APPROPRIATION OF FOREIGN LOANS
FOR THE DEVELOPMENT OF THE
MARITIME SECTOR IN INDONESIA

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The contents of this paper reflect my personal views and are not necessarily endorsed by the UNIVERSITY.

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TO MY DAUGHTERS: GRACE and ESTHER

The fear of the Lord is the beginning of wisdom (Psalm 111:10).
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INTRODUCTION.

I. 1. General background and objectives.

Indonesia consists of about 13,700 islands of extremely varied size and character, of which some 6000 are inhabited. Indonesia is situated between the large land masses of Australia and Asia and flanked by the Indian and Pacific oceans (see annex I). There are five large islands in Indonesia namely:

- Sumatera, covering 473,606 sq km,
- Kalimantan, covering 539,460 sq km,
- Irian Jaya, covering 412,781 sq km,
- Sulawesi, covering 189,216 sq km, and
- Java, which, with the neighbouring island of Madura, totals 132,187 sq km.

Indonesia has a total land area of 2,027,087 sq km, while the sea area is one and half times larger. As a big maritime country and the fifth most populous country in the world (population of
164,047,000 at a survey of 31 October 1985), Indonesia has been facing financial problem in developing the transport and communications sector especially the maritime sub sector which is need a huge amount of investment.

In order to cope with this problems, the Indonesian government needs foreign loans either from international financial institutions or donor countries to support the national development budget as far as it is in line with the government policy. Due to the complexity of processing foreign loan from the begining up to the implementation, it is necessary to find the proper arrangement.

The main objectives of this thesis are to seek the best possible way in appropriating foreign loans for the Maritime Sector in order to minimize the disadvantages which can occur later on.

I.2. The reason for choosing the topic

The main reason for choosing "Appropriation of Foreign Loans for the Development of the Maritime Sector in Indonesia" as a topic is because foreign loans have been playing an important role for the development of the Maritime Sector in Indonesia. In spite of the fact that foreign loans can only be obtained by fulfilling the government policy which has strictly been formulated. In observing the data produced by the international financial institutions such as the World Bank, it can be clearly seen that foreign loans have been spread out all over the orld, mostly in developing countries.
As far as developing countries are concerned, foreign loans are still needed particularly in supporting the national development budget to carry out vital projects.

The appropriation of foreign loans in proper ways might give the a positive impact on the national economic growth.

The implementation of the project financed by foreign loans seems to be complicated, due to the fact that there are many steps that have to be made in order to accommodate all requirements, either from an international financial institution or a borrower. Donor countries or/and international financial institutions are normally from developed countries, therefore the possibility in adopting new technology is one of the advantages expected to be obtained.

Bearing in mind that transfer of technology has been a major topic of discussion among developing countries in terms of its impact, the author strongly believe that it is not wise to copy from one place to another without analysing/assessing carefully the existing situation and characteristics. In adopting new technology it is necessary to look at the local tradition that has been used from generation to generation.


There are four kind of methods which have been used by the author in order to collect the data describing and elaborating this project:
Firstly: studies from books, magazines and brochures at the library of the World Maritime University and some materials and handouts which were given by the lecturers either permanent professors or visiting professors.

Secondly: studies from during on the job training and field trips in different countries, and seminars held at the World Maritime University.

Thirdly: studies from experiences while working in the Ministry of Communications for a few years and a 9-month course in Roll On -Roll Off Ferries and Container Terminal Management in Brugge, Belgium.

Fourthly: on the spot research in the Directorate General of Sea Communication, Ministry of Communications of the Republic of Indonesia, in Jakarta and also studies from some studies which were done by the international institutions, such as I.B.R.D. (International Bank for Reconstruction and Development), Netherland Maritime Institute, etc.

1.4. Limitation of scope and structure of content

This project will deal with the appropriation of foreign loans for the development of the Maritime Sector in Indonesia.
There are some steps which have to be taken in order to meet the requirements either from lenders or borrowers. Once, the foreign loans are released by the International Financial Institution, there will be some organisations involved in appropriating them and finally implementing them. Therefore it is important to study what should be the best possible way in appropriating foreign loans.

A foreign loan means aid from international financial institutions or donor countries received by the government of the Republic of Indonesia to support the expenditures of the country's development. The International Financial Institution means the World Bank or I.B.R.D. (International Bank for Reconstruction and Development) which is one of the specialized agencies under the United Nations.

The area of this project has been divided into 5 (five) chapters which are summarized as follows:

**CHAPTER ONE** : Introduction which describes an overview on physical features of Indonesia and the objectives, the reason for choosing the topic, the method of research, the limitation of scope and the structure of content.

**CHAPTER TWO** : Procedures and policies which describe some main principles have to be considered to accommodate the borrower's and the lender's interests in the project.
The government policy and the international financial institution policy should correspond to each other before a decision is made. After having agreed upon the conditions the signing of the loan agreement between both parties can be realized.

CHAPTER THREE: The role of foreign loans and the preparation of foreign loans.

The author would like to give an overview of the role of foreign loans in Indonesia, particularly in the Maritime Sector. From the beginning up to the signing of loan agreements there is certain works that has to be carried out carefully, namely:

- preparation of project proposals,
- identification, preparation, appraisal and negotiation.

CHAPTER FOUR: The implementation of foreign loans give the role of each organization involved in appropriating foreign loans. There are some problems incurred during the implementation of the projects. The project implementation unit plays an important role in carrying out the daily activities, including consultant’s work prior to
the procurement. The need of the Project Implementation Unit in the implementation of the project is due to the complexity of the appropriation of foreign loans.

CHAPTER FIVE: Conclusions and recommendations of this project are only the opinion of the author, based on studies and experiences. Hopefully it can be worthwhile for those who are interested in appropriating foreign loans.
CHAPTER TWO.

PROCEDURES AND POLICIES.

II. Government policies concerning foreign loans.

II.1. Organization.

Each country has its own structure of organization in order to carry out the tasks with regard to its function. It is important to give a brief explanation about organizations involved in appropriating foreign loans. In Indonesia sovereignty is in hands of the people and is exercised in full by the People's Consultative Assembly as the embodiment of all the Indonesian people. The Consultative Assembly is the highest authority of the state, and is to be distinguished from the proper legislative body (House of Representatives) which is incorporated within the consultative assembly. The consultative assembly, with a total of 1000 members, is composed of all members of the House of Representatives, augmented by delegates from the regions, members of political organizations (including members of the armed forces belonging to Golkar), and representatives of other groups.
The assembly meets at least once every 5 years, and its primary competence is to determine the constitution and the broad lines of the policy of the state and government.

It also elects the President and Vice President, who are responsible for implementing that policy. All decisions are taken unanimously in keeping with the traditions of musyawarah (deliberation).

The highest executive of the government, the President, holds office for a term of five years and may be re-elected.

As mandatory of the People's Consultative Assembly, the President must execute the policy of the state according to the decrees determined by the People's Consultative Assembly during its Fourth General and special sessions. In conducting the administration of the state, authority and responsibility are concentrated to the President. The ministers of the state are his assistants and are responsible only to him.

The relationship among the People is Consultative Assembly, the President and the Ministers are illustrated on the next page.
THE PEOPLE'S CONSULTATIVE ASSEMBLY (M.P.R.).

THE PRESIDENT

THE MINISTERS

THE DIRECTORS GENERAL/EXECUTING AGENCY
II.1.2. Historical background of foreign loans in Indonesia.

In 1967, the beginning of the era of the New Order, the economic situation in Indonesia was very poor. The inflation rate was about 650% and income per capita only U.S. $80 whereas foreign loans were around U.S.$ 2 billion. There were many problems that had to be overcome by the new government.

According to Decree No.XXIII given by the temporary People's Consultative Assembly in 1969, there were some assignments that needed a special attention and a solution found within a very short time, such as:

- Control of inflation
- The need of foodstuff
- Rehabilitation of economic infrastructure
- Improvement of export activities

Based on several points mentioned above, the government decided to make moves by approaching and lobbying the lenders for the remaining foreign loans and new lenders for other loans, with the intention, as follows:

- To negotiate the remaining loan for rescheduling
- To make an effort to get new loans from different resources to support the plan in returning the previous loans which had to be paid

- To encourage new foreign investors in Indonesia

As a result by creating the approaches mentioned above, on September 1966, the Japanese government took initiative for the first multilateral meeting, which was held in Tokyo, known as "Tokyo Club". The meeting was attended by representatives from creditor countries excluding the Communist Block.

The International Monetary Fund recommended in the meeting that Indonesia needed support for new capital and rescheduling of the remaining loans.

On December 1966, the Tokyo Club continued in Paris, which was called "the Paris Meeting". A mutual understanding for rescheduling the remaining loans was reached at the Paris Meeting.

On February 1967, the Paris Meeting continued in Amsterdam, initiative taken by the Dutch government with the objective of discussing the new aid for Indonesia. From this meeting, it is now known as the I.G.G.I. (Inter-Governmental Group on Indonesia). The first I.G.G.I.'s meeting was attended by 11 (eleven) member states, namely:
- The United States of America
- Australia
- West Germany
- The Netherlands
- Belgium
- The United Kingdom
- Japan
- Italy
- France
- Canada
- Indonesia

Some countries that were present, were not members, viz.

- Denmark
- Norway
- New Zealand
- Switzerland

Some international financial institutions were also present and later on they played an important role in realizing the aid to Indonesia, namely:

- I.M.F. (International Monetary Fund)
- U.N.D.P. (United Nations Development Program)

and as an observer, Organization for Economic Cooperation Development (O.E.C.D.).
II.1.3. The policies of the government on foreign loans.

As the author has stated earlier, the People's Consultative Assembly plays an important role in formulating the development policies of the country for at least 5 years (one term of services).

The policies which are called G.B.H.N. (Garis-Garis Besar Haluan Negara) or the State Guidelines have to be carried out by the President as the highest executive of the government.

As far as foreign loans are concerned, in the State Guidelines determined by TAP. M.P.R. No.II/MPR/1983, (M.P.R.'s Decree) it is clearly stated that concerning the appropriation of foreign loans, the following requirements have to be considered:

A. Foreign loans as a supporting element, means:

1. The national development needs huge amounts of money which can not be found from domestic resources only. The execution of national development must be based on national resource capabilities whereas foreign loans are only supporting element in order to smoothen the implementation of the project.

2. National resources have to be improved so that the role of the foreign loans can gradually be reduced.

When national resources are sufficient for
domestic purposes, it is necessary to offer the excess resources to the country where they need it.

B. Foreign loans have to be utilized based on the guidance and the importance of national development. This means:

1. Foreign loans have to be utilized as much as possible to support the national development activities in which its function is to accelerate the execution of the development.

2. The utilization of foreign loans must be integrated with the guidance, policy and planning development taking into consideration the development priority.

C. Foreign loans may not be tied in order to avoid the dependence from donor countries. This means:

1. Foreign loans can be accepted without political commitments and also other conditions which tend to be tied.

2. Foreign loans are not to be created as a burden in the long run, moreover foreign loans have to be utilized to reduce the dependence with donor countries.

3. Foreign loans have to be utilized particularly for the development of the projects which are productive and also
benefit the people in the long term, for example;

a). To develop the projects which are profitable and which in turn can be used for payment of foreign loans.

b). To develop the projects for infrastructure to stimulate economic growth in rural and urban areas, for example:

- Agriculture
- Irrigation
- Industry
- Electricity
- Telecommunication, etc.

c). To develop the projects to create new jobs, to improve manpower productivity, to give an opportunity in using advanced technology.

II.1.4. The policies regarding the execution of foreign loans.

For the acceleration and the successful execution which are in line with the given policies of the State Guidelines, it is necessary to make detailed evaluation of every kind of foreign loan, as described below:
A. Policies on Project Aid

1). Physical projects should be in line with the policy, priority and the objective of the national development.

2). Implementation of project aid should consider:
   - social and economic aspects,
   - technical aspects and
   - capability aspects

3). Preparation of implementation of the project has to consider the availability of local costs.

B. Policies on Expertise

1). Foreign experts must have broader experiences, good knowledge and the capability to transfer his/her skills to the local expert.

2). Foreign experts must have the capability to increase the skill and also be able to create new ideas for the manpower in Indonesia.

3). Foreign experts must possess the skills which are not available or very few people in Indonesia have.

4). All expenses concerning his/her job must be
paid by him/her or the sponsor, so that the
government only provides funds which are
related to the project.

5). Foreign experts who visit Indonesia must
not have any political commitments
whatsoever and have to be based on approval
by the Indonesian government.

C. Policies on Volunteer Experts

1). The volunteer expert should not damage the
existing Indonesian manpower.

2). The volunteer expert should be used only as
a supporting and temporary element.

3). The fields allow only:
   - Foreign languages
   - Library
   - Music

D. Policies on Education and Training abroad

1). Education and Training program abroad in
   order to support the National Development.

2). Education and Training program can not be
   separated from manpower planning and
   planning education in Indonesia.

3). Education and Training program has a
priority scale, as follows:

Education and Training should be a primary need, for example in the field where the facility is not available in Indonesia.
II. International Financial Institution Policies in Providing Loans.

II.1. Historical background and organization

As the author has pointed out earlier in Chapter I, the International Financial Institution here means the World Bank or I.B.R.D. (International Bank for Reconstruction and Development). The World Bank was conceived at the Bretton Woods Conference in 1944 when representatives of 44 nations met to lay plans for international economic and financial cooperation in the post-war years. The International Bank for Reconstruction and Development (I.B.R.D.) is one of the United Nations specialized agencies, established on December 27, 1945 in Washington D.C. The operation was started on June 25, 1946. Formal relationships between the World Bank and the United Nations are governed by an agreement approved by the World Bank's Board of Governors in September 1947 and by the United Nations General Assembly in November 1947. The World Bank had as of 30 June 1986, 150 member countries; Cuba resigned from the Bank in November 1960.

