will be made during the life of the Program to protect the natural environment.

C. It is agreed by the Parties that successful implementation of the Program will depend in part on the ability and willingness of the Borrower to effectively operate and maintain the services and facilities financed under the Program. The Borrower agrees to use its best efforts to operate and maintain facilities financed by the Program in a manner assuring the continued flow of benefits therefrom. The Borrower agrees to consult with A.I.D. from time to time on ways to achieve this goal.

D. The Borrower shall assure the coordination of this Program and, to this end, will assign a Project Management Unit (PMU) responsible for the preparation and regular updating of the Action Plan and Investment Plan of activities. The PMU shall be empowered to call upon adequate budget, staff, and other resources necessary to periodically review and recommend modification of the Program's Action Plan and Investment Plan. Coordination shall include the Borrower's best efforts to assure that other donor projects in this sector are designed and implemented in a manner consistent with the objectives of the Program.

Section 7.05. Reports, Books and Records, Audit and Inspection. The Borrower will:

A. Furnish A.I.D. such information and reports relating to the Program, the Loan and this Agreement as A.I.D. may reasonably request;

B. Maintain, or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Program, the Loan, and this Agreement, adequate to show, without limitation, the receipt and use of funds, the relending of such funds, and the receipt and use of goods and services acquired under the Loan. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three (3) years after the date of Program completion, and books and records regarding the Loan shall be maintained for three (3) years after the Loan has been fully repaid by the Borrower; and such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Program toward completion;

C. Afford authorized representatives of any Party the opportunity at all reasonable times to inspect the sites at which the Program is being carried out; the utilization of the goods and services financed by the Loan or by the Parties; and the books, records, and other documents related to the Loan, to the Agreement, and to those portions of the Program required to be examined by each Party in order to carry out its audit responsibilities;

D. Until the Loan is fully repaid, arrange to have such books and records audited annually in accordance with generally accepted auditing standards. Such audit shall provide segregated accounting and comments regarding the Loan and shall be submitted annually to A.I.D.

Section 7.06. Completeness of Information. The Borrower confirms that the facts and circumstances of which it has informed A.I.D. in writing, in the course of reaching this Agreement are accurate in all respects material to the Program, the Loan, and the discharge of the Borrower's responsibilities under this Agreement.

Section 7.07. Publicity. As may be described in Implementation Letters, the Borrower will give appropriate publicity to the Loan and to the Program as an activity to which the United States has contributed.

Section 7.08. Other Payments. The Borrower and other Parties to this Agreement affirm that no payments have been or will be received by any official of such Parties in connection with the procurement of goods or services financed under the Loan except fees, taxes, or similar payments legally established in the territory of the Republic of Indonesia. If an event such as that described occurs, the Parties agree to promptly consult with each other in order to minimize, to the maximum extent possible, any disruption to the Program which might result therefrom.

Section 7.09. Reasonable Prices for Procurement. No higher than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Loan. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis, according to the laws and regulations of the Borrower.

Section 7.10. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the District of Columbia of the United States of America.

ARTICLE VIII

RIGHTS AND REMEDIES

Section 8.01. Suspension and Acceleration by A.I.D.

A. (i) If the Borrower materially breaches this Agreement, the Paying and Transfer Agency Agreement, or if the Borrower breaches its Guaranty Agreement, (whether or not such breach is a breach under the Loan Agreement) and such breach is not rectified within a period of ninety (90) calendar days from the delivery of notice by A.I.D. to the Borrower with respect thereto, or (ii) if the Borrower materially breaches the Loan Agreement and such breach is not rectified before it becomes an Event of Default under the Loan Agreement which entitles the Investor to accelerate the maturity of the Notes thereunder, then A.I.D. may take any or all of the following actions:

(1) Decline to execute an A.I.D. Guaranty Legend on any additional Notes for disbursements under the Loan Agreement or the Contract of Guaranty, except when such Notes are issued pursuant to the provisions for assignment or replacement of Notes under the Contract of Guaranty, and or

(2) Require the Borrower to prepay immediately to the Investor all or any part of the unpaid principal of the Notes with accrued interest and any Guaranty Fee due to the date such payment is made, as well as any Late Payment Charge which may have accrued.

