

**No. 17300**

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**UNITED STATES OF AMERICA  
and  
INDONESIA**

**Loan Agreement for Surakarta potable water project (with  
annex). Signed at Jakarta on 24 January 1977**

*Authentic text: English.*

*Registered by the United States of America on 24 November 1978.*

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**ÉTATS-UNIS D'AMÉRIQUE  
et  
INDONÉSIE**

**Accord de prêt relatif au réseau de distribution d'eau potable  
de Surakarta (avec annexe). Signé à Jakarta le 24  
janvier 1977**

*Texte authentique : anglais.*

*Enregistré par les États-Unis d'Amérique le 24 novembre 1978.*

# LOAN AGREEMENT<sup>1</sup> BETWEEN THE REPUBLIC OF INDONESIA AND THE UNITED STATES OF AMERICA FOR SURAKARTA POTABLE WATER PROJECT

Dated: January 24, 1977

A.I.D. Loan No. 497-U-044

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<sup>1</sup> Came into force on 24 January 1977 by signature.

LOAN AGREEMENT dated January 24, 1977 between the REPUBLIC OF INDONESIA ("Borrower") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

### *Article I. THE LOAN*

*Section 1.01. THE LOAN.* A.I.D. agrees to lend to the Borrower pursuant to the Foreign Assistance Act of 1961, as amended, an amount not to exceed six million eight hundred thousand United States dollars (\$6,800,000) ("Loan") to assist the Borrower in carrying out the project referred to in Section 1.02 ("Project"). The Loan shall be used exclusively to finance the United States dollar costs ("Dollar Costs") of goods and services to be listed in Implementation Letters referred to in Section 8.03 ("Implementation Letters"), and part of the local currency costs of goods and services required for the Project ("Local Currency Costs"). The aggregate amount of disbursements under the Loan is hereinafter referred to as "Principal."

*Section 1.02. THE PROJECT.* The Project shall consist of assistance to the Directorate General of Cipta Karya, Ministry of Public Works and Electric Power, hereinafter referred to as Cipta Karya, in carrying out a program for the development of a restructured potable water supply system to serve the populace of the city of Surakarta and its environs. The Project is more fully described in Annex I which is attached hereto and by reference made a part hereof. Annex I may be modified within the scope of Project as above defined by the written agreement of the parties hereto. Cipta Karya will be the executing agency for the Project.

### *Article II. LOAN TERMS*

*Section 2.01. INTEREST.* The Borrower shall pay to A.I.D. interest which shall accrue at the rate of two percent (2%) per annum for ten years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance shall accrue from the date of each respective disbursement (as such date is defined in Section 6.04) and shall be computed on the basis of a 365-day year. Interest shall be payable semi-annually. The first payment of interest shall be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

*Section 2.02. REPAYMENT.* The Borrower shall repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement hereunder in sixty-one (61) approximately equal semi-annual installments of Principal and interest. The first installment of Principal shall be payable nine and one-half (9½) years after the date on which the first interest payment is due in accordance with Section 2.01. A.I.D. shall provide the Borrower with an amortization schedule in accordance with this Section after the final disbursement or reimbursement under the Loan.

*Section 2.03. APPLICATION, CURRENCY AND PLACE OF PAYMENT.* All payments of interest and Principal hereunder shall be made in United States dollars and shall be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, all such payments shall be made to the Controller, Agency for International Development, Washington, D.C., U.S.A., and shall be deemed made when received by the Office of the Controller.

*Section 2.04. PREPAYMENT.* Upon payment of all interest and refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Any such prepayment shall be applied to the installments of Principal in the inverse order of their maturity.

*Section 2.05. RENEGOTIATION OF THE TERMS OF THE LOAN.* The Borrower agrees to negotiate with A.I.D., at such time or times as A.I.D. may request, an acceleration of the repayment of the Loan in the event that there is any significant improvement in the internal and external economic and financial position and prospects of the Republic of Indonesia.