As far as the organization is concerned the World Bank has its own organization with the explanations of each function, which can be found in the Articles of Agreement of the International Bank for Reconstruction and Development.
Development, signed at Washington D.C. on December 27, 1945 by 44 countries, as follows:

The Article V (Organization and Management).

Sec. 1. Structure of the Bank.
The Bank shall have a Board of Governors, Executive Directors, a President and such other officers and staff to perform such duties as the Bank may determine.

Sec. 2. Board of Governors.
(a) All the powers of the Bank shall be vested in the Board of Governors consisting of one governor and one alternate appointed by each member in such manner as it may determine. Each governor and each alternate shall serve for five years, subject to the pleasure of the member appointing him and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as Chairman.
(b) The board of Governors may delegate to the Executive Directors authority to exercise any powers the Board, except the power to:
   (i) Admit new members and determine the conditions of their admission;
   (ii) Increase or decrease the capital stock;
   (iii) Suspend a member;
   (iv) Decide appeals from interpretations of this Agreement given by the Executive Directors;
   (v) Make arrangements to cooperate with other international organization (other than informal arrangements of a temporary and administrative character);
(vi) Decide to suspend permanently the operations of the Bank and to distribute its assets;
(vii) Determine the distribution of the net income of the Bank.
(c) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meeting of the Board shall be called by the Directors whenever requested by the members having one quarter of the total voting power.
(d) A quorum for any meeting of the Board of Governors, exercising not less than two thirds of the total voting power.
(e) The Board of Governors may by regulation establish a procedure whereby the Executive Directors, when they deem such action to be in the best interests of the Bank, may obtain a vote of the Governors on a specific question without calling a meeting of the Board.
(f) The Board of the Governors, and the Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Bank.
(g) Governors and alternates shall serve as such without compensation from the Bank, but the Bank shall pay them reasonable expenses incurred in attending meetings.
(h) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and the salary and term of contract of service of the President.
Sec.3. Voting.
(a) Each member shall have two hundred fifty votes
plus one additional vote for each share of stock held.

(b) Except as otherwise specifically provided, all matters before the Bank shall be decided by a majority of the votes cast.

Sec. 4. Executive Directors.

(a) The Executive Directors shall be responsible for the conduct of the general operations of the Bank, and for this purpose, shall exercise all the powers delegated to them by the Board of Governors.

(b) There shall be twelve Executive Directors, who need not be governors, and of whom:

(i) five shall be appointed, one by each of the five members having the largest number of shares;

(ii) seven shall be elected according to Schedule B by all the Governors other than those appointed by the five members referred to in (i) above.

For the purpose of this paragraph, members means governments of countries whose names are set forth in Schedule A, whether they are original members or become members in accordance with Article II, Section 1 (b). When governments of other countries become members, the Board of Governors may, by a four-fifths majority of the total voting power, increase the total number of Directors by increasing the number of directors to be elected. Executive Directors shall be appointed or elected every two years.

(c) Each Executive Directors shall appoint an alternate with full power to act for him when he is not present. When the executive directors appointing them are present, alternate may participate in meeting but shall not vote.
(d) Directors shall continue in office until their successors are appointed or elected. If the office of an elected director becomes vacant more than ninety days before the end of his term, another director shall be elected for the remainder of the term by the governors who elected the former director. A majority of the votes cast shall be required for election. While the office remains vacant, the alternate of the former director shall exercise his powers, except that of appointing an alternate.

(e) The Executive Directors shall function in continuous session at the principal office of the Bank and shall meet as often as the business of the Bank may require.

(f) A quorum for any meeting of the executive Directors shall be a majority of the Directors, exercising not less than one half of the total voting power.

(g) Each appointed director shall be entitled to cast the number of votes allotted under section 3 of this article to the member appointing him. Each elected director shall be entitled to cast the number of votes which counted toward his election. All the votes which a director is entitled to cast as a unit.

(h) The Board of Governors shall adopt regulations under which a member not entitled to appoint a director under (b) above may send a representative to attend any meeting of the Executive Directors when a request made by or a matter particularly affecting, that member is under consideration.
(i) The Executive Directors may appoint such committees as they deem advisable. Membership of such committees need not be limited to governors or directors or their alternates.

Sec. 5. President and staff.

(a) The Executive Directors shall select a President who shall not be a governor or an executive director or an alternate for either. The President shall be Chairman of the executive Directors, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The President cease to hold office when the executive Directors so decide.

(b) The President shall be chief of the operating staff of the Bank and shall conduct, under the direction of the Executive Directors, the ordinary business of the Bank. Subject to general control of the Executive Directors, he shall be responsible for the organization, appointment and dismissal of the officers and staff.

(c) The President, officers and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and to no other authority. Each member of the Bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

(d) In appointing the officers and staff the President shall, subject to paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.
Sec. 6. Advisory Council.

(a) There shall be an advisory Council of not less than seven persons selected by the Board of Governors including representatives of banking, commercial, industrial, labor, and agricultural interests and with as wide a national representative as possible. In those fields where specialized international organizations exist, the members of the Council representative of those fields shall be selected in agreement with such organizations. The Council shall advise the Bank on matters of general policy. The Council shall meet annually and on such other occasions as the Bank may request.

(b) Councillors shall serve for two years and may be reappointed. They shall be paid their reasonable expenses incurred on behalf of the Bank.

Sec. 7. Loan committees. The committees required to report on loans under Article III, Section 4, shall be appointed by the Bank. Each such committee shall include an expert selected by the governor representing the member in whose territories the project is located and one or more members of the technical staff of the Bank.

The organization chart of the World Bank can be seen in (annex II).
II.2. The Bank's Policies.

Prior to the explanation of the Bank's policies in providing loans, it is first of all very important to remember that the main purposes of the Bank are as follows:

II.2.1 To assist in the reconstruction and development of its member States by facilitating the investment of capital for productive purposes, thereby promoting the long-range growth of international trade and the improvement of living standards.

II.2.2 To promote private foreign investment by guarantees of and participations in loans and other investments made by private investors; and

II.2.3 When private capital is not available on reasonable terms, to make loans for productive purposes out of its own resources or from funds borrowed by it;

II.2.4 Provide member countries with technical assistance on matters relating to their economic development, try to increase the effectiveness of the international development effort by fostering cooperation with and among other donors of financial and technical assistance.
The Bank's policies in providing loans, have been clearly stated in Article III of the Articles of Agreement of the International Bank for Reconstruction and Development, such as:

Sec.1. Use of resources.
(a) The resources and the facilities of the Bank shall be used exclusively for the benefit of members with equitable consideration to projects for development and projects for reconstruction alike.
(b) For the purpose of facilitating the restoration and reconstruction of the economic of members whose metropolitan territories have suffered great devastation from enemy occupation or hostilities, the Bank, in determining the conditions and terms of loans made to such members, shall pay special regard to lightening the financial burden and expediting the completion of such restoration and reconstruction.

Sec.2. Dealings between members and the Bank.
Each member shall deal with the Bank only through its Treasury, central bank, stabilization fund or other similar fiscal agency, and the Bank shall deal with members only by or through the same agencies.

Sec.3. Limitations on guarantees and borrowings of the Bank.
The total amount outstanding of guarantees, participations in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed one hundred percent of the unimpaired subscribed capital, reserves and surplus of the Bank.

Sec.4. Conditions on which the Bank may guarantee or
make loans. The Bank may guarantee, participate in, or make loans to any member or any political subdivision thereof and any business, industrial, and agricultural enterprise in the territories of a member, subject to following conditions:

(i) When the member in whose territories the project is located is not itself the borrower, the member of the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of interest and other charges on the loan.

(ii) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

(iii) A competent committee, as provided for in article v Section 7, has submitted a written report recommending the project after a careful study of the merits of the proposal.

(iv) In the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of principal are appropriate to the project.

(v) In making or guaranteeing on loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan, and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole.

(vi) In guaranteeing a loan made by other investor,
the Bank receives suitable compensation for its risk.

(vii) Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of construction or development. Sec.5. Use of loans guaranteed, participated in or made by the Bank.

(a) The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members.

(b) The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was guaranteed, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.

(c) In the case of loan made by the Bank, it shall open an account in the name of the borrower and the amount of the loan shall be credited to this account in the currency or currencies in which the loan is made. The borrower shall be permitted by the Bank to draw on this account only to meet expenses in connection with the project as they are actually incurred.

As far as the port project is concerned, there are five basic subjects that have to be examined by the World Bank, namely:

1. How does the project fit with the national transport policy in the country?

2. Does local port operations and administration
3. Is the project technically sound from an engineering point of view?

4. Is the project economically viable, and who is going to benefit from the project?

5. Is the project financially sound?

Among the five important questions mentioned above, point 4 and 5 are particularly important and need to be examined carefully.

Above all, one of the requirements adopted lately by the Bank is environmental consideration for port and harbour development.

The borrower can not obtain the loan unless the Bank:

- has identified the issues related to each of the subjects,
- has indicated how they could be solved,
- has proposed solutions for solving them and had these solution either implemented, or ready to be implemented through covenants in the loan agreement.
CHAPTER THREE.

THE ROLES OF FOREIGN LOANS AND PREPARATION OF LOAN AGREEMENTS.

III.1. The roles of foreign loans.

There has been a lack of a national budget, since the New Order government was established. In order to overcome this problem, foreign loans have been involved from time to time.

Comparison between the total national expenditure (routine and development expenditure) and the total national income has shown deficit (see annex III).

With the financing support from foreign loans, the national financial balance in the period of 1970/1971 to 1986/1987 has shown positive figures except in the fiscal year of 1972/1973 and 1985/1986 deficit Rp. 0.4 billion and Rp. 727 million respectively. The deficit in the budget caused by very low oil prices, from which the structure of the incomes and the expenditure of the country for the fiscal year 1985/1986 were defined.

As far as the roles of foreign loans in the national budget is concerned, the comparison between the development expenditure and every expenditure within the period of 1970/1971 to 1988/1989, can be seen clearly in the table (see annex IV).
It is obvious that in the beginning of the Five Year Development Plan (REPELITA), the percentage of foreign loans for the development expenditure is very big (71%). This situation can be explained understood because at that time the economy and financing of the country was in a very difficult situation, the rate of inflation was very high and the income from export was very low.

A clear picture of the value and fluctuation ratio of foreign loans towards the development expenditure and the whole expenditure, can be seen in the table (see annex V).

As the author has described earlier, foreign loans have been playing an important role in the national development budget. In the following explanation, the author would like to specify the roles of foreign loans in the development of the Maritime Sector in Indonesia.

The national development budget taken from foreign loans as projected for development of the Maritime Sector from 1984/1985 to 1987/1988 is Rp. 446 billion or US$.405.5 million, which are elaborated as follows:

Based upon the existing loan agreement, the progress of the implementation of foreign loans as of March 1987 (the fourth year of the fourth five year development plan) is US.$ 885 million which was received from donor countries and international financial institutions. The main purpose of this loan was to support the development of 30 projects within the Maritime Sector. From the amount of US.$ 885 million mentioned before, US.$ 331 million or 34 % has been used. The remaining loan is US.$ 524 million (on-going projects).

US.$ 197 million (37 %) has got a contract to be implemented, and 60 % of US.$ 197 million is expected to be distributed at the end of the Fourth Five Year Development Plan.

The following table is the elaboration of the foreign loans during the Fourth Five Year Development Plan or PELITA IV of the Maritime Sector in Indonesia.
FOREIGN LOANS OF D.G.S.C. DURING PELITA IV.

<table>
<thead>
<tr>
<th>No.</th>
<th>Sources</th>
<th>Completed Projects</th>
<th>On Going-projects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Loan</td>
<td>Contract</td>
</tr>
<tr>
<td>1</td>
<td>O.E.C.F.</td>
<td>197,2</td>
<td>192,4</td>
</tr>
<tr>
<td>2</td>
<td>I.B.R.D.</td>
<td>17,8</td>
<td>16,5</td>
</tr>
<tr>
<td>3</td>
<td>A.D.S.</td>
<td>29,2</td>
<td>23,7</td>
</tr>
<tr>
<td>4</td>
<td>Netherland</td>
<td>8,8</td>
<td>1,9</td>
</tr>
<tr>
<td>5</td>
<td>U.Kingdom</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>K.F.W.</td>
<td>62,5</td>
<td>38,6</td>
</tr>
<tr>
<td>8</td>
<td>Oe-Ex.</td>
<td>66</td>
<td>56</td>
</tr>
<tr>
<td>9</td>
<td>Norway</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>361,4</td>
<td>338,2</td>
</tr>
</tbody>
</table>

Due to very slow progress of the disbursement, in 1985 the government issued a new regulation which is called KEPRES 32/1985. The main purpose of this new regulation is to speed up the process of disbursement of the foreign loans. Since the new regulation came into force the progress of disbursement is improving dramatically compared to the previous one. However, for the other projects this improvement created another problem especially in providing local costs.

The previous table which described the foreign loans of the Directorate General of Sea Communication during PELITA IV (1984/1985 to 1988/1989) has covered some of the main projects in the Maritime Sector. In order to have a clear picture of the roles of foreign loans, especially in the Maritime Sector (DGSC) for the next PELITA V (1989/1990 to 1993/1994), the author would like to express in percentages the comparison between the need of investment from the domestic sources and donor sources, as follows:
## TOTAL INVESTMENT PLAN OF THE MARITIME SECTOR

<table>
<thead>
<tr>
<th>No.</th>
<th>Dev. Program</th>
<th>Sources</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Domestic</td>
<td>Donors</td>
</tr>
<tr>
<td>1.</td>
<td>Fleets</td>
<td>45</td>
<td>1649</td>
</tr>
<tr>
<td>2.</td>
<td>Ports</td>
<td>196</td>
<td>293</td>
</tr>
<tr>
<td>3.</td>
<td>Mar. Safety</td>
<td>244</td>
<td>500</td>
</tr>
<tr>
<td>4.</td>
<td>Training</td>
<td>-</td>
<td>92</td>
</tr>
<tr>
<td>5.</td>
<td>Research</td>
<td>-</td>
<td>32</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
<th>485</th>
<th>2566</th>
<th>3052</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>16%</td>
<td>84%</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

The author would also like to give an overview of the roles of the loans internationally. It is quite interesting to observe that almost 100% of the developing countries are receiving loans from the international financial institutions such as the World Bank. (annex VI).