B. In the event that the guaranty of further Notes is contrary to U.S. legislation governing A.I.D., then A.I.D. may exercise the remedy specified in paragraph A.(1) above.

C. In the event the Borrower fails to pay when due any interest or installment of principal or other payment required under any other loan, guaranty, or other agreement between the Borrower and A.I.D. or any of its predecessor agencies, then A.I.D., after notice to the Borrower, may exercise the remedy specified in paragraph A.(1) above.

D. In the event that the conditions precedent set forth in this Agreement have not been met as of the dates specified in the Loan Agreement for related disbursements (or such later date as A.I.D. may agree to in writing), A.I.D., at its option may terminate, in whole in part, its own obligations under this Agreement by written notice to the Borrower. Such termination may include, inter alia, the termination of any obligation of A.I.D. to guaranty Notes issued by the Borrower to the Investor, except when such Notes are issued pursuant to provisions in the Contract of Guaranty for assignment and replacement of Notes.

Section 8.02. Non-waiver of Remedies. The marking of any Note by A.I.D., the payment by A.I.D. to the Investor of any amounts pursuant to the Contract of Guaranty, the delay or failure of A.I.D. to make any claim for payment, or the delay or failure of A.I.D. to give its written approval to an acceleration of such Notes by the Investor shall not operate as a waiver by A.I.D. of any rights accruing to A.I.D. under this Agreement, the Loan Agreement, the Contract of Guaranty, or the Borrower's Guaranty Agreement.

Section 8.03. Rights and Remedies of the Borrower. If A.I.D. materially breaches this Agreement or the A.I.D. Contract of Guaranty and such breach is not rectified within ninety (90) calendar days from delivery of notice from the Borrower to A.I.D. with respect thereto, then the Borrower shall have such rights and remedies as shall be available to it under applicable law.

ARTICLE IX

MISCELLANEOUS

Section 9.01. Communications. Any notice, request, document, or other communication submitted by any Party to any other under this Agreement shall be in writing or by telex, telegram or cable, and shall refer to the Republic of Indonesia A.I.D. Loan No. 497-HG-001, and shall be deemed duly given or sent when delivered to such Party at the following addresses:

To Ministry of Finance:

Mail Address : Jalan Lapangan Banteng Timur No. 2
Jakarta, Indonesia

Cable Address: FIN MINISTRY--JAKARTA

Telex Nos. : 44319 DEPKEU-IA
45799 DGMLN-IA

Attention : Director General of Budget
Director General of Monetary Affairs
Director for External Funds

To BAPPENAS:

Mail Address: National Development Planning Agency
Jalan Taman Suropati #2
Jakarta, Indonesia

Cable Address: BAPPENAS, Jakarta

Telex Nos : 61333 BAPNAS IA
61623 BAPNAS IA

Attention : Deputy Chairman for Implementation and
Monitoring

To Project Management Unit:

Mail Address: Tim Koordinasi Pembangunan Perkotaan
Unit Manajemen Proyek
Gedung Arthaloaka
Jalan Jendral Sudirman #2
Jakarta, Indonesia

Telex Nos : 62476 TKPP IA

Attention : Project Coordinator
Municipal Finance Project

With copies (but failure to receive such copies shall in no way affect the validity of such notice) to:

To A.I.D.:

Mail Address : U.S. Agency for International Development
American Embassy
Jl. Medan Merdeka Selatan 5
Jakarta, Indonesia

Cable Address: USAID AMEMB JAKARTA

Copy to:

Mail Address : Office of Housing and Urban Programs
Agency for International Development
Washington D.C. 20523

Attention : Indonesia: A.I.D. Housing Guaranty
Loan No. 497-HG-001

Cable Address: AID WASH DC

Telex Nos. : WU 89-27-03 (Answer Back is AID WSH)
RCA 24-83-79 (Answer Back is 248379
AID UR)

To Paying Agent:

Mail Address : The Riggs National Bank of Washington,
D.C.
Trust Department Office
800 17th Street, N.W.
Washington, D.C. 20006