### *Article III. CONDITIONS PRECEDENT TO DISBURSEMENT*

*Section 3.01. CONDITIONS PRECEDENT TO INITIAL DISBURSEMENT.* Prior to the first disbursement or to the issuance of the first Letter of Commitment under the Loan, the Borrower shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) An opinion of the Minister of Justice of the Borrower that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;
- (b) A statement of the names of the persons holding or acting in the office of the Borrower specified in Section 8.02, and a specimen signature of each person specified in such statement;
- (c) Written assurance that the estimated annual expenditures to be made by the Borrower for each year during which the Project is being conducted (other than the costs to be financed under the Loan) will be made available to permit the work of the Project to proceed on a timely basis;
- (d) A time phased implementation plan for the entire Project;
- (e) A statement setting forth the intended beneficiaries under the Project and the method whereby they will be served;
- (f) Evidence that the Surakarta Water Enterprise has been duly organized in accordance with Indonesian law and regulations and that it is functioning as a municipal water utility enterprise;
- (g) A financial plan for the self-sustained and continued operation of the Surakarta Water Enterprise;
- (h) A preliminary management improvement plan for the Surakarta Water Enterprise;
- (i) A preliminary maintenance plan for the Surakarta Water Enterprise;
- (j) Evidence that the Borrower has authorized an additional allocation of water from the Cokrotulung Spring to the Municipality of Surakarta of 100 liters per second which would make a total allocation of 400 liters per second;
- (k) Evidence that the Borrower has initiated appropriate action for the purpose of obtaining title or the necessary rights to the land where the water system and other project facilities will be installed and constructed;
- (l) Evidence that the Surakarta Water Enterprise has established a rate structure for the Project which will assure fair and equitable rates for low income consumers;

(m) Evidence that the Surakarta Water Enterprise has received the leak detection equipment previously purchased by a consultant for Cipta Karya, and has developed a plan of action to utilize the equipment.

*Section 3.02. CONDITION PRECEDENT TO COMMITMENTS FOR DISBURSEMENT AFTER FEBRUARY 1, 1978.* Prior to the issuance of any additional commitment documents for disbursement under the Loan for any purpose after February 1, 1978, the Borrower will, except as the Borrower and A.I.D. may agree otherwise in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. a conformed copy of the Project Loan Agreement executed between the Borrower and the Surakarta Water Enterprise.

*Section 3.03. CONDITIONS PRECEDENT TO COMMITMENTS FOR DISBURSEMENT AFTER JUNE 1, 1979.* Prior to the issuance of any additional commitment documents for disbursement under the Loan for any purpose after June 1, 1979, the Borrower will, except as the Parties may agree otherwise in writing furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) A final detailed maintenance plan for the Surakarta Water Enterprise;
- (b) An evaluation and, if necessary, a revision of the time phased implementation plan;
- (c) A final management improvement plan for the Surakarta Water Enterprise.

*Section 3.04. CONDITIONS PRECEDENT TO DISBURSEMENT FOR TRAINING.* Prior to any disbursement or to the issuance of any Letter of Commitment under the Loan for training, the Borrower will, except as the Parties may agree otherwise in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. a plan setting forth the nature and scope of the training, the names of the participants and a cost estimate for such training.

*Section 3.05. TERMINAL DATES FOR MEETING CONDITIONS PRECEDENT TO INITIAL DISBURSEMENT OR REIMBURSEMENT.* If all of the conditions specified in Section 3.01 have not been met within 120 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by giving written notice to the Borrower. Upon the giving of such notice, this Agreement and all obligations of the parties hereunder shall terminate.

*Section 3.06. NOTIFICATION OF MEETING OF CONDITIONS PRECEDENT TO INITIAL DISBURSEMENT OR REIMBURSEMENT.* A.I.D. shall notify the Borrower upon determination by A.I.D. that the conditions specified in Section 3.01, 3.02 and 3.03 have been met.

#### *Article IV. GENERAL COVENANTS AND WARRANTIES*

*Section 4.01. EXECUTION OF THE PROJECT.* The Borrower covenants and agrees:

- (a) To carry out the Project with due diligence and efficiency, and in conformity with sound technical, financial and management practices,
- (b) To cause the Project to be carried out in conformity with all of the plans, specifications, contracts, schedules, or other arrangements, and with any modifications therein, duly approved by A.I.D. pursuant to this Agreement; and

- (c) To provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purpose of the Project.

**Section 4.02. FUNDS AND OTHER RESOURCES TO BE PROVIDED BY BORROWER.** The Borrower shall provide promptly as needed all funds, in addition to the Loan, and all other resources required for the punctual and effective carrying out of the Project. It is further understood that the Borrower shall contribute a minimum of 25% of the costs of the entire project.