Based on the table mentioned above, the author believes that special attention in appropriating foreign loan has to be made in order to meet the objectives of the loan.
III.2. Preparation of Project Proposal.

To cope with the demand of sea transportation services, the government of the Republic of Indonesia needs to develop some important projects with high priority, in line with the State Guidelines which were elaborated in the Five Year Development Plan (REPELITA).

When discussing the development of projects in the maritime sector in a large maritime country like Indonesia, there is no doubt that the problem of lack of financing is becoming the main constraint. In order to overcome this problem, one of the alternatives is to propose some of the projects which have high priority regarding financing by the foreign loans either from international financial institutions or donor countries.

In proposing the projects, there are several steps that have to be followed, as clearly mentioned in the Minister of Communications Decree, No : KM 57 TAHUN 1988 Tentang TATA CARA TETAP PENGELOLAAN BANTUAN LUAR NEGERI or the guidance for administering or appropriating foreign loans. The author would like to illustrate some important arrangements in proposing a project, such as:

The proposed project aid has to be completed by the documents, namely:

- Project digest

- Project presentation
Design and technical specification

(see annex VII)

The office of the Maritime Sector submits the proposed project aid to the Secretary General of the Department of Communications with the attachment to the Planning Bureau and Finance Bureau of the Department of Communications. After receiving all documents needed, the Planning Bureau of the Department of Communications acts as a coordinator for the discussions and assessment of the proposed project aid among the participants invited, such as:

- The staff of the Maritime Sector (D.G.S.C.).

- The staff of the Finance Bureau Department of Communications.

- The staff of the Logistic Bureau, Legal and Foreign Technical Cooperation Bureau of Department of Communications.

- Staff expert staff of the Ministry of Department of Communications.

- Other units related, for the synchronization of the project.

The result of the discussions is send to the Minister of the Department of Communications trough the Secretary General of the Department of Communications.
for approval. Once approved, the Secretary General on behalf of the Minister sends it to the National Planning Development Agency (BAPPENAS) with the project implementation plan, and the attachment to the office of the Maritime Sector (D.G.S.C.).

The main purpose of sending these documents to the office of the National Development Agency as an input in reviewing the so-called "Blue Book". The Blue Book consists of the proposed project aid to be presented to donor countries or international financial institutions.

The flow chart below is taken from the Ministry of the Department of Communications' Decree concerning the procedures of foreign loans.
<table>
<thead>
<tr>
<th>No.</th>
<th>ACTIVITIES</th>
<th>DEPT. OF COMMUNICATIONS</th>
<th>NPDA BAPPENDS</th>
<th>DONORS (PPHLN)</th>
<th>REMARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>MINISTER/SEC-GEN.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>PROPOSED FOREIGN LOAN</td>
<td></td>
<td></td>
<td></td>
<td>ART.12</td>
</tr>
<tr>
<td>2</td>
<td>ASSESSMENT/DISCUSSIONS</td>
<td></td>
<td></td>
<td></td>
<td>ART.13</td>
</tr>
<tr>
<td>3</td>
<td>PROPOSE TO NPDA (BAPPENDAS)</td>
<td></td>
<td></td>
<td></td>
<td>ART.14</td>
</tr>
<tr>
<td>4</td>
<td>BLUE BOOK/SEEKING LOAN COMMITMENT ACHIEVED</td>
<td></td>
<td></td>
<td></td>
<td>ART.14</td>
</tr>
<tr>
<td>5</td>
<td>FINANCIAL COMMITMENT ACHIEVED</td>
<td></td>
<td></td>
<td></td>
<td>ART.15</td>
</tr>
<tr>
<td>6</td>
<td>PREPARATION &amp; SUBMISSION OF DOCUMENTS/PROGRAM IMP</td>
<td></td>
<td></td>
<td></td>
<td>ART.15</td>
</tr>
<tr>
<td>7</td>
<td>DISCUSSIONS ON POINT 6 ABOVE</td>
<td></td>
<td></td>
<td></td>
<td>ART.15</td>
</tr>
<tr>
<td>8</td>
<td>EXTEND THE RESULT OF DISCUSSION</td>
<td></td>
<td></td>
<td></td>
<td>ART.15</td>
</tr>
</tbody>
</table>

○ : ACTION  ○ : RECEIVED  ○ : ASSISTING  ○ : CARBON COPY  * : PROJECT BELONGS TO BUMN. (STATE OWNED ENTERPRISE)
III.3. Signing of Loan Agreement

In order to be able to achieve the objectives of the project, the borrower or borrower’s government and international financial institution are in the position to cooperate in assessing the important steps that have to be taken before signing the loan agreement. The objective is to know whether the project is economically, technically and financially sound, so that the loan agreement can be signed.

There are some steps which have to be taken before signing the loan agreement. These steps are recognised by the international financial institutions, such as the World Bank, namely:

1) Identification of the Project.

The first step is dealt with identifying projects that have high priority, and appear suitable for the Bank; and moreover that the government is interested in considering.

Over the last years, the Bank has encouraged and helped borrowing countries to develop their own methods of project generation. Economic and sector analysis carried out by the Bank provided a framework for evaluating national and sectoral policies and problems and an understanding of the development potential of the country. They also assessed a country’s creditworthiness for Bank lending. This analysis provides the basis for a continuing dialogue between the Bank and a country on an appropriate development strategy, including
policy and institutional changes for the economy as a whole and for its major sectors. It is then possible to identify projects that fit into and support a coherent development strategy, that meet sectoral objectives, and that both the government and the Bank consider suitable. These projects must also meet a prima facie test of feasibility, that technical and institutional solutions are likely to be found at cost commensurate with expected benefits. Identifying the project that meets these requirements is not easy. Knowledge required for reaching sound judgements may not share the Bank's views on development objectives or sector priorities. There may be difficult choices regarding the scope of the project. Differences may quickly surface over the need for policy or institutional reforms to achieve the project's objectives. Work on resolving some of these issues may extend well into the preparation stage. In practice, how are projects identified within this context? Both the Bank and the government are involved, making the process complex, and this complexity is compounded by the differing capabilities of governments for handling economic planning and project generation. The Bank's economic analysis of a country is affected by the extent and quality of the country's data base and its own economic work. Sector analysis might be done by the country itself, or might be carried out by the Bank or others. Once identified, projects are incorporated into a multi-year lending program for each country that form the basis for the Bank's
future work in the country. Country programs are used for programming and budgeting the Bank's operations and for assuring that the resources necessary to bring each project forward through the successive phases of its steps are available.

2). Preparation of the Project.

After project has been incorporated into the lending program, it enters the project pipeline, and an extensive period (normally one or two years) of close collaboration between the Bank and the eventual borrower begins. A project brief is prepared for each project, describing its objectives, identifying principal issues, and establishing the time table for its further processing. It is difficult to generalize about the preparation phase because of the variables that are abound: the nature of the project, the knowledge currently available, the sources and availability of financing for preparation, and the nature of the relationships between the Bank, the government, cofinancers, and other donors that may be involved in the sector or project. Formal responsibility for preparation rests with the borrower. At one time, the Bank was reluctant to assist in project preparation, on the banker's principle that such involvement might prejudice its objectivity at appraisal. But experience has shown that the Bank must have an active role in ensuring timely flow of well-prepared projects. The role has a number of aspects; making sure that borrowers with the capacity and resources to
prepare projects themselves understand the Bank’s requirements and standards; helping other borrowers to find the financing or technical assistance necessary for preparatory work; and filling gaps in projects that have been incompletely or inadequately prepared. There are even exceptional circumstances in which the Bank itself does preparatory work. Financial and technical assistance for project preparation can be extended in a number of ways. The Bank can provide special loans for technical assistance or detail engineering, make advances from its project preparation facility, reimburse the borrower under the loan in question for preparatory work done earlier, or include funds for preparatory work in a loan for another project in the sector. While most other assistance for project preparation is provided on a grant basis, and hence is especially attractive, Bank financing must be repaid by the borrower. In providing this help, care must be taken that the project is not perceived at this stage as the Bank’s project and that the government and the borrower are fully committed to the project and deeply involved in its preparation. This care is more relevant to the new style projects than to traditional infrastructure projects that involve well-established entities whose objectives, and ways of achieving them, are reasonably clear. In a new style project, such conditions often do not exist, so the commitment of the government and the borrower is essential not only for preparation, but, even more, for successful implementation. Preparation must cover the full range of technical,
A critical element of preparation is identifying and comparing technical and institutional alternatives to achieve the project's objectives. Most developing countries are characterized by abundant, inexpensive labour and scarce capital. The Bank, therefore, is not looking for the most advanced technological solutions, but for those that are most appropriate to the country's resource endowment and stage of development. Preparation thus requires feasibility studies that identify and prepare preliminary designs of technical and institutional alternatives, compare their respective costs and benefits, and investigate in more detail the more promising alternatives until the most satisfactory solution is finally worn out. All this takes time, and the Bank is sometimes criticized for the length of time required to make a loan. But for the countries concerned, each project represents a major investment with a long economic life, and the time spent in arriving at the best technical solution, in setting up the proper organization, and in anticipating and dealing in advance with marketing and other problems, usually pays for itself several times over.

3). Appraisal.

As the project takes shape and studies near completion, the project is scheduled for appraisal. Appraisal, perhaps the best known phase of project
work, provides a comprehensive review of all aspects of the project and lays the foundation for implementing the project and evaluating it when completed. Appraisal is solely the Bank’s responsibility. It is conducted by the Bank staff, sometimes supplemented by individual consultants, who usually spend three to four weeks in the field. If preparation has been done well, appraisal can be relatively straightforward, if not, a subsequent mission, or missions, to the country may be necessary to complete the job. Appraisal covers four major aspects of the project:

a. Technical aspects

The Bank has to ensure that projects are soundly designed, appropriately engineered, and follow other standards. The appraisal mission looks into technical alternatives considered, solutions proposed, and expected results. A critical part of technical appraisal is a review of the cost estimates and the engineering or other data on which they are based, when determining whether they are accurate within an acceptable margin and whether allowances for physical contingencies and expected price increases during implementation are adequate. The technical appraisal also reviews proposed procurement arrangements to make sure that the Bank’s requirements are met. Procedures for obtaining engineering, architectural, or other professional services are examined. In addition, technical appraisal is concerned with estimating the cost of operating project facilities and
services and with the availability of necessary raw materials or other inputs. The potential impact of the project on the human and physical environment is examined to make sure that any adverse effects will be controlled or minimized.

b. Institutional aspects

Experience indicates that insufficient attention to the institutional aspects of a project leads to problems during its implementation and operation. Institutional appraisal is concerned with a host of questions, such as whether the entity is properly organized and its management adequate to do the job, whether local capabilities and initiative are being used effectively, and whether policy or institutional changes are required outside the entity to achieve project objectives. Of all the aspects of the project, institution building is perhaps the most difficult to come to grips with. In part, this is because its success depends so much on an understanding of the cultural environment. The Bank has come to recognise the need for a continuing re-examination of institutional arrangements, an openness to new ideas, and a willingness to adopt a long-term approach that may extend over several projects.

c). Economic aspects

Through the cost benefit analysis of alternative project designs, the one that contributes most to the development objectives of the country may be
selected. This analysis is normally done in successive stages during project preparation, but appraisal is the point at which the final review and assessment are made. During economic appraisal, the project is studied in its sectoral setting. The investment program for the sector, the strengths and weaknesses of public and private sectoral institutions, and key government policies are all examined. In transportation, each appraisal considers the transportation system as a whole and its contribution to the country's economic development. A highway appraisal examines the relationship with competing modes of transport such as railway. Transport policies throughout the sector are reviewed and changes recommended. Whenever the current state of the art permits, projects are subjected to a detailed analysis of their costs and benefits to the country, the result of which is usually expressed as an economic rate of return. This analysis often requires the solution of difficult problems, such as how to determine the physical consequences of the project and how to value them in terms of the development objectives of the country. Over the years, the Bank has kept in close touch with progress in the methodology of economic appraisal. "Shadow" prices are used routinely when true economic values of costs are not reflected in market prices as a result of various distortions, such as trade restrictions, taxes, or subsidies. These shadow price adjustments are made most frequently in the exchange rate and labour costs used in the
calculations. The distribution of the benefits of a project and its fiscal impact are considered carefully, and the use of "social" prices to give proper weight in the cost-benefit analysis to the government's objectives of improved income distribution and increased public savings is passing through an experimental phase. Since the estimates of future costs and benefits are subject to substantial margins of error, an analysis is always made of the sensitivity of the return on the project to variations in some of the key assumptions. Whether qualitative or quantitative, the economic analysis always aims at assessing the contribution of the project to the development objectives of the country; this remains the basic criterion for project selection and appraisal. While they are more concerned with the distributional effects of projects this reflects broader objectives of development, but it does not mean that the Bank has lowered its standards of appraisal. Whether old style or new, every project must have a satisfactory economic return, a standard that the Bank believes serves the best interests of both the country and the Bank itself.

d). Financial aspects

Financing has several purposes. One is to ensure that there are sufficient funds to cover the costs of implementing the project. The Bank does not normally lend money for all project costs; typically, it finances foreign exchange costs and expects the
borrower or the government to meet some or all of the local costs. In addition, other co-financiers such as the European Development Fund, several Arab funds, the regional development Banks, bilateral aid agencies, and the growing number of commercial banks, are joining to an increasing extent in co-financing projects that, in many instances, are appraised and supervised by the Bank. Therefore, an important aspect of appraisal is to ensure that there is a financing plan that will make funds available to implement the project on schedule. When funds are to be provided by a government known to have difficulty in raising local revenues, special arrangement may be proposed, such as advance appropriations to a revolving fund or the earmarking of tax proceeds. The financial review often highlights the need to adjust the level and structure of prices charged by the enterprise. Whether or not they are publicly owned, enterprises assisted by the Bank generally provide basic services and come under close public scrutiny. Because the government may wish to subsidize such services to the consuming public as a matter of policy, or perhaps simply as the line of least resistance, it may be reluctant to approve the price increases necessary to ensure efficient use of the output of the enterprise and to meet its financial objectives.

