

CONFORMED COPY

LOAN NUMBER 3984 IND

Loan Agreement

(Nusa Tenggara Agricultural Area Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated March 29, 1996

LOAN NUMBER 3984 IND

LOAN AGREEMENT

AGREEMENT, dated March 29, 1996, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

WHEREAS (B) the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods

produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "AARD" means the Borrower's Agency for Agricultural Research and Development in the Ministry of Agriculture;

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

(c) "Kabupaten" means a district within a province, and "Project Kabupaten" means a Kabupaten selected for participation in the Project in agreement with the Bank;

(d) "Kecamatan" means a sub-district within a Kabupaten, and "Project Kecamatan" means a sub-district selected for participation in the Project;

(e) "Local Community Initiatives" means activities selected for financing under the Project in accordance with the criteria set out or referred to in Schedule 6 to this Agreement;

(f) "NAIAT" means the Borrower's Naibonat Assessment Institute for Agricultural Technology in Naibonat (NTT);

(g) "NTB" means the Borrower's province of Nusa Tenggara Barat;

(h) "NTT" means the Borrower's province of Nusa Tenggara Timur;

(i) "Rupiah" or "Rp" means the Borrower's currency; and

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, various currencies that shall have an aggregate value equivalent to the amount of twenty seven million dollars (\$27,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the

proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in United States dollars a special deposit account in Bank Indonesia or in a commercial bank on terms and conditions satisfactory to the Bank, including, in the case of a commercial bank, appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2002, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

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

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

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

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part A of the Project through AARD, and Parts B and C of the Project through the NTB and NTT Provincial Development Planning Agencies (BAPPEDA I), with due diligence and efficiency and in conformity with appropriate administrative, agricultural, engineering, environmental and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

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

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the objectives of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those

for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Termination

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

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P. O. Box 1139

Jakarta 10710
Indonesia

Cable address:

FINMINISTRY
Jakarta

Telex:

45799 DJMLN-IA
44319 DEPKEU-IA

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI)
64145 (MCI)

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

REPUBLIC OF INDONESIA

By /s/ Arifin M. Siregar, Ambassador
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Nicholas Hope
Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works:		65%
(a) Part A.1 of the Project	200,000	
(b) Part B.2 of the Project	4,700,000	
(c) Part C.1 of the Project	500,000	
(2) Equipment (excluding vehicles) and furniture:		100% of foreign expenditures, 100% of local expenditures

		(ex-factory cost) and 65% of local expenditures for other items procured locally
(a) Part A.1 of the Project	400,000	
(b) Part C.1 of the Project	1,000,000	
(3) Agricultural inputs (except fertilizers) under Part B of the Project	1,300,000	90%
(4) Research and development expenditures under Part A of the Project	1,000,000	90%
(5) Survey, design and mapping services	500,000	90%
(6) Breeding animals	4,500,000	90%
(7) Goods and works for Local Community Initiatives	4,500,000	70%
(8) Incremental operating expenditures:		
(a) Part A of the Project	800,000	60% in FY 1996/97 and FY 1997/98; 50% in FY 1998/99 and FY 1999/2000; and 40% in FY 2000/01 and thereafter
(b) Parts B and C of the Project	2,300,000	60% in FY 1996/97 and FY 1997/98; 50% in FY 1998/99 and FY 1999/2000; and 40% in FY 2000/01 and thereafter
(9) Consultants' services and training:		100%
(a) Part A of the Project	1,200,000	
(b) Parts B and C of the Project	1,500,000	
(10) Unallocated	2,600,000	
	<hr/>	
TOTAL	27,000,000	=====

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in

the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term "incremental operating expenditures" means expenditures on account of the Project by the Project management units and the Project implementation units for travel, per diem, supplies, and maintenance (but excluding salaries); and

(d) the term "research and development" means expenditures for materials, wages of field labor, honoraria and travel expenses for AARD research staff, salaries and travel expenses for contract (including university) research staff.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods and works under contracts costing less than \$100,000 equivalent (including civil works, equipment, furniture, agricultural inputs, breeding animals, and Local Community Initiatives); (ii) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each and contracts for the employment of individuals valued at less than \$50,000 equivalent each; and (iii) research and development expenditures, survey, design and mapping expenditures, incremental operating expenditures, and training expenditures, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to raise smallholder incomes and strengthen local level institutions and broad based participation at the grassroots level, in the Borrower's provinces of Nusa Tenggara Barat and Nusa Tenggara Timur.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Establishment of the Naibonat Assessment Institute for Agricultural Technology