Attention : Trust Department
A.I.D. Housing Guaranty Program
No. 497-HG-001

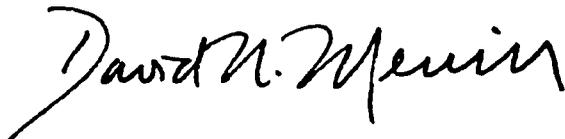
Cable Address: RIGGS BANK, WASH

Telex Nos. : ITT: 44-01-03 Answer Back - RIGGS BANK
RCA: 23-83-63 Answer Back - RIGG UR
Western Union: 64-11-0 Answer Back -
RIGGS WASH

All such communications shall be in English, unless the parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice to each Party to this Agreement.

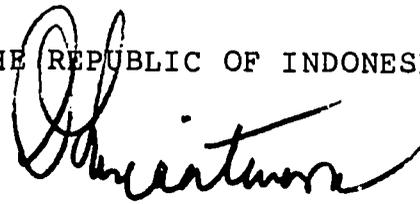
IN WITNESS WHEREOF, this Agreement is signed and executed by the authorized representatives of the Borrower and A.I.D.

UNITED STATES OF AMERICA



David N. Merrill
Director
USAID/Indonesia

THE REPUBLIC OF INDONESIA



Drs. Oskar Surjaatmadja, MSc.
Director General for
Monetary Affairs
Ministry of Finance

ANNEX A

PROGRAM DESCRIPTION

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Introduction

The Municipal Finance Program supports the overall goal of improving the shelter conditions of Indonesia's urban poor by facilitating the delivery of affordable, local, shelter-related infrastructure. In addition, the program will support the Government of Indonesia's existing policies of increasing local responsibility for urban development and instilling incentives for local governments to graduate from grant financing to government loans, local revenues, user charges, and non-government financing sources as economic factors allow.

By making municipalities increasingly less dependent on government grants for shelter-related infrastructure financing, the program will enable cities and towns to improve the shelter conditions of the poor in a financially replicable manner. In this way, the responsibility for improving the shelter-related infrastructure and services of the urban poor can be shifted from the central government to the cities and towns. The municipal finance system which this program supports will enable cities and towns to generate the investment resources necessary to fulfill their increased responsibilities. During the development phase of the municipal finance system, the program will help provide resources for investments which improve the shelter conditions of the urban poor.

The Municipal Finance Program will produce four outputs. Output 1 is further described in Part 2 of this Program Description. Output 2, 3, and 4 are further described in Part 1 of this Program Description.

Output 1: Provision of shelter-related urban infrastructure, valued at the equivalent of the Housing Guaranty Loans provided, suitable for families with below median incomes.

Output 2: Continued improvement in the role of the central government in funding urban infrastructure and services affordable to low-income households through a system of grants and loans that encourages local resource mobilization.

Output 3: Continued strengthening of the capacity of the local government finance system to mobilize and manage resources.

Output 4: Establishment of the basis for increased private sector participation in the provision and financing of urban infrastructure and services.

Production of these outputs will constitute achievement of the program's purpose of providing assistance to the Government of Indonesia in further developing its municipal finance system, enabling Indonesian municipalities to assume an increasing share of the financial responsibility for urban shelter-related infrastructure and services, creating conditions favorable to

private sector involvement in urban investment finance and service provision, and creating a framework for partnership between the public and private sectors.

Implementation of the program will be undertaken with inputs from the Government of Indonesia and the U.S. Agency for International Development. The Government of Indonesia will take actions to implement its National Urban Policy Statement. USAID will provide technical assistance and training (under a separate Grant Agreement) to facilitate policy analysis and implementation by the Government. USAID will also provide resources under its Housing Guaranty Loan Program to support shelter-related urban infrastructure investments suitable for families with below urban median incomes while the government implements its Policy Action Plan.

Part 1: Policy Action Plan

The following pages present the Policy Action Plan agreed between the Government of Indonesia and the U.S. Agency for International Development to constitute the basis of actions intended to further the objectives of the Municipal Finance Program as outlined in Article II Section 2.01. of this Agreement.