To ensure the efficient use of scarce capital, the Bank believes that interest charges to the ultimate beneficiaries should generally reflect the opportunity cost of money in the economy. But interest rates are often subsidized, and the rate
of inflation may even exceed the interest rate. In countries with high rate of inflation, a system of indexed rates is sometimes followed. As in the case of cost recovery, the appropriate level of interest rates may be a contentious issue. The Bank may have to set its sights on a long-term goal, recognizing that it will take time to bring about what may be far reaching changes in financial policy. This may be particularly so when the government is seeking to control interest rates and other prices as part of an anti-inflation program. The appraisal mission prepares a report that sets forth its findings and recommends terms and conditions of the loan. This report is drafted and redrafted and carefully reviewed before the loan approved by the management of the Bank for negotiations with the borrower. Because of the Bank’s close involvement in identification and preparation, appraisal rarely results in rejection of a project; but it may be extensively modified or redesigned during this process to correct flaws that otherwise might have led to its rejection.

4). Negotiation aspects

Negotiation is the stage at which the Bank and the borrower endeavor to agree on the measures necessary to assure the success of the project. These agreements are then converted into legal obligations, set out in the loan documents. The Bank may have agreed with a public utility borrower that, to earn an adequate rate of return and finance a reasonable proportion of its investments,
prices are to be increased by say 20% immediately and 10% in two years' time. A financial covenant to be agreed upon during negotiation will define the overall financial objectives and specify the necessary of return and timing of the initial rate increase. If a new project unit must be set up to administer the project or to coordinate the activities of the various ministries involved, the loan documents will specify when and how it is to be established and staffed. In fact all of the principal issues that have been raised prior to and during appraisal are deal with in the loan documents. Thus, the drafting and negotiation of the legal documents are an essential part of the process of ensuring that the borrower and the Bank are in agreement, not only on the broad objectives of the project, but also on the specific actions necessary to achieve them and the detailed schedule for project implementation. Negotiations are a process of give and take on both sides of the table. The Bank, for its part, must learn to adapt its general policies to what can reasonably be accomplished in the country, the sector, and the particular setting of the project. The borrower, for its part, must recognize that the Bank's advice is generally based on professional expertise and worldwide experience, and that the Bank's requirement that its funds be invested wisely is compatible with the best interests of the project. Despite differences that inevitably arise when difficult issues must be resolved, the relations that have develop over time between the Bank and its borrowers at this and other stages of the
project step are generally very good. Bank staff have become more aware of, and sensitive to, local conditions that are critical to the success of a project. Borrowers have come to appreciate that the Bank's approach is professional and objective, that it is in business to lend for well-conceived and well-executed project, and that this is indeed the Bank's only interest in project work. After negotiations, the appraisal report, amende to reflect the agreements reached, together with the President's report and the loan documents, is presented to the Bank's Executive Directors. If the Executive Directors approve the operation, the loan is then signed in a simple ceremony that marks the end of one stage of the steps and beginning of another.
CHAPTER FOUR.

IMPLEMENTATION OF FOREIGN LOANS.

IV.1. The Roles of the Executing Agency

a. Organization

As the author has described earlier in Chapter II, the Executing Agency, which plays an important role in carrying out the project financed by foreign loans is the Maritime Sector Office, the so called Directorate General of Sea Communication, under the Department of Communications of the Republic of Indonesia.

The Department of Communications is headed by a minister who, is responsible to the President. Thus, the organization that is going to be explained in this chapter is the organization of the Directorate General of Sea Communication, which is headed by the Director General, who is responsible to the Minister of Department of Communications.

(see annex VIII).

The main tasks and functions of this organization can be summarized qualitatively as follows:

1). The main function is to execute some of the Department of Communications' main tasks in the field of sea communication, based on the policy which is determined by the Minister of
Communications.

2). In order to implement the main tasks mentioned above, the functions below have to be carried out.

- Formulation of technical policies
- Advisory services
- Authorization - in conformity with the policies which have been given by the Minister of the Department of Communications based on the existing legislation.

The Directorate General of Sea Communication has one Secretariat of the Directorate General and the six directorates, are:

- Directorate of Sea Transportation.
- Directorate of Ship and Shipping.
- Directorate of Port and Dredging.
- Directorate of Navigation.
- Directorate of Maritime Services.
- Directorate of Coast Guard.
The Secretariat of the Directorate General has the task to provide technical and administrative assistance for every unit of organization within the Directorate General of Sea Communication in carrying out the task of the Directorate General of Sea Communication.

The Directorate of Sea Transportation has the task to execute some of the main tasks of the Directorate General of Sea Communication in sea transportation matters, based upon the policies of the Directorate General of Sea Communication.

The Directorate of Port and Dredging has the task to execute some of the main tasks of the Directorate General of Sea Communication in port and dredging matters, based upon the policies of the Directorate General of Sea Communication.

The Directorate of Navigation has the task to execute some of the main tasks of the Directorate General of Sea Communication in navigational matters, based upon the policies of the Directorate General of Sea Communication.

The Directorate of Maritime Services has the task to execute some of the main tasks of the Directorate General of Sea Communication in maritime services matters, based upon the policies of the Directorate General of Sea Communication.

The Directorate of the Coast Guard has the task to execute some of the main tasks of the Directorate
General of Sea communication in coast guard matters, based upon the policies of the Directorate General of Sea Communication.

As the author has pointed out earlier that the Directorate General of Sea Communication, as an Executing Agency has a Secretariate which consists of six divisions, namely:

- Planning Division.
- Personnel Division.
- Finance Division.
- Logistic Division.
- Legal Division.
- General Division.

It is necessary to explain with more detail because this Secretariat plays an important role in executing projects financed by foreign loans. In order to be able to carry out its main tasks the Secretariat of the Directorate General of Sea Communications has the following main functions:

- Evaluating, assessing, coordinating, planning and programming, preparing projects, and guiding the execution of development, organization, system and procedure in the Directorate General of Sea Communication.
- Preparing statistics which have been achieved and the reports of the Directorate General of Sea Communication.

- Carrying out personnel matters in the Directorate General of Sea Communication.

- Carrying out financial matters in the Directorate General of Sea Communication.

- Carrying out logistics matters in the Directorate General of Sea Communication.

- Preparing draft plans of regulations and collecting regulations which are concerned with maritime affairs.

- Carrying out coordination of international relationships.

- Carrying out the administration matters, internal and social affairs.

The Planning Division, one of the divisions under the Secretariat of the Directorate General of Sea Communication, has the functions, as follows:

- Making plan and work programs, appropriating budget development and also manpower planning, coordination the appropriation of foreign loans in connection with foreign technical cooperation.
- Collecting, analysing, and preparing feasibility studies, surveying concerning preparation of the projects.

- Evaluating, making reports, and statistics of the progress of development.

- Drafting, coordinating, and preparing the organization system and procedures within the Directorate General of Sea Communication.

The Planning Division consists of four sub-divisions, namely:

(1). Sub-division of Planning and Program.

The Sub-division of Planning and Program is responsible for preparing; work programs, manpower, appropriation of budget, and appropriation of project aid and technical assistance with regard to foreign technical cooperation.

(2). The Sub-division of Project Preparation and Design.

Sub division of Project preparation and Design is responsible for collecting and analysing data and preparing feasibility studies, surveys in terms of preparation of the project.

(3). The Sub-division of Evaluation and Report.
The Sub-division of Evaluating and Report is responsible for evaluating, making reports and statistics of the progress of development.

(4). The Sub-division of System and Procedure.
The Sub-division of System and procedure is responsible for constructing, coordinating and preparing the organization, system and procedure of work within the Directorate General of Sea Communication.

b. Coordination.

Coordination plays an important role especially in planning development within the Directorate General of Sea Communication, and also has a considerable share in determining whether the objectives or goals of the development have been achieved.

It is obvious that in the case of appropriation of foreign loans the function of coordination has been of paramount importance.
The government of the Republic of Indonesia realizes that an optimal result of good coordination can only be achieved by establishing "the coordination team" among related institutions involved in planning and programming.
In terms of appropriation of foreign loans, for instance, the presidential decree no. 32, 1986 was issued with the purpose to smoothen the implementation of foreign loans.
The Directorate General of Sea Communication as an executing agency may propose to the Minister of
The Department of Communications to issue a ministerial decree to establish a coordinating team in order to implement the project financed by foreign loans. In the planning stage of the appropriation of foreign loans, the negotiating team has to be formed prior to negotiation. The negotiating team consists of several institutions, such as:

- Department of Communications.
- National Planning Development Agency.
- Directorate General of Sea Communication as Executing Agency.
- Department of Finance.
- The Central Bank.
- State owned enterprise concerned.

The main task of the negotiating team is to negotiate with donor countries or international financial institutions on behalf of government of the Republic of Indonesia. Normally the total amount of loans, technical, operational and financial requirements have been discussed, then eventually the results have to be described on loan agreement. Moreover, the requirements usually include "loan covenant" which means requirements have to be fulfilled prior to the withdrawal of the loan.
Based on the explanations mentioned above, the main important point is that the government of the Republic of Indonesia has realized that the coordination is very important in order to speed up the implementation of projects.

In fact, the coordination has existed since the beginning of the planning and programming, and we shall see in the explanation on "Procurement method" that coordination is also a very important tool for the implementation of the project.

IV.2. Problems of Implementation of the Projects.

Perhaps this part is the most important one, because we shall see what the main problems are in implementing the projects financed by the foreign loans.

Before discussing it in detail, it should be noted first of all that there are some considerations prior to the preparation of the aid programs which have to be determined, viz:

- The synchronization.

- The priority.

- The objectives of the development.

- Technical, financial, and social assessment.

- Capability in executing and operating the project in the light of system and budget.
- The possibility in providing local costs.

The considerations mentioned above, are aimed for the success of the project, but in practice, there are many obstacles which can delay the projects. The author would like to give some examples as an illustration on the projects dealing with the maritime sector under the Directorate General of Sea Communication, the Department of Communications, as follows:
POSITION OF THE FOREIGN LOAN PROJECTS
OF THE DIRECTORATE GENERAL OF SEA COMMUNICATION,

<table>
<thead>
<tr>
<th>No.</th>
<th>Projects’ name</th>
<th>Loan</th>
<th>Realization of Contract</th>
<th>Disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Source</td>
<td>Allocation</td>
<td></td>
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<td>1.</td>
<td>First National</td>
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<td>3.1.1.</td>
<td>11-04-87</td>
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<td>2.</td>
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<td>1983-85</td>
<td>3. 4.3</td>
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<td>3.</td>
<td>The New Port</td>
<td>CSF'77</td>
<td>2. 5</td>
<td>26-03-81</td>
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<td>4.</td>
<td>The New Port</td>
<td>CSF'77</td>
<td>2. 5</td>
<td>26-03-81</td>
</tr>
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<td>5.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Maritime SAR</td>
<td>OEDP'84</td>
<td>v. 4.3</td>
<td>30-12-86</td>
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<td>7.</td>
<td>Eng. Services for Port</td>
<td>OEDP'85</td>
<td>v. 0.18</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Maritime Sector</td>
<td>OEDP'85</td>
<td>v. 4.4</td>
<td>1987</td>
</tr>
</tbody>
</table>
By looking at the table mentioned above, it is clear that nearly 100% of the foreign loan projects were delayed since the projects were not officially signed until the realization of the contract.

The problems in implementing the projects are not only the realization of the projects but also in the disbursement of the loan. Of course, those two problems mentioned earlier depend on one and another. Now, perhaps the question why the realization of contracts of the project and disbursements were delayed, should be answered. The author found that these delays were caused by so many factors prior to the realization of contracts and disbursement of the loan. Although the appropriation of foreign loans from beginning until signing the loan agreement was smooth, but some obstacles which had not appeared before, could hamper the arrangements that followed.

Some of the main important problems can be summarized, as follows:

- The complexity of procedures (bureaucracy) on procurement procedures
- The availability of local costs
- Poor performance of local contractors
- Land acquisition
IV.3. Establishment of Project Implementation Unit.

The Project Implementation Unit is a non structural organization which is headed by the Project Manager. (see annex IX).

This organization can only be established when there is a project to be executed.

The Project Manager is appointed by the Minister of the Department of Communications and has the responsibility for executing the project. As soon as the Project Manager receives assignment through the ministerial decree, he/she has to employ people to work with him/her and to check the foreign exchange component and availability of supporting local costs (Rupiah).

Ussually there are some positions under the Project Manager, such as:

- Secretary to the Project Manager.
- Project Tresurer.
- Technical staff, etc.

There are some requirements needed in order to be appointed as a project manager, namely:

- Fluency in english.
- At least government rank's III-b.
- A good knowledge of regulations regarding foreign loans.
- At least three years service as a civil servant or government official and good performance since the past three (3) years (according to DP-3 or Evaluation Report on Job Performance).

- Capable in carrying out the management of development and preferably an expert on the project which is going to be managed by him/her.

- Capable in coordinating, integrating, and synchronizing the smoothness of the project under his/her responsibility.

- A good knowledge of procedures and existing jurisdiction, etc.

The purpose of explaining the organization of the Project Implementation Unit prior to the Procurement is to give an idea how important the role of the Project Implementation Unit in implementing the project is.

IV.4. Procurement.

First of all the author would like to explain briefly the work which has to be carried out prior to the procurement of the goods and services for the project. The preparation stage before the contract between the government of the Republic of Indonesia and the third party has been signed, the Project Manager has to form the Team or Committee which is called,
"Team Interdept for Tender".
The member of this team consists of:

- National Planning Development Agency (BAPPENAS).