1. Establishment and operation of NAIAT, including:

(a) establishment in NTB and in NTT of a Regional Advisory Committee for policy and management advice and a Regional Technical Working Group for technical support;

(b) development of a regional research and development master plan, a human resource development program, and a management information service program;

(c) construction in NTT of (i) a liaison office at Kupang, (ii) a seed cold storage unit, a drying floor and a soil preparation facility at Naibonat, and (iii) an irrigation system for about fifty hectares at the Livestock Research Station at Lili, and provision of related furniture and equipment;

(d) conversion of part of the Mataram installation of NAIAT in NTB to a liaison office, and construction of a general

service laboratory building and three staff houses at Mataram in Lombok, and provision of related furniture and equipment; and

(e) provision of (i) computer systems and vehicles to NAIAT and its sub-bases, (ii) a boat for the Maumere sub-base, (iii) journals, periodicals and textbooks to NAIAT and its sub-bases libraries, and (iv) honoraria and allowances for NAIAT research staff.

2. Carrying out of the following studies in NTB and NTT:

(a) detailed studies of the agro-ecological zones; and

(b) study of the impact of cattle trade regulations on farmer income.

3. Provision of local training for masters, doctorate, and short-term non-degree and diploma for AARD staff to strengthen research and development capabilities within NAIAT.

4. Strengthening agricultural research and development capabilities at NAIAT through:

(a) provision of technical guidance for the enhancement of farming systems research; and

(b) establishment of research and development collaboration with international research centers, twinning arrangements between NAIAT and one international center, and collaboration with the private sector, local universities and community organizations.

5. Agricultural technology generation and dissemination through:

(a) carrying out of trials of improved and new technology under farmer and field station conditions;

(b) provision of inputs and technical guidance for dryland field demonstrations;

(c) dissemination of technology recommendations through field days, workshops, and production of relevant publications, slides and videos; and

(d) provision of travel, per diem and allowances to relevant research and extension staff.

Part B: Agriculture-Based Area Development

1. Agricultural development in NTB and NTT through:

(a) intensification of agricultural production systems in village irrigation schemes where water control structures have been rehabilitated or improved, including establishment of demonstration plots to demonstrate the effects of improved crop production technology;

(b) carrying out of a pilot program to introduce dryland farming systems technology and soil conservation techniques, including the provision of seedlings, seeds, fertilizers, tools, and equipment to farmers;

(c) introduction and demonstration of intensive smallholder livestock management systems, integrated with dryland crop development, including distribution of breeding cattle and water buffaloes, and development of forage crops;

(d) vaccination of chickens against Newcastle disease;

(e) demonstration of intensified house plot cultivation

systems, including provision of inputs, tools and equipment;
and

(f) provision of technical training for provincial and Kabupaten government agencies' staff, extension workers, farmers and village leaders.

2. Construction of bridges, culverts and road sections on farm-to-market roads in Project Kecamatans, except Project Kecamatans on Lombok.

3. Carrying out of Local Community Initiatives.

4. Provision of support for local community organizations in fourteen Project Kabupatens to assist in the development of Local Community Initiatives.

Part C: Strengthening Agricultural Support Services and Project Administration

1. Strengthening extension facilities in NTB and NTT through:

(a) rehabilitation of about 18 rural extension centers and about 11 animal health centers, construction of two new rural extension centers and about 11 new animal health centers, and improvement of about 14 seed farms, including provision of related furniture, equipment and computers; and

(b) provision of vehicles and motorcycles for field services.

2. Strengthening Project administration capabilities through:

(a) provision of training to provincial, Kabupaten and field level staff in Project management, monitoring and evaluation, financial management, and planning and implementation of local community development activities;

(b) provision of training to farmers and village leaders in planning and implementation of local community development activities; and

(c) mapping of Project Kecamatans to serve as a basis for improved planning, implementation and monitoring and evaluation of development activities.

* * *

The Project is expected to be completed by March 31, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
November 15, 2001	520,000
May 15, 2002	540,000
November 15, 2002	555,000
May 15, 2003	575,000
November 15, 2003	600,000
May 15, 2004	620,000
November 15, 2004	640,000
May 15, 2005	665,000
November 15, 2005	685,000
May 15, 2006	710,000
November 15, 2006	735,000
May 15, 2007	760,000
November 15, 2007	790,000

May 15, 2008	815,000
November 15, 2008	845,000
May 15, 2009	875,000
November 15, 2009	905,000
May 15, 2010	940,000
November 15, 2010	970,000
May 15, 2011	1,005,000
November 15, 2011	1,040,000
May 15, 2012	1,080,000
November 15, 2012	1,115,000
May 15, 2013	1,155,000
November 15, 2013	1,195,000
May 15, 2014	1,240,000
November 15, 2014	1,285,000
May 15, 2015	1,330,000
November 15, 2015	1,375,000
May 15, 2016	1,435,000

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

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of

this Section, as applicable.