**Section 4.03. CONFORMANCE WITH BORROWER'S GUIDELINES.** Borrower covenants and agrees that during the disbursement period of the Loan and thereafter it will cause the Surakarta Water Enterprise in its operations to conform with the current guidelines established by the Borrower for the operation of all local water utilities within Indonesia.

**Section 4.04. UTILIZATION OF GOODS AND SERVICES.** (a) Any goods and services financed under the Loan shall be used exclusively for the Project until completion of the Project, except as A.I.D. may otherwise agree in writing. Upon completion of the Project the Borrower may use such goods and services so as to further the objectives sought in carrying out the Project.

(b) Except as A.I.D. may otherwise agree in writing, no goods or services financed under the Loan shall be used to promote or assist any foreign aid project or activity associated with or financed by any country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

**Section 4.05. TAXATION.** (a) This Agreement and the Loan will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the territory of the Borrower.

(b) To the extent that (1) any foreign contractor, including any foreign personnel of such contractor financed under the Loan, and any property or transactions relating to such contracts and (2) any imported commodity procurement transaction financed under the Loan are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Borrower, the Borrower will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Loan.

**Section 4.06. COMPLETENESS OF INFORMATION.** The Borrower confirms:

- (a) That the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Loan, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of Borrower's obligations under this Agreement;
- (b) That it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of Borrower's obligations under this Agreement.

**Section 4.07. OTHER PAYMENTS.** Borrower affirms that no payments have been or will be received by any official of the Borrower in connection with the

procurement of goods or services financed under the Loan except fees, taxes, or similar payments legally established in the Country of the Borrower.

*Section 4.08. REPORTS, RECORDS, INSPECTIONS, AUDIT.* The Borrower will:

- (a) furnish A.I.D. such information and reports relating to the Project and to 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 both the Project and to this Agreement, adequate to show, without limitation, 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 last disbursement by A.I.D.; 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 Project toward completion; and
- (c) afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed under the Loan, and books, records and other documents relating to the Project and the Loan.

*Section 4.09. CONTINUING CONSULTATIONS.* The Borrower and A.I.D. shall cooperate fully to assure that the purpose of the Loan will be accomplished. To this end, the Borrower and A.I.D. shall from time to time, at the request of either party, exchange views through their representatives with regard to the progress of the Project, the performance by the Borrower of its obligations under this Agreement, the performance of consultants, contractors, and suppliers and any other matters relating to the implementation of the Project.

*Section 4.10. OPERATION AND MAINTENANCE.* The Borrower and Cipta Karya shall cause the Project when completed to be operated, maintained, and repaired in conformity with acceptable engineering, financial and administrative practices, in such manner as to insure the continuing and successful achievement of the purposes of the Project, and in accordance with the approved operations and maintenance plans.

## *Article V. PROCUREMENT*

*Section 5.01. PROCUREMENT SOURCE AND ORIGIN.* Except as A.I.D. may otherwise agree in writing, the source and origin of goods and services financed under the Loan shall be in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts are entered into for such goods and services, except that to the extent that Local Currency Costs are financed under the Loan, goods and services shall have their source and origin in Indonesia. All ocean shipping financed under the Loan shall have its source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time of shipment.

*Section 5.02. ELIGIBILITY DATE.* Except as A.I.D. may otherwise agree in writing, no goods or services may be financed under the Loan which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement.

*Section 5.03. IMPLEMENTATION OF PROCUREMENT AND REIMBURSEMENT REQUIREMENTS.* The definitions applicable to the eligibility requirements of Section 5.01 will be set forth in detail in Implementation Letters.