- The Central Bank.

- Department of Finance.

- Department of Communications.

- Directorate General of Sea Communication (DITJENLA)

- Department of Communications' State owned enterprise concerned (BUMN).

The Team Interdept for Tender is responsible for:

- Designing tender documents, evaluation criteria, and selection of candidates for tender.

- Conducting the tender.

- Evaluating the tender.

- Announcing the result of the tender.

- Negotiating the contract.

The Team Interdept for Tender has to carry out its assignments until the contract has been signed. Usually the execution of the foreign loan is done through international tender, unless otherwise instructed on the
loan Agreement.

In formulating the tender documents, it is necessary to remember, and to express explicitly the importance of the use of the local products and / or services. Another important factor not to be forgotten is the use of standard of goods and components which are available in Indonesia, such as:

- S.I.I. (Standar Industri Indonesia) i.e. Standard of Industry of Indonesia
- Standar P.L.N. (Perusahaan Listrik Negara) i.e. Standard of Electric State owned Enterprise.
- Standar PERUMTEL (Perusahaan Umum Telekomunikasi) i.e. Standard of Telecommunication State owned Enterprise.
- Other goods or components which has had its own national standard.

The purpose of the criteria mentioned above is to assure that during the execution of the administration process, it has to conform with the existing procedures and policies, and from the beginning each of the institutions has already been informed regarding its own related functions. After the contract between the government and the third party has been signed, there are still several steps which have to be taken in procuring goods.

Procurement is the most delicate part of the implementation or execution of the project. Due to the fact that either the borrower or international financial
institution (donor) has its own interests. Although, in the loan agreement the legal relationships between the borrower and the lender have already been governed, in the procurement of goods for the project, sometimes there is a misunderstanding, in which delays could be protracted.

As the author has pointed out earlier the International Financial Institution has its own guidelines regarding procurement of goods (see annex X). Internally the government of the Republic of Indonesia also has its own guidelines (procedures and policies) in order to secure the work of procuring the goods.

The steps which are to be taken in procuring goods and services can be seen in the following flow chart.
The following explanations are the main important arrangements with regard to the procurement of goods. After the contract between the government of the Republic of Indonesia and the third party has been signed, the Project Manager has to work based on the guidelines which are given through the Ministrial Decree no. 57, 1988, Tata Cara Tetap Pengelolaan Bantuan Luar Negeri, Departemen Perhubungan i.e. The Administration and Procedures of Foreign Loans, Department of Communications. Since then the Project Implementation Unit has become a centre of activities of the project, not only for the government but also for the contractors.

The government efforts to streamline the procurement procedures has been going on in order to speed up the implementation of the projects. Just recently, the government has abolished the highly centralized procurement system, a step which some foreign suppliers say will significantly improve the country’s business environment.

The new system, is a system under which individual agencies, departments, ministries, state owned enterprises, and regional governments will purchase their own goods. Since 1980, the government purchases of Rp. 500 million ($300,000) and above had to be approved by a special team of 10 members who made up a government purchasing committee. The system was criticized by foreign businessmen as creating bureaucratic tangles and inordinate delays. Under the revised procurement policy, purchases above Rp. 3 billion ($1.8 million) will be negotiated by a particular agency, and will require approval by the Coordinating Minister for the Economy, Finance, Industry and Development Supervision.
The Economic Coordinating Minister can review all purchases, but only those above Rp. 3 billion ($.1,8 million) will require his approval.

The heads of various agencies and departments must approve purchases between Rp. 1 billion and Rp. 3 billion ($600,000 and $.1,8 million), department directors must approve awards between Rp..500 million and Rp. 1 billion, and heads of offices are authorized to approve contracts below Rp. 500 million.

Submission of the Project.

Submission of the project is the last part of the activities in executing a project either a project financed by foreign loans or financed by the country's National Budget Expenditure.

It should be noted that there are some levels of responsibilities which have to be followed from the Project Manager to the highest ranking official in the Department of Communications (Minister). These levels of responsibilities, exist of course, to assure that the project has been carried out properly and has also reached the minimum objectives of the project, from one level to another.

The submission of the project which has been completed, based on the Ministrial Decree No. 56 August 30, 1988 of Department of Communications, is as follows:

Article 46.

(1) The submission of the project has to be carried out after the project has been completed and ready to be operated/used.
(2) The project which has been finished as required by the verse (1) mentioned above, has to be reported by the Project Manager to the head of the Department of Communications' regional office with a carbon copy to the Director General of Directorate General of Sea Communication and the Secretary General of the Department of Communications.

(3) The head of the Department of Communications' regional office reports the project as mentioned above (2) to the Director General of Directorate General of Sea Communications and carbon copy to the Secretary General of the Department of Communications and the Project Manager.

(4) Directorate General of Sea Communication reports the project as mentioned above (3) to the Minister of the Department of Communications and carbon copy to the Secretary General of the Department Communications.

(5) In case, the project was done by a state owned enterprise, the director of the company submits the report to the Minister of the Department of Communications through the Secretary General of the Department of Communications with a carbon copy to the Director General concerned.

(6) If there is no comment or directive from the Minister, one month after the report has been recived by the Minister of the Department of Communications, the project manager has to arrange the submission of the completed project and its inventories to the head of the Department of Communications' Administrative
office (Kaperwahub).
Then Kaperwahub submits the project to the institution which is responsible for operating the project.

(7) If the institution which is going to operate the project as mentioned above (5) has not been established, then the project has to be submitted to the unit vertical of the project.

(8) The submission which is mentioned above (5) has to be done by Official Note.

(9) The project manager must submit the Official Note as mentioned above (7) to the Minister of the Department of Communications, and carbon copies to:

- The Secretary General of the Department of Communications.
- The Inspector General of the Department of Communications.
- The director general concerned.
- The head of the Department of Communications' regional office.
- B.P.K.P.
V.1. Foreign loans are all aids from abroad which could be a loan or a grant from foreign countries, international financial institutions or international organizations, received by the government of the Republic of Indonesia in order to support the development budget expenditure. The execution of foreign loans governed by the State Guidelines, which are issued every five (5) years by the Indonesia’s highest authority, the so-called, the People’s Consultative Assembly or M.P.R. (Majelis Permusyawaratan Rakyat).

In the author’s opinion, there are some interesting points on the government’s policies regarding the appropriation of foreign loans, which are necessary to be reconsidered, as far as the smoothness of the implementation of foreign loans are concerned. Those interesting points mentioned earlier can be summarized, as follows:

V.1.1. The need of foreign loans is only temporary, and their function as a supplementary element.

V.1.2. The goods and services which are going to be used during the implementation of the project
should as much as possible be Indonesia’s products.

V.1.3. The availability of Local Costs

The three points which are mentioned above do not correspond to the execution of foreign loans, as the author has discussed and explained in the previous chapter, therefore, the author would like to recommend that the practice, the use of these important points should be flexible in order to avoid delays. In case, these important points are hampering the execution of foreign loans, then, it is better to reconsider and try to get another one which is applicable. The clarification on those points mentioned above, should be made for some purposes:

V.1.3.1. As a tool for the administrators who are involved in appropriation of foreign loans.

V.1.3.2. For the smoothness of the project especially during the implementation stage

V.1.3.3. To encourage foreign investors in participating in the country’s national development.

V.2. There are some institutions involved in appropriating foreign loans from the beginning up to the end of the
process, therefore "Coordination" is of paramount importance. It is obvious that, each of the institution has its own role and function which relate to each other, but according to the author's opinion, the coordination has not reached the optimal result. In order to be able to obtain it, there are some new policies concerning the smoothness of foreign loans which were created by the government in which coordination is considered as the most important one. Due to the lack of coordination among the institutions or organizations involved in appropriation of foreign loans, most of the projects which were funded by foreign loans, have been delayed for approximately two (2) or three (3) years after the loan agreement has been signed by the government of the Republic of Indonesia and donor countries or international financial institutions. Usually Loan Effectiveness come into force after 60 days from the date of signing the loan agreement, that is, the government of the Republic of Indonesia begins to pay a commitment charge of 0.75% from the total amount of the loan according to the loan requirements. It can be said that huge amounts of money goes back to the donor countries or international financial institutions, in case the government of the Republic of Indonesia was not able to manage the loan within that period. Another impact is the influence towards the expected output of the project, based on the recommendations of the study, very frequently it does not correspond to the existing condition because;
V.2.1. Changes of demand,

V.2.2. Unsuitability of technology,

V.2.3. Availability of software,

V.2.4. Availability of local costs.

Those points mentioned above have to be reconsidered again which will take some time. However, those projects that are based on the masterplan can be carried out phase by phase.

For the further investment phase, a review of the study has to be done and normally will take around 3 to 4 years through another procedure of the new loan.

V.3. It has been pointed out earlier that nearly 100% of the on-going projects for development of the Maritime Sector were facing delays during the period of implementation, such as:

V.3.1. The First National Port Development Project

V.3.2. The Eighth Port Project

V.3.3. The Seventh Port Project

V.3.4. Development of Tug Boat

V.3.5. Equipment Supply for Medium Wave Radio

V.3.6. Maritime Search and Rescue Telecommunications
V.3.7. Engineering Services for Ujung Pandang Port.


In the author's opinion the main problems of those projects mentioned above, which were causing delays, can be summarized, as follows:

V.3.8.1. Poor performance of the local contractor

V.3.8.2. Lack of local costs

V.3.8.3. Internal procurement procedure

V.3.8.4. Land acquisition

V.4. It has been pointed out earlier (Chapter III), that the roles of foreign loans not only for the development of the Maritime Sector but also the development of other sectors which have the priority to be developed according to the requirements given in the State Guidelines. It seems to the author that the roles of foreign loans in Indonesia and especially in the Maritime Sector during the PELITA IV (1984/1985 to 1988/1989), will continue for the PELITA V (1989/1990 to 1993/1994) in order to develop other projects in the maritime sector. The need for huge investments for the development of the maritime sector will depended very much on the
foreign loans according to the prediction of the Rolling Plan of DGSC. (84% will be expected from foreign loans and 16% from domestic sources). Based on the conclusions mentioned above (4) the author would like to recommend that the flexible policy and the readiness of the project preparation dealing with the appropriation of foreign loans are badly needed.
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SENIOR VICE PRESIDENT EXT. AFFAIRS & ADM.

VICE PRESIDENT PERSONNEL.

INTERNAL AUDITING.

PERSONNEL POLICY.

GENERAL SERVICES.

PERSONNEL OPERATION.

INFORMATION TECHNOLOGY & FACILITIES.

HEALTH.

EXTERNAL AFFAIRS.

ANNEX-II-5

<table>
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<tr>
<th>Fiscal Year</th>
<th>Total Domestic Income</th>
<th>Total Routine and Dev. Expenditure</th>
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Sources:
- Departemen Keuangan R.I.
  - 1) Menurut anggaran belanja.

ANNEX-III
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<th>Fiscal Year</th>
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Sources: - Departemen Keuangan R.I.
- a) Menurut anggaran belanja.

ANNEX-IV
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1. Project Title:

2. Location:

3. Executing Agency: Directorate General of .......
   Ministry of .......

4. Objective:

5. Project Description:

6. Scope of Assistance Requested:
   a. Expert Services: ... m.m. = $...
   b. Fellowships: ... m.m. = $...
   c. Equipment: = $...

   Total Cost $...

7. Related to Project Aid:

ANNEX-VII-1
1. Project Title

2. Location

3. Executing Agency: Directorate General of...
   Ministry of ...

4. Objectives

5. Project Description

6. Implementation Time

*) In case foreign loan belongs to the State owned enterprise, the Executing Agency is the State owned enterprise itself.
7. Project Cost  : Total Cost  : US.$...
               Local Cost  : US.$...
               Foreign Exchange Cost: US.$...

8. Amount Proposed for Commitment :

9. Related to Technical Assistance :

10. Stage of Project Preparation :

ANNEX-VII-3
ORGANIZATION CHART OF DIRECTORATE GENERAL OF SEA COMMUNICATION

DIRECTORATE GENERAL OF SEA COMMUNICATION

Secretary To Directorate General

Directorate Sea Traffic
Directorate Marine Safety
Directorate Ports & Dredging
Directorate Navigation
Directorate Maritime Services
Directorate Sea & Coast Guard
ORGANIZATION CHART OF THE PROJECT IMPLEMENTATION UNIT.

- PROJECT MANAGER
  - TRESURER
  - TENDER COMMITTEE
    - TRESURER OF MATERIAL
  - ADMINISTRATION STAFF
  - TECHNICAL STAFF
  - SWAKELOLA

ANNEX-IX
I. INTRODUCTION

1. The purpose of these Guidelines is to inform those carrying out a project that is financed in part by the International Bank for Reconstruction and Development (IBRD) or the International Development Association (IDA), of the arrangements to be made for procuring the goods and works (including related services) required for the project. The Loan Agreement governs the legal relationships between the Borrower and the Bank, and the Guidelines are made applicable to procurement of goods and works for the project, to the extent provided in the agreement. The rights and obligations of the Borrower and the providers of goods and works for the project are governed by the bidding documents, and by the contracts signed by the Borrower with the providers of the goods and works, and not by these Guidelines or the Loan Agreements. No party other than the parties to the Loan Agreement shall derive any rights therefrom or have any claim to loan proceeds.

General Considerations

1.2 The responsibility for the execution of the project, and therefore for the award and administration of contracts under the project, rests with the

Appendices

Appendix 1—Review of Procurement Decision

Appendix 2—Preference for Domestic Manufacturers and Contractors
The Bank, for its part, is required by its Articles of Agreement to “ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations,” and it has established detailed procedures for this purpose. While in practice the specific procurement rules and procedures to be followed in the execution of a project depend on the circumstances of the particular case, three considerations generally guide the Bank’s requirements:

(a) The need for economy and efficiency in the execution of the project including the procurement of the goods and works involved;

(b) The Bank’s interest, as a cooperative institution, in giving all eligible bidders from developed and developing countries an opportunity to compete in providing goods and works financed by the Bank; and

(c) The Bank’s interest, as a development institution in encouraging the development of local contractors and manufacturers in the borrowing country.