POLICY ACTION PLAN

No.	Policy Area/Objectives	Medium - term goals	Actions proposed	Key steps during project period (04/87 - 09/89) (N.B crucial steps indicated by **)	Timetable	Monitoring indicators
1.	<p>Strengthen local government responsibility for urban infrastructure development operation and maintenance.</p> <p>(c) Define and classify urban infrastructure and assign functional and financial responsibilities for planning implementation, operation and maintenance to Central, Level I and Level II governments.</p>	<p>1.01 Classify designated urban infrastructure in all Kotamadyas and assign functional responsibilities (1987-91).</p> <p>1.02 Define institutional responsibilities for traffic management in urban areas (1987 - 89).</p> <p>1.03. Develop program responsibilities for local governments in Integrated Urban Infrastructure program (IUIDP).</p>	<p>Assign working group that would define classification policy (by Tim Koordinasi - TK); agencies to carry out classification (by DG-BM, DGWRD, DGCK, and DGPUOD).</p> <p>Study and assign responsibilities for traffic management and policy coordination (by TK, DG-BM, DGLT, and DGPUOD).</p> <p>Application of IUIDP processes to urban infrastructure services including raw water supply, flood protection, urban roads, water supply and sanitation, solid waste management, drained and KIP (by TK, MPW and MHA).</p>	<p>** assign working group and provide TOR</p> <p>- Formulate urban services inventory and classification policies and workplan to address all Kotamadyas</p> <p>** Complete surveys and classifications in 10 cities.</p> <p>- Continue rolling program of classification in remaining cities (Kotamadyas and urbanized Kabupatens).</p> <p>- Define issues and workplan for resolution</p> <p>- Assign working group</p> <p>- Assign phased responsibility to selected Level II cities</p> <p>** Issue directives to MPW agencies to apply IUIDP processes in urban infrastructure planning.</p> <p>** Issue directives to Level I and II local governments to adopt IUIDP process approved by TK.</p>	<p>08/87</p> <p>09/87</p> <p>07/88</p> <p>commence 07/88</p> <p>08/87</p> <p>10/87</p> <p>03/89</p> <p>08/87</p> <p>03/88</p>	<p>Working group assigned and agreed TOR.</p> <p>Functional classification guidelines</p> <p>Agreed classification maps and inventories</p> <p>Agreed classification maps and inventories</p> <p>Agreed workplan</p> <p>Working group assigned</p> <p>Instructions issued</p> <p>Directives issued</p> <p>Directives issued</p>

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POLICY ACTION PLAN

No.	Policy Area/Objectives	Medium-term goals	Actions proposed	Key steps during project period (04/87 - 09/89) (N.B. crucial steps indicated by **)	Timetable	Monitoring indicators
2.	<p>Integrated expenditure planning and programming improvement.</p> <p>(a) local governments to prepare investment plans on basis of guidelines from Central Government.</p> <p>(b) financial support of local governments to be based on local capabilities and needs.</p> <p>(c) emphasis to be given to O&M provisions and low-income group needs.</p>	2.01. Develop and refine IUDP planning guidelines	Develop guidelines for non Cipta Karya subsectors within MPW as well as Cipta Karya subsectors and issue updated guidelines for all subsectors from time to time including multi-year financial information (by TK, MPW, MOF and MHA).	<p>- Develop multi-year program alternatives</p> <p>** Issue annual updates of IUDP guidelines.</p>	<p>02/88</p> <p>09/87</p>	<p>Projections issued</p> <p>Guidelines issued</p>
3.	<p>Strengthen Local Government resource mobilization and financial management.</p> <p>(a) improve PBB performance, local tax performance, and service charge performance</p> <p>(b) improve management and supervision systems of local enterprises</p> <p>(c) improve local government financial management capabilities.</p>	3.01 Fully implement PBB tax law (1986-96).	Improve revenue performance of Property Tax (PBB) through a program of tax administration and valuation in 1987 - 89 (by DGPajak)	<p>** Appoint valuation and tax management advisers to improve PBB systems and assist in organization and supervision of workplan.</p> <p>- Value individually approx 10.000 top value properties in Jakarta and two other cities.</p> <p>- Value semi-individually 50.000 high value properties in Jakarta.</p> <p>- Upgrade index valuation system for other urban properties.</p> <p>** Training of valuers and technicians.</p>	<p>09/87</p> <p>09/89</p> <p>09/89</p> <p>09/87 onwards</p> <p>10/87 onwards</p>	<p>Advisers appointed</p> <p>No. of properties valued</p> <p>No. of properties valued</p> <p>No. of cities/arcas/properties classified</p> <p>No. of trained valuers and technicians</p>