*Section 5.04. PLANS, SPECIFICATIONS, AND CONTRACTS.* In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

- (a) The Borrower will furnish to A.I.D. upon preparation:
  - (1) Any plans, specifications, procurement or construction schedules, contracts and documentation including documentation for prequalification and selection of contractors and to the solicitation of bids and proposals which relate to goods or services to be financed under the Loan. Material modifications in such documentation will likewise be furnished A.I.D. on preparation.
  - (2) Such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services which, though not financed by A.I.D., are deemed by it to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a) (2) will be identified in Implementation Letters.
- (b) The documentation above referred to in sub-section (a) (1) will be duly approved by A.I.D. in writing prior to their issuance and execution.
- (c) The following contracts, including material modifications thereof, and contractors financed by A.I.D. and utilized for procurement of the goods and services referred to below will be approved by A.I.D. in writing prior to execution of the contracts:
  - (i) Contracts and contractors for professional and construction services; and
  - (ii) Contracts and contractors for commodities.
- (d) Consulting firms used by the Borrower for the Project but not financed under the Loan, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, shall be acceptable to A.I.D.
- (e) All plans and specifications for the Project shall be approved by A.I.D.

*Section 5.05. REASONABLE PRICE.* No more than reasonable prices shall be paid for any goods or services financed in whole or in part, under the Loan, as more fully described in Implementation Letters. Such items shall be procured on a fair and on a competitive basis in accordance with procedures therefor prescribed in Implementation Letters.

*Section 5.06. SHIPPING AND INSURANCE.* (a) Goods which are to be transported to the territory of the Borrower may not be financed under the Loan if transported on an ocean vessel or aircraft under the flag of any country which is not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of shipment.

(b) (1) Gross Tonnage. At least fifty percent (50%) of the gross tonnage of all commodities (computed separately for dry bulk carriers, dry cargo liners and tankers) financed hereunder with disbursements made pursuant to Section 6.01 which may be transported on ocean vessels shall be transported on privately-owned United States flag commercial vessels. (2) Revenue. Additionally, at least fifty percent (50%) of the gross freight revenue generated by all shipments financed hereunder with disbursements made pursuant to Section 6.01 and transported to Indonesia on dry cargo liners



shall be paid to or for the benefit of privately owned United States flag commercial vessels unless A.I.D. shall determine that such vessels are not available at fair and reasonable rates for U.S. flag commercial vessels. (3) Compliance. Compliance with the requirements of (1) and (2) above must be achieved with respect to cargo transported from U.S. ports and also to cargo transported from non-U.S. ports, computed separately. (4) Reporting. Within ninety (90) days following the end of each calendar quarter, or such other period as A.I.D. may specify in writing, Borrower shall furnish A.I.D. with a statement, in form and substance satisfactory to A.I.D., reporting on compliance with the requirements of this Section.

(c) No such goods may be transported on any ocean vessel (or aircraft): (1) which A.I.D., in a notice to the Borrower, has designated as ineligible to carry A.I.D.-financed goods, or (2) which has been chartered for the carriage of A.I.D.-financed goods unless such charter has been approved by A.I.D.

(d) Marine insurance on goods financed under the Loan may also be financed under the Loan with disbursements made pursuant to Section 6.01, provided (i) such insurance is placed at the lowest available competitive rate in Indonesia or in a country included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time of placement, and (ii) claims thereunder are payable in the currency in which such goods were financed. If the government of the Borrower, by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the country of the Borrower financed under the Loan shall be insured against marine risks and such insurance shall be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(e) Except as the Borrower and A.I.D. shall otherwise agree in writing, the Borrower shall insure, or cause to be insured, all goods financed under the Loan against risks incident to their transit to the point of their use in the Project. Such insurance shall be issued upon terms and conditions consistent with sound commercial practice, shall insure the full value of the goods, and shall be payable in the currency in which such goods were financed. Any indemnification received by the Borrower under such insurance shall be used to replace or repair any material damage or any loss of the goods insured or shall be used to reimburse the Borrower for the replacement or repair of such goods. Any such replacements shall have both their source and origin in countries included in Code 941 of the A.I.D. Geographic Code Book and shall be otherwise subject to the provisions of this Agreement.

*Section 5.07. NOTIFICATION TO POTENTIAL SUPPLIERS.* In order that all United States firms shall have the opportunity to participate in furnishing goods and services to be financed under the Loan as Dollar Costs as defined in Section 6.01, the Borrower shall furnish to A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Implementation Letters.

*Section 5.08. INFORMATION AND MARKING.* Borrower shall give publicity to the Loan and the Project as being assisted by United States aid, identify the work sites, and mark goods financed under the Loan, as prescribed in Implementation Letters.