1.3 The Bank has found that, in most cases, these needs and interests can best be realized through international competitive bidding, properly administered, and with suitable allowance for preferences for local or regional manufacturers of goods and, where appropriate, for local contractors for works under prescribed conditions. In such cases, therefore, the Bank requires its Borrowers to obtain goods and works through international competitive bidding open to eligible suppliers and contractors. On the other hand, there are cases where international competitive bidding is clearly not the most economic and efficient method of procurement, and, in these cases, other methods of procurement are prescribed in the loan documents. Section II of these Guidelines describes procedures for international competitive bidding. Section III describes other methods of procurement and elaborates situations where their application would be more appropriate. The particular methods to be followed for the procurement of goods and works for a given project are specified in the loan documents for such project.

Applicability of Guidelines

1.4 Generally the Bank finances only a part of the cost of the project. The procedures outlined in these Guidelines apply to all procurement of goods and works financed wholly or in part by the loan proceeds. For the procurement of those goods and works not financed out of the proceeds of the loan, the Borrower may adopt other procedures. In such cases the Bank should be satisfied that the procedures to be used will fulfill the Borrower’s obligations to cause the project to be carried out diligently and efficiently, and that the goods and works to be procured:

(a) are of satisfactory quality and are compatible with the balance of the project;

(b) will be delivered or completed in timely fashion; and

(c) are priced so as not to affect adversely the economic and financial viability of the project.

Eligibility

1.5 Funds from Bank loans may be disbursed only on account of expenditures for goods and services provided by nationals of, and produced in or supplied from, Bank member countries and Switzerland. Under this policy, nationals of other countries or bidders offering goods and services from other countries should be disqualified from bidding for contracts intended to be financed wholly or in part from Bank loans.

1.6 Transportation of goods is not financed by the Bank if the services are rendered by enterprises from ineligible sources, except where pooling arrangements in shipping conferences in which shipping lines from eligible sources hold the major share make the nationality of the carrier immaterial, or other means of transportation are not available.

For the purposes of these Guidelines, suppliers and contractors in Taiwan, China are eligible to compete in providing goods and works financed by the Bank.
able or would cause excessive costs or delays. Insurance services connected with Bank-financed contracts are eligible for financing out of the proceeds of Bank loans only when rendered by insurers from eligible sources.

1.7 In connection with any contract to be financed by the Bank, the Bank does not permit a Borrower to deny prequalification, if required, to a firm for reasons unrelated to its capacity to supply the goods and works in question; nor does it permit a Borrower to disqualify any bidder for such reasons. As an exception to the foregoing, firms of a member country or goods manufactured in a member country may be excluded if, as a matter of law or official regulation, the Borrower's country prohibits commercial relations with that country, provided that the Bank is satisfied that such exclusion does not preclude effective competition for the supply of goods or works required.

Advance Contracting and Retroactive Financing

1.8 In certain circumstances, advance contracting, whereby the Borrower signs a contract before the signing of the related Bank loan, may be acceptable in the interests of more rapid and efficient execution of the project. The procurement procedures, including advertising, should be in accordance with the Guidelines in order for advance contracts to be eligible for Bank financing, and the normal review process by the Bank should be followed. A Borrower undertakes advance contracting at its own risk, and any concurrence by the Bank with the procedures, documentation or proposal for award does not commit the Bank to make a loan for the project in question. The reimbursement by the Bank of any payments made by the Borrower under the contract prior to loan signing is referred to as retroactive financing and is only permitted within the limits specified in the Loan Agreement.

Joint Ventures

1.9 Manufacturers and contractors in the Borrower's country are encouraged to participate in the procurement process since the Bank seeks, through its procurement procedures, to encourage the development of local industry. Manufacturers and contractors in the Borrower's country may bid independently or in joint venture with foreign manufacturers or contractors, but the Bank does not approve conditions of bidding which require mandatory joint ventures or other forms of association between local and foreign firms.

Bank Review

1.10 The Bank reviews the Borrower's procurement procedures, documents, bid evaluations and contract awards to ensure that the procurement process is properly carried out. These review procedures are described in Appendix 1. The Loan Agreement will specify the extent to which these review procedures will apply in respect of the different categories of goods and works to be financed out of the proceeds of the loan.

Misprocurement

1.11 The Bank does not finance expenditures for goods and works which have not been procured in accordance with the agreed procedures and it is the policy of the Bank to cancel that portion of the loan allocated to the goods and works that have been misprocured. The Bank may, in addition, exercise other remedies under the Loan Agreement.

9. See also paras. 2.36 and 2.37.
II. INTERNATIONAL COMPETITIVE BIDDING (ICB)

A. General

Introduction

2.1 International competitive bidding, as used in these Guidelines, has the purpose of affording all eligible prospective bidders adequate notification of a Borrower’s requirements and of providing all such bidders an equal opportunity to bid on the necessary goods and works.

Reserved Procurement

2.2 When ICB would be the appropriate method of procurement for particular goods or works but the Borrower wishes to reserve this procurement for local suppliers or contractors, the Bank may accept such reserved procurement only on condition that:

(a) it is not eligible for financing under the Bank loan; and
(b) it will not significantly affect the satisfactory execution of the project in terms of costs, quality and completion time.

Type and Size of Contracts

2.3 The bidding documents should clearly state the type of contract to be entered into and contain the proposed contract provisions appropriate therefor. The most common types of contracts provide for payments on the basis of a lump sum, unit prices, cost plus fees or combinations thereof. Cost reimbursable contracts are acceptable to the Bank only in exceptional circumstances such as conditions of high risk or where costs cannot be determined in advance with sufficient accuracy. Such contracts should include appropriate incentives to limit costs.

2.4 The size and scope of individual contracts will depend on the magnitude, nature and location of the project. For projects requiring a variety of works and equipment, separate contracts generally are awarded for the works and for the supply and/or installation of different major items of plant and equipment.

2.5 For a project requiring similar but separate civil works or items of equipment, bids may be invited under alternative contract options that would attract the interest of both small and large firms. Contractors or manufacturers should then be allowed to bid for individual contracts (slices) or for a group of similar contracts (package) at their option, and all bids and combinations of bids should be opened and evaluated simultaneously so as to determine the bid or combination of bids offering the most advantageous solution for the Borrower.

2.6 In certain cases, e.g., where special processes or closely integrated manufacturing are involved, the Bank may accept turnkey arrangements under which the design and engineering, the supply and installation of equipment and the construction of a complete plant are provided under one contract. Alternatively, the Borrower may be responsible for the design and engineering, and invite bids for a single responsibility contract for the supply and installation of all goods and works required for the plant.

2.7 Detailed design and engineering of the goods and works to be provided, including the preparation of technical specifications and other bidding documents, should precede the invitation to bid for the contract. However, in the case of turnkey contracts or contracts for large complex process plants, it may be undesirable or impractical to prepare complete technical specifications in advance. In such a case, it will be necessary to use a two-step procedure, first inviting unpriced technical proposals subject to technical clarifications and adjustments, to be followed by the submission of priced bids in the second step.

1. See para 1.5.

2. See paras. 2.49-2.54 for the bid evaluation procedures.
Notification and Advertising

2.8 Timely notification of bidding opportunities is essential in competitive bidding. For projects which include the procurement of goods or works on the basis of international competitive bidding, the Borrower is required to prepare and forward to the Bank as soon as possible, and in any event not later than 60 days prior to the date of availability to the public of the tender documents relating to such goods or works, as the case may be, a General Procurement Notice. The Bank will arrange for the publication of such Notice in the United Nations' Development Business. The Notice should contain information concerning the recipient (or prospective recipient), amount and purpose of the loan, describe the goods and works to be procured under international competitive bidding, indicate, where known, the scheduled date for availability of the bidding or prequalification documents and specify the Borrower's agency responsible for procurement. The Borrower is required to provide the necessary information to update such Notice annually so long as any goods or works remain to be procured on the basis of international competitive bidding.

2.9 The international community should also be notified in a timely manner of the opportunities to bid for specific contracts. To that end invitations to prequalify or to bid should be advertised in at least one newspaper of general circulation in the Borrower's country (and in the official gazette, if any). Copies of such invitations, or the advertisement thereof, should also be transmitted to local representatives of eligible countries that are potential suppliers of the goods and works required and to those who have expressed interest in response to the general procurement notice. Publication of the invitations in the United Nations' Development Business is also encouraged. For large, specialized or important contracts, the Bank may require Borrowers to advertise the invitations to prequalify or to bid in well-known technical magazines, newspapers and trade publications of wide international circulation. Notification should be given in sufficient time to enable prospective bidders to obtain documents and prepare and submit their responses.

Prequalification of Bidders

2.10 Prequalification is advisable for large or complex works and, exceptionally, for custom designed equipment and specialized services to ensure, in advance of bidding, that invitations to bid are extended only to those who are capable. The Loan Agreement with the Bank will specify if prequalification is required for particular contracts. Prequalification may also be useful to determine a contractor's eligibility for domestic preference where this is allowed. Prequalification should be based entirely upon the capability of prospective bidders to perform the particular contract satisfactorily, taking into account, inter alia, their experience and past performance on similar contracts, capabilities with respect to personnel, equipment and plant, and financial position. The invitation to prequalify for bidding on specific contracts should be advertised and notified as described in paras. 2.8 and 2.9 above. The scope of the contract and a clear statement of the requirements for qualification should be sent to all those that wish to be considered for prequalification. As soon as prequalification is completed, the bidding documents should be issued to the qualified bidders. All such bidders that meet the specified criteria should be allowed to bid.

B. Bidding Documents

General

2.11 The bidding documents should furnish all information necessary for a prospective bidder to prepare a bid for the goods and works to be provided. While the detail and complexity of these documents will vary with the size and nature of the proposed bid package and contract, they should generally include: invitation to bid; instructions to bidders; form of bid; form of contract; conditions of contract, both general and special; technical specifications; list of goods or bill of quantities and drawings, as well as necessary appendices, such as formats for various securities. If a fee is charged for the bidding documents, it should be reasonable and reflect the cost of their production and should not be

3. See para 2.44.

4. See paras. 2.55-2.57.

5. Sample bidding documents for goods and works which meet the requirements of these Guidelines are available in the Bank for the guidance of Borrowers.
so high as to discourage qualified bidders. Guidelines on critical components of the bidding documents are given in the following paragraphs. The Loan Agreement will specify whether the bidding documents should be submitted to the Bank for review before they are issued to prospective bidders.

References to Bank

If the Borrower wishes to refer to the Bank in bidding documents the following language should be used:

"(name of Borrower) has received (or in appropriate cases 'has applied for') a loan from the International Bank for Reconstruction and Development in various currencies equivalent to US$... toward the cost of (name of project), and intends to apply a portion of the proceeds of this loan to eligible payments under the contract (contracts) for which this invitation to bid is issued. Payment by the International Bank for Reconstruction and Development will be made only at the request of (name of Borrower) and upon approval by the International Bank for Reconstruction and Development and will be subject, in all respects, to the terms and conditions of the Loan Agreement. No party other than (name of Borrower) shall derive any rights from the Loan Agreement or have any claim to loan proceeds."

Validity of Bids and Bid Security

Bidders should be required to submit bids valid for a period specified in the invitation to bid, sufficient to enable the Borrower to complete the comparison and evaluation of bids, review the recommendation of award with the Bank (if required by the Loan Agreement), and obtain all the necessary approvals so that the contract can be awarded within that period.

Bid security, in the form and amount specified in the bidding documents, affording the Borrower reasonable protection, may be required, but it should not be set so high as to discourage bidders. Bid security should remain valid for a period of 30 days beyond the validity period for the bids to provide reasonable time for the Borrower to act if the security is to be called. Bid security should be released to unsuccessful bidders once it is determined that they will not be awarded a contract.

Conditions of Contract

The contract documents should clearly define the scope of work to be performed, the goods to be supplied, the rights and obligations of the Borrower and of the contractor or supplier, and the functions and authority of the engineer or architect, if one is employed by the Borrower, in the supervision and administration of the contract. In addition to the general conditions of contract, any special conditions appropriate to the nature and location of the project should be included.

Clarity of Bidding Documents

Bidding documents should be so worded as to permit and encourage international competitive bidding and should set forth clearly and precisely the work to be carried out, the location of the work, the goods to be supplied, the place of delivery or installation, the schedule for delivery or completion, and the warranty and maintenance requirements as well as any other pertinent terms and conditions. In addition, the bidding documents, where appropriate, should define the tests, standards, and methods that will be employed to judge the conformity of equipment as delivered, or works as performed, with the specifications. Drawings should be consistent with the text of the technical specifications. The bidding documents should specify any factors which will be taken into account in addition to price in evaluating bids, and how such factors will be quantified or otherwise evaluated. If bids based on alternative designs, materials, completion schedules, payment terms, etc., are permitted, conditions for their acceptability and the method of their evaluation should be expressly stated.

Any additional information, clarification, correction of errors or alterations of bidding documents should be sent to each recipient of the original bidding documents in sufficient time before the date of bid submission to enable bidders to take appropriate actions.

Standards

If particular national or other standards with which equipment, materials or workmanship must comply are cited, bidding documents should state
that equipment, materials or workmanship meeting other standards which ensure equivalent or higher quality than the standard specified will also be accepted.

Use of Brand Names

2.18 Technical specifications should be based on relevant characteristics and/or performance requirements. References to brand names, catalog numbers or similar classifications should be avoided. If it becomes necessary to quote a brand name or catalog number of a particular manufacturer to clarify an otherwise incomplete specification, the words "or equivalent" should be added after such reference. The specification should permit the acceptance of offers for goods which have similar characteristics and which provide performance and quality at least equal to those specified.