POLICY ACTION PLAN

No.	Policy Area/Objectives	Medium - term goals :	Actions proposed	Key steps during project period (04/87 - 09/89) (N.B. crucial steps indicated by **)	Timetable	Monitoring indicators
		3.02 Improve cost recovery and management of all regional water enterprises (1987 onwards).	<p>Improve user charge/ cost recovery performance of PDAMs in Java (by DGCK and DGPUOD).</p> <p>Assign water enterprise monitoring and development functions to Provincial DPU's throughout Indonesia (by DGCK and DGPUOD).</p> <p>Review optimal water enterprise organization arrangements for all provinces based on efficiency criteria (by TK, DGMDN, DGPUOD, DGCK).</p>	<p>Improve tax administration through updating registers, computerization of billings, and improvements in collection and appeals procedures.</p> <p>** Analyse cost recovery performance of all water enterprises subject to SKB 4/84 - 27/KPTS/84 and identify problem PDAMs.</p> <p>** Implement, commencing in Java and Sumatra, the adoption of (i) water tariff structure and appropriate tariff level to cover O&M costs, depreciation or debt service (whichever is larger), and (ii) accounting system for water enterprises, based on national guidelines of MPW/MHA.</p> <p>** Assign functions and provide budgets and staff to Central and West Java DPU's</p> <p>- Appoint consultants to (i) assist DPU's and (ii) assist water enterprises.</p> <p>- Formulation of TOR</p> <p>- Appointment of consultants</p> <p>- Complete review of recommendations for initial implementation in Java.</p> <p>** prepare instruments required.</p>	<p>09/87 - 06/89</p> <p>09/87</p> <p>commence 08/87</p> <p>12/87</p> <p>12/87</p> <p>08/87</p> <p>09/87</p> <p>02/88</p> <p>03/89</p> <p>12/87</p>	<p>(i) property coverage (ii) billing and collection performance (revenue growth)</p> <p>improvement action plan recommendations</p> <p>No. of water enterprises complying</p> <p>Directives issued and units operational in Java</p> <p>Contract signed</p> <p>Agreed TOR</p> <p>Contract extension signed</p> <p>Java provinces structure defined, implementation timetable agreed.</p> <p>instruments prepared</p> <p>Evaluation report</p>
		3.03. Improve revenue performance of local taxes and service charges (1987 onwards).	<p>Improve the structure of local taxes and charges (by DGMDN and DGPUOD).</p> <p>Implementation of local tax office and procedure improvements (by DGPUOD)</p>	<p>- Evaluate pilot tax office improvement in Urban IV (Loan 1972-IND) cities.</p>		