Part B: Procurement Procedures

1. National Competitive Bidding

Except as provided in paragraphs 2 and 3 of this Part B, civil works and goods shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods, except agricultural inputs, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, and agricultural inputs, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$8,000,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to (i) each contract estimated to cost the equivalent of \$100,000 or more, (ii) the first contract for civil works in NTB and in NTT estimated to cost less than the equivalent of \$100,000, and (iii) the first contract for goods in NTB and in NTT estimated to cost less than the equivalent of \$100,000, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

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

SCHEDULE 5

Implementation Program

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about September 30, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by October 31, 1998, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

2. In carrying out Part A.2 (b) of the Project, the Borrower shall:

(a) not later than June 30, 1997, furnish the recommendations of the study to the Bank for comments; and

(b) thereafter, prepare an action plan taking into account the recommendations of the study and the comments of the Bank thereon.

3. In carrying out Part B.1 (c) of the Project, the Borrower

shall ensure that the second and third born calves of beneficiaries of cattle and buffalo distribution programs are redistributed among other interested farmers or put up for sale to cover part of the operating costs of the livestock support services.

4. In carrying out Part B.2 of the Project, the Borrower shall:

(a) ensure that funding for road improvement works shall not exceed \$250,000 equivalent for each Project Kecamatan; and

(b) ensure that priority is given to villages where needs are demonstrated to be highest, the villagers are committed to actively contribute to the implementation of the road works, and the local government has agreed to maintain the completed works.

5. The Borrower shall maintain until completion of the Project, a Project management unit in each of the participating Kabupaten, with competent staff in adequate numbers.

6. In carrying out Part B.3 of the Project, the Borrower shall select Local Community Initiatives in accordance with the criteria set out or referred to in Schedule 6 to this Agreement.

7. In carrying out Part C.1 of the Project, the Borrower shall rehabilitate or construct a facility only after receiving from the relevant Kabupaten an integrated management plan for such facility, acceptable to the Bank, which shall include: (i) staffing levels; (ii) an estimate and source of annual funding requirements to support a successful operation; (iii) the expected benefits to area farmers; and (iv) planned types and levels of user fees or other cost recovery systems, if applicable.

8. The Borrower shall provide the vehicles required for the carrying out of the Project in accordance with a schedule and timetable agreed with the Bank.

9. The Borrower shall prepare and furnish to the Bank for comments:

(a) not later than September 30 in each year, commencing September 30, 1996, and until completion of the Project, a coordinated work program and cost estimates for the Project for the following Fiscal Year; and

(b) not later than December 31 in each year, commencing December 31, 1996, and until completion of the Project, a coordinated budget proposal for the agreed provincial work programs under the Project.

SCHEDULE 6

Criteria for Selection of Local Community Initiatives

The Project will support implementation of Local Community Initiatives which are considered to be of a high priority by the relevant community. Such Initiative shall be agriculture based and result in direct benefits to such community.

Except as the Bank shall otherwise agree, the Borrower shall select Local Community Initiatives in accordance with the following provisions:

1. The Project Management Unit of each participating Kabupaten shall be responsible for the selection of the initiatives.

2. Criteria to be used in the selection of a proposal:

- (a) the proposal shall be technically feasible, economically justifiable and be a productive activity;
 - (b) maximum amount per Initiative: Rp 10,000,000;
 - (c) maximum amount per household: Rp 250,000;
 - (d) minimum number of households per Initiative: 10; and
 - (e) contributions by households to include locally available materials, unskilled labor, and, where required, land.
3. Preference shall be given to proposals:
- (a) that benefit the poorest segment of the community;
 - (b) that involve women's and youth groups;
 - (c) that are assisted by local community organizations;
 - (d) that have the lowest risk of failure; and
 - (e) where the socio-economic impact is greatest.
4. Procurement procedures shall be as set forth in Schedule 4 to this Agreement.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:
- (a) the term "eligible Categories" means Categories (1) through (9) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term "Authorized Allocation" means an amount equivalent to \$1,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$800,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$3,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
- (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank

shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