Limits on Disbursements

2.19 Bidding documents should state that disbursements from the proceeds of Bank loans will be limited to financing goods and works provided from eligible sources. The Bank requires information concerning the country of origin of the goods and works it finances, and the bidding documents should require the supplier or contractor to furnish the necessary information.

Currency Provisions

2.20 Bidding documents should state the currency or currencies in which bidders are to state their prices, the procedure for conversion of prices expressed in different currencies into a single currency for the purpose of comparing bids, and the currencies in which the contract price will be paid. The following provisions (paras. 2.21-2.26) are intended to (i) ensure that bidders do not have to bear any exchange risk with regard to the currency of bid and of payment, and hence may offer their best prices; (ii) give bidders in countries with weak currencies the option to use a stronger currency and thus provide a firmer basis for their bid price; and (iii) enable the Borrower to select the lowest responsive bidder as of the date of its decision to award the contract, but, at the same time, ensure fairness to all the bidders.

Currency of Bid

2.21 Bidding documents should state that the bidder may express the bid price in his country's currency or, at his option, in a currency widely used in international trade. Such international currency will be selected by the Borrower and specified in the bidding documents. A bidder who expects to incur expenditures in more than one currency and wishes to be paid accordingly should state the respective portion of his bid price in each such currency. Alternatively, the bidder may express the entire bid price in one currency and indicate the percentages of the bid price required to be paid in other currencies and the exchange rates used in the calculations.

2.22 In the bidding documents for the supply and/or installation of equipment, the Borrower may require bidders to state the portion of the bid price representing local costs in the Borrower's currency. 2.23 In bidding documents for works, the Borrower may require bidders to state the bid price entirely in the Borrower's currency, along with the requirements for foreign currency payments expressed as a percentage of the bid price for each such foreign currency. Each bidder should specify the exchange rates he has used in such calculations. Alternatively, the Borrower may require bidders to use exchange rates specified in the bidding documents.

Currency Conversion for Bid Comparison

2.24 The bid price is the sum of all payments in various currencies required to be made to the bidder. For the purpose of comparing prices, all bid prices should be converted to a single currency selected by the Borrower and stated in the bidding documents. The Borrower should make this conversion by using the selling (exchange) rates for those currencies quoted by an official source (such as the Central Bank) for similar transactions:

(a) on a date selected in advance and specified in the bidding documents, provided that such date should not be earlier than thirty days prior to the date specified for the opening of bids nor later than the original date prescribed.

6. See paras 2.29-2.30 for disbursement procedures.
7. See para. 1.5.
in the bidding documents for the expiry of the period of bid validity; or
(b) on the date of decision* to award the contract or on the original date prescribed in the bidding documents for the expiry of the period of bid validity, whichever is earlier.

One of the above options should be selected by the Borrower and clearly stated in the bidding documents.

Currency of Payment

2.25 Payment of the contract price should be made in the currency or currencies in which the bid price is stated in the bid of the successful bidder.

2.26 When the bid price is stated in one currency but the bidder has also requested payment in other currencies and has expressed the requirements in other currencies as a percentage of the bid price, the exchange rates to be used for purposes of payments shall be those used by the bidder in his bid, so as to ensure that the value of the foreign currency portions of his bid price is maintained without any loss or gain.

Terms and Methods of Payment

2.27 Payment terms should be in accordance with the international commercial practices applicable to the goods and works and the market in question. Contracts for supply of goods should provide for full payment on the delivery and inspection, if so required, of the contracted goods except for contracts involving installation and commissioning, in which case a portion of the payment may be made after the supplier has complied with all his obligations. The use of documentary letters of credit is encouraged so as to assure prompt payment to the supplier. In major contracts for plant and equipment, provision should be made for suitable advances and, in contracts of long duration, for progress payments.

2.28 Contracts for civil works should provide in appropriate cases for mobilization advances, advances on plant and material, regular progress payments and reasonable retention amounts.

2.29 Bidding documents should specify the payment method and terms offered, whether alternative payment methods and terms would be allowed and, if so, under what circumstances. The method of payment should take into account the available procedures for withdrawals of the proceeds of the loan. Disbursements of the proceeds of the loan are made at the request of the Borrower, generally through reimbursements for eligible amounts already paid by the Borrower to the supplier or contractor. However, the Bank may agree to make direct payment to a supplier or contractor, at the Borrower's specific disbursement request for each payment, or to make direct reimbursements to a commercial bank which has issued to a supplier or contractor a letter of credit that is covered by an agreement to reimburse, issued by the Bank at the request of the Borrower.

2.30 A more complete description of the Bank's disbursement procedures is provided in the current Guidelines for Withdrawal of Proceeds of IBRD Loans and IDA Credits.

Price Adjustment Clauses

2.31 Bidding documents should state either that bid prices will be fixed or that price adjustments (upwards or downwards) will be made in the event changes occur in major cost components of the contract such as labor, equipment, materials and fuel. Price adjustment provisions are usually not necessary for simple contracts involving delivery of goods or completion of works within about a year, but should be included in works contracts which extend over several years. It is normal commercial practice to obtain firm prices for some types of equipment regardless of the delivery time and, in such cases, price adjustment provisions are not needed.

2.32 Contract prices may be adjusted by the use of a prescribed formula (or formulae) which breaks down the total contract cost into components that are adjusted by price indices specified for each component or, alternatively, on the basis of documentary evidence (including actual invoices) provided by the supplier or contractor. The use of the formula method of price adjustment is preferable to that of documentary evidence. The method to be used, the formula (if applicable) and the base date

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8. The date on which a decision is reached by the approving authority.

ANNEX X-B
for application should be clearly defined in the bidding documents so that the same provisions will apply to all bidders.

**Advance Payments**

2.33 Any advance payment, made upon signature of a contract for goods or works, for mobilization and similar expenses should be related to the estimated amount of these expenses and be specified in the bidding documents. Amounts and timing of other advances to be made, such as for materials delivered to the site for incorporation in the works, should also be described in the bidding documents. The bidding documents should specify the arrangements for any security required for advance payments.

**Performance Security**

2.34 Bidding documents for works should require security in an amount sufficient to protect the Borrower in case of breach of contract by the contractor. This security should be provided by a performance bond or a bank guarantee, at the contractor’s option, in an appropriate form and amount as specified in the bidding documents. The amount of the bond or guarantee may vary, depending on the types of security furnished and on the nature and magnitude of the works. Contracts may provide for a percentage of the total payment to be held as retention money to secure full performance by the contractor. Security should extend sufficiently beyond the estimated date for completion of the works to cover the warranty or maintenance period specified in the contract. Alternatively, a separate security may be obtained for that period.

2.35 In contracts for the supply of goods, the need for performance security will depend on the market conditions and commercial practice for the particular kind of goods. Suppliers or manufacturers may be required to provide a bank guarantee to protect against non-performance of the contract. Such guarantee may also cover warranty obligations or, alternatively, a percentage of the payments may be held as retention money to cover warranty obligations. The guarantees or retention money should be reasonable in amount.

**Transportation and Insurance**

2.36 Bidding documents for goods should invite bids on cost, insurance and freight (c.i.f.) port of entry border point terms, permitting, at the bidder’s option, transportation and insurance from any eligible source. The evaluation and selection of the lowest evaluated bid should be on the basis of these c.i.f. prices. If the contract is signed on c.i.f. terms, the suppliers may arrange for transportation and insurance from any eligible source.

2.37 If the Borrower wishes to provide external transportation and insurance through national companies, bidders should be asked to quote free on board (f.o.b.) port of shipment prices in addition to the c.i.f. port of entry border point price. Selection of the lowest evaluated bid will be on the basis of the c.i.f. price, but the Borrower may sign the contract on f.o.b. terms and make its own arrangements for transportation and insurance. Disbursements under the Bank loan will be limited to the c.i.f. price quoted by the bidder. If the costs of transportation and insurance arranged by the Borrower exceed the costs for those services as quoted in the c.i.f. price by more than 15%, the entire costs of transportation and insurance will be financed by the Borrower.

2.38 The indemnity payable under the insurance should be in a freely convertible currency to enable prompt replacement of lost or damaged goods. If the Borrower does not wish to insure through an insurance company, evidence is needed that resources are readily available for prompt payment in a freely convertible currency of the indemnities required to replace lost or damaged goods.

2.39 Bidding documents should state the types and terms of insurance to be provided by the bidder. For civil works, a contractor’s All Risk form of policy usually will be required. Bidding documents should permit contractors to place insurance with insurers from any eligible source. For large projects with several contractors on a site, a “wrap-up” or total project insurance arrangement may be provided by the Borrower, in which case Borrowers should seek competition for such insurance.

9. See paras. 1.5 and 1.6.
Liquidated Damages and Bonus Clauses

2.40 Provisions for liquidated damages or similar provisions in an appropriate amount should be included in bidding documents when delays in the completion of works or delivery of goods, or failure of the works or goods to meet performance requirements would result in extra cost or loss of revenue or other benefits to the Borrower. Provision may also be made for a bonus to be paid to contractors or suppliers for completion of works or delivery of goods ahead of the times specified in the contract when such earlier completion or delivery would be of benefit to the Borrower.

Force Majeure

2.41 The conditions of contract included in the bidding documents should stipulate that failure on the part of the parties to perform their obligations under the contract would not be considered a default if such failure were the result of an event of force majeure as defined in the conditions of contract.

Language

2.42 Bidding documents should be prepared in one of the languages commonly used in international commercial transactions and should specify that the text of the documents in that language is governing.

Settlement of Disputes

2.43 The conditions of contract should include provisions dealing with the applicable law and the forum for the settlement of disputes. International commercial arbitration may have practical advantages over other methods for the settlement of disputes. Borrowers should, therefore, consider providing for this type of arbitration in contracts for the procurement of goods and works. The Bank should not be named arbitrator or be asked to name an arbitrator.

C. Bid Opening, Evaluation and Award of Contract

Time Interval between Invitation and Submission of Bids

2.44 The time allowed for the preparation and submission of bids should be determined with due consideration of the particular circumstances of the project and the magnitude and complexity of the contract. Generally, not less than 45 days from the date of the invitation to bid or the date of availability of bidding documents, whichever is later, should be allowed for international bidding. Where large works or complex items of equipment are involved, this period should generally be not less than 90 days to enable prospective bidders to conduct investigations before submitting their bids. In such cases, the Borrower is encouraged to convene pre-bid conferences and arrange site visits. Bidders should be permitted to submit bids by mail or by hand. The date, hour and place for latest delivery of bids should be specified in the invitation to bid.

Bid Opening Procedures

2.45 The time for the bid opening should be the same as for the latest delivery of bids or promptly thereafter, and should be announced together with the place for bid opening, in the invitation to bid. The Borrower should open all bids at the stipulated time. Bids should be opened in public, i.e., bidders or their representatives should be allowed to be present. The name of the bidder and total amount of each bid and of any alternative bids if they have been requested or permitted should be read aloud and recorded when opened and a copy of this record sent to the Bank if so requested. Bids received after the time stipulated should not be considered.

Clarifications or Alterations of Bids

2.46 Except as otherwise provided in para. 2.60 of these Guidelines, no bidder should be requested or permitted to alter his bid after the first bid has been opened. The Borrower should ask any bidder for clarification needed to evaluate his bid but should not ask or permit any bidder to change the substance or price of his bid after the bid opening.

Process to be Confidential

2.47 After the public opening of bids, information relating to the examination, clarification and evaluation of bids and recommendations concerning awards should not be disclosed to bidders or other persons not officially concerned with this process until the award of contract is announced.
Examination of Bids

2.48 The Borrower should ascertain whether the bids (i) meet the eligibility requirements specified in para. 1.3 of these Guidelines; (ii) have been properly signed; (iii) are accompanied by the required securities; (iv) are substantially responsive to the bidding documents; (v) have any material errors in computation; and (vi) are otherwise generally in order. If a bid is not substantially responsive, i.e., it contains material deviations from or reservations to the terms, conditions and specifications in the bidding documents, it should not be considered further. The bidder should not be permitted to correct or withdraw material deviations or reservations once bids have been opened.11

Evaluation and Comparison of Bids

2.49 The purpose of bid evaluation is to determine the cost of each bid to the Borrower in a manner that will permit a comparison of bids on the basis of their evaluated cost. The bid with the lowest evaluated cost,12 but not necessarily the lowest submitted price, should be selected for award.

2.50 The bid price read out at the bid opening should be adjusted to correct any arithmetical errors. For the purpose of evaluation, adjustments should be made for the costs to the Borrower of any quantifiable non-material deviations or reservations. Price adjustment provisions applying to the period of execution of the contract should not be taken into account in the evaluation.

2.51 Bidding documents should specify the relevant factors in addition to price to be considered in bid evaluation and the manner in which they will be applied for the purpose of determining the lowest evaluated bid. Factors which may be taken into consideration include, inter alia, the costs of inland transport to the project site, the payment schedule, the time of completion of construction or delivery, the operating costs, the efficiency and compatibility of the equipment, the availability of service and spare parts, the reliability of proposed construction methods, and minor deviations, if any. The factors other than price to be used for determining the lowest evaluated bid should, to the extent practicable, be expressed in monetary terms or given a relative weight in the evaluation provisions of the bidding documents.

2.52 For the purpose of evaluation and comparison of bids for the supply of goods to be procured on the basis of international competitive bidding:

(a) Bidders will be required to state in their bids the c.i.f. port of entry price for the imported goods or the ex-factory price of off-the-shelf price of other goods offered in such bid;

(b) Customs duties and other import taxes levied in connection with the importation or the sale and similar taxes levied in connection with the sale or delivery of the goods, pursuant to the bids, will not be taken into account in the evaluation of the bids; and

(c) The cost of inland freight and other expenditures incidental to the transportation and delivery of the goods to the place of their use or installation for purposes of the project should be included if specified in the bidding documents.

2.53 Under works contracts, contractors are responsible for all duties, taxes and other levies, and bidders should take these factors into account in preparing their bids. The evaluation and comparison of bids shall be on this basis. Any procedure under which bids above or below a predetermined assessment of bid values are automatically disqualified is not permitted.