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Policy Area/Objectives	Medium-term goals	Actions Proposed	Key steps during project period	Timetable	Monitoring Indicators		
(d) encourage private sector resource mobilization and private sector participation in the provision and delivery of urban infrastructure services	3.04 Establish an acceptable legal and regulatory framework for private sector involvement in the financing, implementation, operation and management of urban services and infrastructure	Assign working group to define and encourage the role of the private sector (by TKPP)	Assign working group and provide TOR.	08/89	Working group assigned and TOR agreed		
		Provide guidelines for appropriate forms of private sector participation in each selected subsector (by MPW)	Assign responsibility for preparation of guidelines by TKPP working group.	08/89	Responsibility assigned		
			Prepare TOR for appointment of consultants	10/89	TOR prepared		
			Appoint consultants	03/90	Consultants appointed		
			Recommendations to be discussed by workshop	11/90	Workshop held		
			Working group prepares its recommendations	03/91	Recommendation agreed		
			Determine the rights and obligations of the private sector by providing appropriate model agreements between local authorities and participating private sector establishments (by MPW and MHA)	Provide model agreements between local authorities and the private sector concerning a variety of forms of private sectors participation	06/91	Model agreements provided	
			Introduce pilot projects in selected local authorities, with initial emphasis on the water supply and solid waste subsectors (by MHA)	Select local authorities and appropriate subsectors for pilot projects.	12/91	Selection completed	
				Commence pilot projects	06/92	Pilot projects commence	
					12/91	Recommendations approved	
			3.05 Develop appropriate conditions to achieve the level of cost recovery required to motivate private sector investment in public services and infrastructure	Investigate policy options in relation to the main forms of private sector participation to ensure acceptable levels of return on investment, while safeguarding the interests of the general public (by MOF, MHA, and MPW)	Working group to formulate and analyse alternative policies, and prepare recommendations.	03/92	Workshop held
				Workshop to be held to discuss recommendations with representatives of the public and private sectors.			
		Monitor pilot projects	1992-1994	Report			
		Review model agreements and cost recovery policies adopted and agree appropriate modifications.	03/94	Modifications approved			

Policy Area/Objectives	Medium-term goals	Actions proposed	Key steps during project period (04/87 - 09/89) (N.B. crucial steps indicated by **)	Timetable	Monitoring indicators
<p>Improve financing systems and mechanism for urban infrastructure and incentives for local resource mobilization.</p> <p>(a) create a consolidated loan fund for local governments</p> <p>(b) improve grant allocation criteria.</p>	<p>4.01 Provide a viable source of loan finance for local governments (1987 onwards).</p>	<p>Strengthen Central-Local Govt. borrowing scheme (by DGMDN)</p>	<p>** Assign consultants to review policies for the recently established Regional Development Account (RDA).</p> <p>- Consolidate existing domestic loan schemes and review (i) commitments and disbursements to local governments, (ii) lending terms and interest rates and (iii) Level II debt service ratio regulations</p> <p>- Appoint consultants to assist in operationalizing RDA.</p>	<p>08/87</p> <p>08/87 - 06/88</p> <p>03/88</p>	<p>Consultants assigned</p> <p>Consolidated loan mechanism policies defined; revised regulations issued if necessary</p> <p>Contract signed</p>
	<p>4.02 Improve allocation mechanisms of grant finance (1987 - 89).</p>	<p>Improve allocation criteria and guidelines for Central-Local grant system (by TK).</p>	<p>** Assign working group</p> <p>- Review recommendations of on going Central-Local grant system.</p> <p>- Prepare instruments required for improvements in Central-Local fiscal relations</p>	<p>04/88 - 03/89</p> <p>04/89</p> <p>08/87</p> <p>02/88</p> <p>03/89</p>	<p>Operating and accounting manuals</p> <p>Staff trained; RDA effective</p> <p>Working group assigned</p> <p>Working group report with specific improvement proposals</p> <p>Instruments prepared</p>
	<p>4.03 Improve information base for policy development and operational decisions on local government finance.</p>	<p>Improve local government financial and demographic information system (by TK BPS, DGMDN, DGPUOD and DGAgraria).</p>	<p>- Reach agreement between BPS and other agencies on institutional roles.</p> <p>Complete detailed information system design.</p> <p>- Implement system</p> <p>- Re-activate existing urban mapping users committee; prepare action plan.</p> <p>- Appoint consultants to assist DG</p>	<p>08/87</p> <p>09/88</p> <p>03/89</p> <p>05/87</p> <p>12/87</p>	<p>Agreement reached</p> <p>Tested system design</p> <p>Complete set of local govt. revenue and expenditure accounts and demographic data for 1987/88.</p> <p>Committee active</p> <p>Contract signed</p>