## *Article VI. DISBURSEMENT AND REIMBURSEMENT*

*Section 6.01. DISBURSEMENT FOR UNITED STATES DOLLAR COSTS—LETTERS OF COMMITMENT TO UNITED STATES BANKS.* After satisfaction of conditions precedent, the Borrower may, from time to time, request A.I.D. to issue Letters of Commitment for specified amounts to one or more United States banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, through the use of Letters of Credit or otherwise, for Dollar Costs of goods and services procured for the Project in accordance with the terms and conditions of this Agreement. Payment by a bank to a contractor or supplier will be made by the bank upon presentation of such supporting documentation as A.I.D. may prescribe in Letters of Commitment and Implementation Letters. Banking charges incurred in connection with Letters of Commitment and Letters of Credit shall be for the account of the Borrower and may be financed under the Loan.

*Section 6.02. DISBURSEMENT FOR LOCAL CURRENCY COSTS.* After satisfaction of conditions precedent, the Borrower may, from time to time, obtain disbursement from A.I.D. for Local Currency Costs of goods, services and training required for the Project in accordance with the terms of this Agreement by requesting A.I.D. to finance such Local Currency Costs and by submitting to A.I.D. necessary supporting documentation as prescribed by A.I.D. in Implementation Letters. A.I.D. may finance such costs by making such local currency available from currency of the country of the Borrower obtained by A.I.D. with U.S. dollars, whether by purchase or from such currency already owned by the U.S. Government. The U.S. dollar equivalent of the local currency made available hereunder will be the amount of U.S. dollars required by A.I.D. to obtain the local currency calculated using the highest official rate of exchange at which the Bank Indonesia sells local currency for U.S. dollars in effect on the date of disbursement.

*Section 6.03. OTHER FORMS OF DISBURSMENT.* Disbursement of the Loan may also be made through such other means as the Borrower and A.I.D. may agree to in writing.

*Section 6.04. DATE OF DISBURSEMENT.* Disbursements by A.I.D. shall be deemed to occur (a) on the date on which A.I.D. makes a disbursement pursuant to Section 6.01 to the Borrower, to its designee, or to a banking institution pursuant to a Letter of Commitment; (b) in the case of disbursements made pursuant to Section 6.02 on the date on which A.I.D. disburses the local currency to the Borrower or its designee; or (c), in the case of disbursements made pursuant to Section 6.03, on the date on which A.I.D. makes a disbursement pursuant to the terms of such other disbursement documents.

*Section 6.05. TERMINAL DATE FOR DISBURSEMENT.* Except as A.I.D. may otherwise agree in writing, no Letter of Commitment or other document making a commitment for payment will be issued or amended pursuant to requests received by A.I.D. after four (4) years and nine (9) months next succeeding the date of execution of this Agreement and no disbursements or reimbursements will be made against documentation received by A.I.D. or any bank making payments hereunder after five (5) years next succeeding the date of execution of this Agreement. After the latter date, A.I.D. may at any time or times reduce the amount of the Loan by all or any part thereof for which documentation was not received by such date.

*Article VII. CANCELLATION AND SUSPENSION*

*Section 7.01. CANCELLATION BY THE BORROWER.* The Borrower may, with the prior written consent of A.I.D., by written notice to A.I.D., cancel any part of the Loan (i) which, prior to the giving of such notice, A.I.D. has not disbursed or committed itself to disburse, or (ii) which has not been utilized through reimbursement or through payments made through other procedures.

*Section 7.02. EVENTS OF DEFAULT: ACCELERATION.* If any one or more of the following events ("Events of Default") shall occur:

- (a) The Borrower shall have failed to pay when due any interest or installment of Principal required under this Agreement;
- (b) The Borrower or Cipta Karya shall have failed to comply with any other provision of this Agreement, including, but without limitation, the obligation to carry out the Project with due diligence and efficiency; or
- (c) The Borrower shall have failed to pay when due any interest or any installment of Principal of any other payment required under any other loan agreement, any guaranty agreement, or any other agreement between the Borrower or any of its agencies and the Government of the United States, or any of its agencies,

then A.I.D. may, at its option, give to the Borrower notice that all or any part of the unpaid Principal shall be due and payable sixty (60) days thereafter, and, unless the Event of Default is cured within such sixty (60) days:

- (i) such unpaid Principal and any accrued interest hereunder shall be due and payable immediately; and
- (ii) the amount of any further disbursements made under then outstanding Letters of Credit or any reimbursement or otherwise shall become due and payable as soon as made.