2.54 The Borrower should prepare a detailed report on the evaluation and comparison of bids setting forth the specific reasons on which the recommendation is based for the award of the contract. The Loan Agreement with the Bank will specify whether this report should be submitted to the Bank for its review before or after the award is made by the Borrower.

Domestic and Regional Preferences

2.55 At the request of the borrowing country, and under conditions to be agreed with the Bank and set forth in the bidding documents, a margin of preference may be accepted under international competitive bidding for:

(a) goods manufactured in the borrowing country when comparing domestic bids with those from foreign manufacturers;

11. See para 2.50.

12. See para. 2.51.
(b) goods manufactured in other member countries which have joined with the borrowing country in a regional preferential tariff agreement among developing countries designed to foster their economic integration by a customs union or free trade area, when comparing bids from such manufacturers with other foreign bids; and

c) civil works, in member countries below a specified level of GNP per capita, when comparing bids from eligible domestic contractors with those from foreign contractors.

2.56 Where preference for domestic manufacturers or domestic contractors is allowed in accordance with the provisions of the Loan Agreement, the methods and stages set forth in Appendix 2 to these Guidelines should be followed in the evaluation and comparison of bids.

Postqualification of Bidders

2.57 If bidders have not been prequalified, the Borrower should determine whether the bidder whose bid has been evaluated the lowest has the capability and resources effectively to carry out the contract concerned. The criteria to be met should be set out in the bidding documents and if the bidder does not meet them, his bid should be rejected. In such an event, the Borrower should make a similar determination for the next lowest evaluated bidder.

Award of Contract

2.58 The Borrower should award the contract, within the period of the validity of bids, to the bidder whose bid has been determined to be the lowest evaluated bid and who meets the appropriate standards of capability and financial resources. A bidder should not be required, as a condition of award, to undertake responsibilities for work not stipulated in the specifications or otherwise to modify his bid.

Extension of Validity of Bids

2.59 Generally Borrowers should complete bid evaluation and award within the initial period of bid validity so that extensions are not necessary. An extension of bid validity, if justified by exceptional circumstances, should be requested in writing from all bidders before the expiration date and the Bank should be notified. When an extension of bid validity period is requested, bidders should not be requested or be permitted to change the price or other conditions of their bid. Bidders should have the right to refuse to grant such an extension without forfeiting their bid security, but those who are willing to extend the validity of their bid should be required to provide a suitable extension of bid security.

Rejection of All Bids

2.60 Bidding documents usually provide that Borrowers may reject all bids. However, the Borrower should consult with the Bank before holding any negotiations, or rejecting all bids or soliciting new bids. All bids should not be rejected and new bids invited on the same specifications solely for the purpose of obtaining lower prices, except in cases where the lowest evaluated bid exceeds the cost estimates by a substantial amount. In such cases, the Borrower may, as an alternative to rebidding, negotiate with the lowest evaluated bidder (or failing a satisfactory response, with the next lowest bidder) to try to obtain a satisfactory contract. Rejection of all bids is also justified when bids are not substantially responsive or there is lack of effective competition. If all bids are rejected the Borrower should review the causes justifying the rejection and consider making either revisions in the specifications or modifications in the project or both before inviting new bids.
III. OTHER METHODS OF PROCUREMENT

General
3.1 There are circumstances where international competitive bidding would not be the most economic and efficient method of procurement, and where other methods are deemed more appropriate. The particular methods and the categories of goods and works to which they apply are determined by agreement between the Bank and the Borrower, and are specified in the Loan Agreement. The Bank's policies with respect to margins of preference do not apply to methods of procurement other than international competitive bidding. The more common procurement methods which are generally considered in situations where international competitive bidding may not be suitable are set forth in paras. 3.2-3.6.

Limited International Bidding (LIB)
3.2 Limited international bidding is essentially international competitive bidding by direct invitation without open advertisement, and may be an appropriate method of procurement in cases where (i) the amounts are small, (ii) there are only a limited number of suppliers of the particular goods or services needed, or (iii) other exceptional reasons may justify departure from full ICB procedures. Under LIB, Borrowers should seek bids from a list of potential suppliers broad enough to assure competitive prices. Domestic or regional preferences are not applicable in the evaluation of bids under LIB. In all respects other than advertisement and preferences, ICB procedures should apply.

Local Competitive Bidding (LCB)
3.3 Competitive bidding advertised locally and in accordance with local procedures may be the most efficient and economical way of procuring goods or works which, by their nature or scope, are unlikely to attract foreign competition. LCB may be the preferred method of procurement where foreign bidders are not expected to be interested because (i) the contract values are small; (ii) works are scattered geographically or spread over time; (iii) works are labor intensive; or (iv) the goods or works are available locally at prices below the international market. LCB procedures may also be used where the advantages of international competitive bidding are clearly outweighed by the administrative or financial burden involved. Publication of a General Procurement Notice and notification of local representatives are not required for LCB; advertising may be limited to the local press or official gazette. Bidding documents may be in a local language and local currency will generally be used for the purpose of bidding and payment. If foreign firms wish to participate under these circumstances, they should be allowed to do so in accordance with local procedures. The local procedures under which LCB is carried out should be acceptable to the Bank. They should provide for adequate competition in order to ensure reasonable prices, and methods used in the evaluation of bids and the award of contracts should be made known to all bidders and not be applied arbitrarily.

International and Local Shopping
3.4 Shopping is a procurement method based on comparing price quotations obtained from several foreign or local suppliers, usually at least three, to ensure competitive prices. It requires no formal bidding documents, and is an appropriate method for procuring readily available off-the-shelf goods or standard specification commodities that are small in value and, in some cases, small simple works.

Direct Contracting
3.5 Direct contracting without competition may be an appropriate method under the following circumstances:

(a) An existing contract for works or goods, awarded in accordance with procedures acceptable to the Bank, may be extended for the construction or provision of additional works or goods of a similar nature. The Bank should be satisfied in such cases that no advantage
could be obtained by further competition and that the prices on the extended contract are reasonable. Provisions for such an extension, if considered likely in advance, should be included in the original contract;

(b) Standardization of equipment or spare parts, to be compatible with existing equipment, may justify additional purchases from the original supplier. For such purchases to be justified, the original equipment should be suitable, the number of new items should generally be less than the existing number, the price should be reasonable, and the advantages of having another make of equipment should have been considered and rejected on grounds acceptable to the Bank;

(c) The required equipment is proprietary and obtainable only from one source;

(d) The contractor responsible for a process design requires the purchase of critical items from a particular supplier as a condition of his guarantee of performance;

(e) In exceptional cases, the need for early delivery of particular goods may justify direct contracting in order to avoid costly delays, although shopping is usually preferable to obtain the best price; and

(f) A negotiated civil works contract may be acceptable in exceptional circumstances where competitive bidding procedures, including rebidding pursuant to para. 2.60, have failed to produce a contractor able and willing to carry out the required works at a reasonable price.

Force Account

3.6 Force account, i.e., construction by the use of the Borrower's own personnel and equipment, may be the only practical method for constructing some kinds of works. The use of force account may be justified where:

(a) quantities of work involved cannot be defined in advance;

(b) works are small and scattered or in remote locations where mobilization costs for contractors would be unreasonably high;

(c) work must be carried out without disrupting ongoing operations;

(d) the risks of unavoidable work interruption are better borne by the Borrower than by a contractor;

(e) no contractor is interested in carrying out the works.

Procurement from UN Agencies

3.7 There may be situations in which procurement through UNICEF, WHO or one of the other specialized agencies of the UN may be the most economical and efficient way of procuring goods and equipment, primarily in the fields of education, health and rural water supply and sanitation.

Use of Procurement Agents

3.8 Where procurement is particularly complex, or Borrowers lack the necessary organization and experience, Borrowers may wish to consider employing as their agent one of the firms which specialize in handling international procurement. Procurement carried out under such an arrangement would be in accordance with the Bank's Guidelines.

Procurement in Loans to Financial Intermediaries

3.9 Where the loan provides funds to an institution such as an agricultural credit institution or a development finance company, to be re-lent to beneficiaries such as farmers or business firms for the partial financing of subprojects, the procurement is usually undertaken by the respective beneficiaries in accordance with established commercial practices, acceptable to the Bank. However, even in these situations, international competitive bidding may be the more efficient and economic procurement method for the purchase of large single items or in cases where large quantities of like goods can be grouped together for bulk purchasing.

Procurement in Imports Programs and Structural Adjustment Loans

3.10 Where the loan provides financing for an imports program, including structural adjustment loans, international competitive bidding with simplified advertising and currency provisions should be used for large value contracts. Other procurement is normally carried out in accordance with
procedures followed by the private or public entity handling the imports or other established commercial practices acceptable to the Bank.

Appendix 1

REVIEW OF PROCUREMENT DECISIONS
BY THE BANK

1. In cases where prequalification is required under the Loan Agreement, the Borrower shall, before qualification is invited, inform the Bank in detail of the procedure to be followed, and shall introduce such modifications in said procedure as the Bank shall reasonably request. The list of prequalified bidders, together with a statement of their qualification and of the reasons for the exclusions of any applicant for prequalification, shall be furnished by the Borrower to the Bank for its comments before the applicants are notified of the Borrower’s decision, and the Borrower shall make such additions to, deletions from or modifications in the said list as the Bank shall reasonably request.

2. With respect to all contracts which, in accordance with the Loan Agreement, are made subject to the Bank’s prior review:

(a) Before bids are invited, the Borrower shall furnish to the Bank for its comments, the text of the invitations to bid and the specifications, other bidding and draft contract documents for the civil works, supply of goods, or installation of equipment, etc., as the case may be, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the Bank shall reasonably request. Any further modification of the bidding documents shall require the Bank’s concurrence before it is issued to the prospective bidders.
(b) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, inform the Bank of the name of the bidder to which it intends to award the contract and shall furnish to the Bank, in sufficient time for its review, a detailed report (prepared, if the Bank shall so request, by experts acceptable to the Bank), on the evaluation and comparison of the bids received, together with the recommendations for award and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the intended award would be inconsistent with the Loan Agreement or the Guidelines, promptly inform the Borrower and state the reasons for such determination.

(c) The terms and conditions of the contract shall not, without the Bank’s concurrence, materially differ from those on which bids were asked or prequalification of contractors, if any, was invited; and

(d) Two conformed copies of the contract shall be furnished to the Bank promptly after its execution and prior to delivery to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract.

3. With respect to each contract not governed by the preceding paragraph, the Borrower shall furnish to the Bank, promptly after its execution and prior to delivery to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids, recommendations for award and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the award of the contract, or the contract itself, is not consistent with the Loan Agreement or the Guidelines, promptly inform the Borrower and state the reasons for such determination.

4. Before agreeing to any material modification or waiver of the terms and conditions of a contract, or granting a material extension of the stipulated time for performance of such contract, or issuing any change order under such contract (except in cases of extreme urgency) which would increase the cost of the contract by more than the percentage of the original price specified in the Loan Agreement for the purpose of this paragraph, the Borrower shall inform the Bank of the proposed modification, waiver, extension or change order and the reasons therefor. The Bank, if it determines that the proposal would be inconsistent with the provisions of the Loan Agreement, shall promptly inform the Borrower and state the reasons for its determination.
PREFERENCE FOR DOMESTIC MANUFACTURERS AND CONTRACTORS

Preference for Domestic Manufacturers

1. The Borrower may, with the agreement of the Bank, grant a margin of preference to certain domestic manufacturers when comparing domestic with foreign bids. All bidding documents for the procurement of goods will clearly indicate any preference to be granted to domestic manufacturers and the information required to establish the eligibility of a bid for such preference. The methods and stages set forth hereunder should be followed in the evaluation and comparison of bids.

2. For comparison, responsive bids will be classified in one of the following three groups:

(a) Group A: bids offering goods manufactured in the country of the Borrower if the bidder shall have established to the satisfaction of the Borrower and the Bank that the manufacturing cost of such goods includes a value added in the country of the Borrower equal to at least 20% of the ex-factory bid price of such goods;

(b) Group B: all other domestic bids;

(c) Group C: bids offering any other goods.

3. In order to determine the lowest evaluated bid of each group, all evaluated bids in each group shall first be compared among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, and sales and similar taxes levied in connection with the sale or delivery, pursuant to the bids, of the goods. Such lowest evaluated bids shall then be compared with each other and if, as a result of this comparison, a bid from Group A or Group B is the lowest, it shall be selected for the award.

4. If, as a result of the comparison under para. 3 above, the lowest evaluated bid is a bid from Group C, all Group C bids shall be further compared with the lowest evaluated bid from Group A after adding to the evaluated bid price of the imported goods offered in each Group C bid, for the purpose of this further comparison only, an amount equal to: (i) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of the goods offered in such Group C bid; or (ii) 15% of the c.i.f. bid price of such goods if said customs duties and taxes exceed 15% of such price. If the Group A bid in such further comparison is the lowest, it shall be selected for the award; if not, the lowest evaluated bid from Group C, as determined from the comparison under para. 3, shall be selected.

Preference for Domestic Contractors

5. For contracts for works to be awarded on the basis of international competitive bidding the Borrower may, with the agreement of the Bank, grant a margin of preference of 7-1/2% to domestic contractors, in accordance with, and subject to, the following provisions:

(a) Contractors applying for such preference shall be asked to provide, as part of the data for qualification, such information, including details of ownership, as shall be required to determine whether, according to the classification established by the Borrower and accepted by the Bank, a particular firm or group of firms qualifies for a domestic preference. The bidding documents shall clearly indicate the preference and the method that will be followed in the evaluation and comparison of bids to give effect to such preference; and

(b) After bids have been received and reviewed by the Borrower, responsive bids shall be classified into the following groups:

(i) Group A: bids offered by domestic contractors eligible for the preference; and

(ii) Group B: bids offered by other contractors.

For the purpose of evaluation and comparison of bids, an amount equal to 7-1/2% of the bid amount will be added to bids received from contractors in Group B.