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Overall Objective	Medium-term goals	actions proposed	key steps during project period	timetable	Monitoring indicators
(c) Utilize central-local development grant funds with appropriate attention being paid to the requirements of low income households	4.04 Develop a system for the identification of target groups for poverty alleviation program, and for channelling financial and technical assistance to the target groups and for monitoring and evaluating the effectiveness of such programs	Assign a working group to define policies in relation to poverty alleviation (by TKPP)	Assign working group and provide TOR	08/90	Working group assigned and TOR agreed
		Determine criteria for the identification of low income target groups, the number of such households and their distribution by province and local authority (by DGCK and DG. BANGDA)	Working group to prepare TOR for appointed of consultants Appoint consultants	10/89	TOR prepared
			Hold workshop on poverty alleviation.	03/90	Consultants appointed
			Agree criteria for the identification of target groups	08/90	Workshop held
				10/90	Criteria agreed
			Determine the grant requirements of the poverty alleviation packages and the spatial distribution of such requirements (by DGCK and HOE) Identify the appropriate channels for the delivery of poverty alleviation packages (on-site sanitation, community water supply, house improvement, etc) within the IUIDP framework (by DGCK and DG. BANGDA)	Agree appropriate poverty alleviation packages and their grant/loan implications Agree channels for delivering poverty alleviation packages, including guidance requirements, monitoring and evaluation	12/90
			03/91	Channels for delivery agreed	

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POLICY ACTION PLAN.

No.	Policy Area/Objectives	Medium - term goals.	Actions proposed	Key steps during project period (04/87 - 09/89) (N.B. crucial steps indicated by **)	Timetable	Monitoring indicators
5.	<p>Improve local government capabilities</p> <p>(a) evaluate Local Government needs, with particular emphasis on urban managers and coordinate long-term training programs.</p> <p>(b) raise staff capabilities local revenue administration, planning and programming, and operations and maintenance.</p> <p>(c) provide guidance to all govt. units in coordination of urban development.</p>	<p>5.01 Strengthen Local Govt institutions responsible for urban infrastructure.</p> <p>5.02 Strengthen management and staffing capabilities in MPW DGs and Provincial Dinas PU, to provide guidance to local governments (1987 - 1989).</p>	<p>Carry out a comprehensive study of urban institutional and manpower development needs of local governments. (by MHA and Civil Service Administration Agency-BAKN).</p> <p>Review coordination arrangements between MPW DGs in UIDP process.</p> <p>Identify staff skills, training and experience required to provide adequate management, technical and financial advice to Local Govts (by MPW, MHA, and MENPAN).</p>	<ul style="list-style-type: none"> - Assign working group and prepare terms of reference. - Appoint consultants - Review recommendations with the Bank - Issue directives to DGs - Carry out internal review of DGCK with assistance of management consultants. 	<p>08/87</p> <p>12/87</p> <p>05/89</p> <p>08/87</p> <p>04/89</p>	<p>Agreed TOR</p> <p>Signed contract</p> <p>Final report and agreed recommendations to be reviewed by TK</p> <p>Directives issued</p> <p>Assesment finalized</p>

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POLICY ACTION PLAN

Policy Area/Objectives	Medium - term goals :	Actions proposed	Key steps during project period (04/87 - 09/89) (N B crucial steps indicated by **)	Timetable	Monitoring indicators
<p>Strengthen coordination and consultation in the urban development sector</p> <p>(a) establish an inter-agency coordination team and an executive secretariate</p> <p>(b) develop coordination arrangements and ability to support future urban development policy review and recommendations.</p>	<p>6.01 Effective policy coordination in the urban sector and development of mechanisms, to support urban policy review and decision making. (1987 onwards).</p>	<p>Establishment of an inter-agency Coordination Team for Urban Development (TK) and an executive secretariate.</p>	<p>** Ministerial Decree (SK) establishing structure and resources of TK issued.</p>	<p>04/01/87</p>	<p>Decree issued</p>
	<p>6.02 Evaluate existing urban infrastructure programs and prepare recommendations for medium-term sector plan and program structure, criteria and targets, and institutional arrangements (1987/88).</p>	<p>Assign working group to guide medium-term planning and programming and assign support teams to respective agencies as needed in policy option formulation and recommendations (by TK).</p>	<ul style="list-style-type: none"> - Assign standing working groups interalia for planning and programming, program implementation, financial resources, and training and institutional development. - Draft work program and TORs for respective agency activities and technical assistance. ** appoint consultants to respective agencies as needed. ** Conduct policy and technical option analyses and formulate alternative scenario proposals and recommendations - Issue guidance memorandum on selected strategy. - Issue guidelines and procedures for medium-term planning. - Prepare medium term (5-year) plan for sector. 	<p>as needed</p> <p>08/87</p> <p>08/87 on ward</p> <p>10/87 - 07/88</p> <p>07/88</p> <p>08/88</p> <p>12/88</p>	<p>Assignments made</p> <p>Agreed work program</p> <p>Contract signed</p> <p>Working papers and recommendations to be reviewed by TK</p> <p>Memorandum issued</p> <p>Guidelines issued</p> <p>Medium-term plan recommended TK.</p>