*Section 7.03. SUSPENSION OF DISBURSEMENT OR REIMBURSEMENT.* In the event that at any time:

- (a) An Event of Default has occurred;
- (b) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Loan will be attained or that the Borrower or Cipta Karya will be able to perform their obligations under this Agreement;
- (c) A.I.D. determines that the overall Project is not being carried out satisfactorily in accordance with agreed upon standards and criteria; or
- (d) Any disbursement or reimbursement by A.I.D. would be in violation of the legislation governing A.I.D.;

then A.I.D. may, at its option:

- (i) suspend or cancel outstanding commitment documents to the extent that they have not been utilized through the issuance of irrevocable Letters of Credit or through bank payments made other than under irrevocable Letters of Credit, in which event A.I.D. shall give notice to the Borrower promptly thereafter;
- (ii) decline to make disbursements other than under outstanding commitment documents;
- (iii) decline to issue additional commitment documents or make additional reimbursements; and

- (iv) at A.I.D.'s expense, direct that title to goods financed under the Loan shall be transferred to A.I.D. if the goods are from a source outside Indonesia, are in a deliverable state and have not been offloaded in ports of entry of Indonesia. Any disbursements or reimbursements made or to be made under the Loan with respect to such transferred goods shall be deducted from Principal.

*Section 7.04. CANCELLATION BY A.I.D.* Following any suspension of disbursements or reimbursements pursuant to Section 7.03, if the cause or causes for such suspension of disbursements or reimbursements shall not have been eliminated or corrected within sixty (60) days from the date of such suspension, A.I.D. may, at its option, at any time or times thereafter, cancel all or any part of the Loan that is not then either disbursed or subject to irrevocable Letters of Credit.

*Section 7.05. CONTINUED EFFECTIVENESS OF AGREEMENT.* Notwithstanding any cancellation, suspension of disbursement or reimbursement, or acceleration of repayment, the provisions of this Agreement shall continue in full force and effect until the payment in full of all Principal and any accrued interest hereunder.

*Section 7.06. REFUNDS.* (a) In the case of any disbursement or reimbursement not supported by valid documentation in accordance with the terms of this Agreement, or of any disbursements or reimbursements not made or used in accordance with the terms of this Agreement, A.I.D., notwithstanding the availability or exercise of any of the other remedies provided for under this Agreement, may require the Borrower to refund such amount in United States dollars to A.I.D. within sixty (60) days after receipt of a request therefor. Such amount shall be made available first for the cost of goods and services procured and reimbursement for acceptably completed units of work or training for the Project hereunder, to the extent justified, the remainder, if any, shall be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder. Notwithstanding any other provision in this Agreement, A.I.D.'s right to require a refund with respect to any disbursement or reimbursement under the Loan shall continue for five years following the date of such disbursement or reimbursement.

(b) In the event that A.I.D. receives a refund from any contractor, supplier, or banking institution, or from any other third party connected with the Loan, with respect to goods or services financed under the Loan, and such refund relates to an unreasonable price for goods or services, or to goods that did not conform to specifications, or to services that were inadequate, A.I.D. shall first make such refund available for the cost of goods and services procured and reimbursement for acceptably completed units of work or training for the Project hereunder, to the extent justified, the remainder to be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan shall be reduced by the amount of such remainder.

*Section 7.07. EXPENSES OF COLLECTION.* All reasonable costs incurred by A.I.D., other than salaries of its staff, in connection with the collection of any refund or in connection with amounts due A.I.D. by reason of the occurrence of any of the events specified in Section 7.02 may be charged to the Borrower and reimbursed to A.I.D. in such manner as A.I.D. may specify.

*Section 7.08. NONWAIVER OF REMEDIES.* No delay in exercising or omission to exercise any right, power, or remedy accruing to A.I.D. under this Agreement shall be construed as a waiver of any of such rights, powers, or remedies.