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Part 2: Investment Plan

The following pages present the annual Investment Plan (GOI Fiscal Year) agreed between the Government of Indonesia (the "Government") and the U.S. Agency for International Development as part of the Municipal Finance Program. The Investment Plan consists of a menu of eligible expenditures in an amount equal to or greater than the loan guaranteed under U.S.A.I.D.'s Housing Guaranty Program.

Each eligible program/project expenditure is specified in terms of: (1) the Government's planned level of total annual expenditure not financed by other donors; (2) the percentage of such expenditure which is deemed to be eligible for financing under the Municipal Finance Program; and (3) the total amount of Eligible Expenditures for each program/project which can be financed under the Municipal Finance Program. When the total of all Eligible Expenditures exceeds the amount of the loan guaranteed, the Government may determine during the course of the program which expenditures will be financed by the guaranteed loan. U.S.A.I.D. reserves the right to adjust the percentage of expenditures eligible for financing based on reviews at sites of the investments after agreement with the Government.

The percentage of expenditures eligible for financing under this program will be based on the percentage of the investment which is reasonably judged to be suitable for families with incomes below the urban median. The Government will provide the information necessary to determine the percentage of investments suitable for low income families. U.S.A.I.D. will take the steps necessary to verify this information, and propose an eligibility percentage for each program/project to be included in the Investment Plan. The Government and U.S.A.I.D. will then jointly agree to the percentage to be included in the Investment Plan. No program/project expenditures can be financed by the Municipal Finance Program before an eligibility percentage has been jointly agreed by the Government and U.S.A.I.D. for that program/project.

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INVESTMENT PLAN (agreed by GOI and USAID) 3/

From: April 1, 1989

To: March 30, 1990

<u>Name</u>	<u>Planned Expenditure</u> <u>1/</u> (Rps. Billion)	<u>Estimated Eligible Percentage</u>	<u>Eligible Expenditures</u> (Rps. Billions)
Regional Development Account Projects (PDN)2/	53.3	37.5	20.0
Kampung Improvement Program	14.0	100.0	14.0
Water Supply Program	95.8	37.1	35.5
Human Waste Program	11.2	42.0	4.7
Drainage/Flood Program	10.6	36.8	3.9
Solid Waste Program	8.2	47.6	3.9
Access Roads Program	9.0	30.0	3.0
Urban Planning	6.5	38.5	2.5

NOTES: 1/ Planned expenditures are GOI's own resources only and do not include other donor support for the named program/project.

2/ PDN: Domestic Loan

3/ This Investment Plan can be adjusted by mutual agreement between GOI and USAID.

ANNEX B

THE REPUBLIC OF INDONESIA

LOAN NUMBER 497-HG-001

REQUEST AND CERTIFICATE FOR DISBURSEMENT

The Republic of Indonesia ("Borrower") hereby requests, pursuant to the Program Agreement dated as of _____, that the United States Agency for International Development (A.I.D.) authorize the disbursement of \$ _____ from the A.I.D. Guaranteed Loan No. 497-HG-001:

In connection with this request, the Borrower hereby certifies as follows:

1. The Borrower is in full compliance with all the terms and conditions of the Loan Agreement dated _____.

2. The Republic of Indonesia signatories to the Program Agreement referred to above are in full compliance with the terms and conditions of such Agreement.

3. The rate of exchange used in preparation of this Request and Certificate for Disbursement is _____ as of _____.

THE REPUBLIC OF INDONESIA

BY: _____

TITLE: _____

Date: _____