*Article VIII. MISCELLANEOUS*

*Section 8.01. COMMUNICATIONS.* Any notice, request, document, or other communication given, made, or sent by the Borrower, Cipta Karya or A.I.D. pursuant to this Agreement shall be in writing or by telegram, cable or radiogram and shall be deemed to have been duly given, made, or sent to the party to which it is addressed when it shall be delivered to such party by hand or by mail, telegram, cable, or radiogram at the following address:

To Borrower:

Mail Address:

Departemen Luar Negeri  
Taman Pejambon 6  
Jakarta, Indonesia

Cable Address:

DEPLU Jakarta

To A.I.D.:

Mail Address:

United States Agency for International Development  
American Embassy  
Jakarta, Indonesia

Cable Address:

USAID AMEMB Jakarta

Other addresses may be substituted for the above upon the giving of notice. All notices, requests, communications, and documents submitted to A.I.D. hereunder shall be in English, except as A.I.D. may otherwise agree in writing.

*Section 8.02. REPRESENTATIVES.* For all purposes relative to this Agreement, the Borrower shall be represented by the individuals holding or acting in the offices of Chairman or Vice Chairman, National Development Planning Agency ("BAP-PENAS") and A.I.D. will be represented by the individual holding or acting in the office of Mission Director, USAID Mission to Indonesia. Such individuals shall have the authority to designate additional representatives by written notice. In the event of any replacement or other designation of a representative hereunder, Borrower shall submit a statement of the representative's name and specimen signature in form and substance satisfactory to A.I.D. Until receipt by A.I.D. of written notice of revocation of the authority of any of the duly authorized representatives of the Borrower designated pursuant to this Section, it may accept the signature of any such representative or representatives on any instrument as conclusive evidence that any action effected by such instrument is duly authorized.

*Section 8.03. IMPLEMENTATION LETTERS.* A.I.D. shall from time to time issue Implementation Letters that will prescribe the procedures applicable hereunder in connection with the implementation of this Agreement.

*Section 8.04. PROMISSORY NOTES.* At such time or times as A.I.D. may request, the Borrower shall issue promissory notes or such other evidence of indebtedness with respect to this Loan, in such form, containing such terms and supported by such legal opinions as A.I.D. may reasonably request.

*Section 8.05. TERMINATION UPON FULL PAYMENT.* Upon payment in full of the Principal and of any accrued interest, this Agreement and all obligations of the Borrower, Cipta Karya and A.I.D. under this Loan Agreement shall terminate.

IN WITNESS WHEREOF, the Borrower and the United States of America, each acting through its respective duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

United States of America:

[Signed]

By: DAVID D. NEWSOM  
Ambassador to Indonesia

Republic of Indonesia:

[Signed]

By: ADAM MALIK  
Minister for Foreign Affairs  
of the Republic of Indonesia

## ANNEX I

### PROJECT DESCRIPTION

This project is to provide assistance to the Government of Indonesia through the Directorate General for Housing, Building, Planning, and Urban Development (Cipta Karya) of the Ministry of Public Works and Electric Power for the expansion and improvement of both the plant and operation of the Surakarta Water Works.

The main feature of the project will be increasing the water supply from Cokrotulung Spring to the city of Surakarta from 150 liters per second (lps) to 400 lps. This will be accomplished by the construction of a new transmission main from Cokrotulung Spring to Jebres Reservoir by way of the Kartosuro Reservoir, 27+ kilometers. To assist in distributing this additional supply of potable water the present distribution system will be expanded and reinforced by the addition of approximately 51 km of water main varying in size from 100 mm (4 in) to 300 mm (12 in) in diameter. To assist in providing water for the urban poor, up to 13,000 metered yard hydrants will be installed, approximately 200 public water faucets will be installed, and ten public bath houses will be constructed. Water will also be provided to the existing 147 public latrines in the city which are to be rehabilitated as part of this project. Water rates for yard hydrants, public water faucets, public baths, and public latrines will be set so as to encourage their use and availability to the lower income group.

It is recognized that the construction program to be assisted under this Loan will not provide an adequate future supply of potable water for the city of Surakarta. A program of ground water exploration will be conducted as part of this project to determine if ground water can provide adequate additional potable water to meet the expanding needs of the city.

To assist in seeing that the project fulfills its purpose a study by a local research group, working with the municipal and national governments, will assess the health, economic and social impact of the project. Training of local water works personnel will also be provided to assist the newly formed Surakarta Water Enterprise in the operation and management of the expanded facilities. Part of this training shall be provided through a consultancy contract which will provide expatriate personnel who will conduct on-the-job training and provide technical assistance during the project.