

CONFORMED COPY

CREDIT NUMBER 3658 IND

Development Credit Agreement

(Second Urban Poverty Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 20, 2002

CREDIT NUMBER 3658 IND

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 20, 2002, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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 Association to assist in the financing of the Project;

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is making a loan to the Borrower in the amount of twenty nine million five hundred thousand Dollars (\$29,500,000) (the Loan); and

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit 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 Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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

(a) “BAPPEDA” means the Provincial, Kabupaten and Kota Development Planning Agency established and operating within a Province, Kabupaten and Kota, respectively;

(b) “BKM” means *Badan Keswadayaan Masyarakat*, a Kelurahan level organization with elected members, legally empowered by registering as an association to act on behalf of the Kelurahan community to take actions aimed at reducing poverty in the Project Kelurahan;

(c) “BKM Forum” means a forum of BKM representatives at the Kecamatan and Kota level for the exchange of experience and collective actions relating to poverty alleviation;

(d) “Camat” means the head of a Kecamatan;

(e) “Community Development Plan” means the three-year investment plan prepared by the BKM, in accordance with the procedures and criteria set out in the Project Manual, for poverty alleviation activities in the Project Kelurahan;

(f) “Displaced Person” means a person who, on account of the execution of Part A of the Project, has or would have his or her: (i) standard of living adversely affected; (ii) right, title or interest in any house, land (including premises, agricultural land and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, work, or place of residence or habitat adversely affected;

(g) “Eligible Categories” means Categories (1), (2) and (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(h) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(i) “Financial Monitoring Report” and “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement;

(j) “Fiscal Year” means the Borrower’s fiscal year commencing January 1 and ending December 31;

(k) “Grantee” and “Grantees” mean a person or persons, respectively, responsible for the carrying out of a Sub-project under Parts B.1, B.3 and C of the Project;

(l) “Highly Vulnerable Groups” means groups of peoples, including widows, the elderly and the disabled, having special poverty alleviation needs and to be addressed in the Community Development Plan;

(m) “Isolated Vulnerable People” means those social groups in Indonesia that have a distinct social and cultural identity, and that are susceptible to being disadvantaged in the development process induced by the Project or any part thereof;

(n) “Isolated Vulnerable People Development Plan” means a development plan prepared by a Project Province pursuant to the provisions of the Framework for the Treatment of Isolated Vulnerable People set out in the Project Manual, and acceptable to the Association, to mitigate any social or cultural impact of the Project on Isolated Vulnerable People, and paragraph 10 of Schedule 4 to this Agreement;

(o) “Kelurahan” and “Desa” mean an urban section of a Kecamatan;

(p) “Kelurahan-borrower” and “Kelurahan-borrowers” mean a person and persons, respectively, responsible for the carrying out of a Sub-project under Part B.2 of the Project;

(q) “Kelurahan Grant” means a grant made available by the Borrower out of the proceeds of the Credit and the Loan and out of its own funds to a Grantee or Grantees for a Sub-project under Part B.1 and B.3 of the Project;

(r) “Land Acquisition and Resettlement Action Plan” means a resettlement and rehabilitation action plan, acceptable to the Association, prepared and implemented by a BKM or a Project Kabupaten or Project Kota, pursuant to the Land Acquisition and Resettlement Policy Framework and paragraph 10 of Schedule 4 to this Agreement;

(s) “Land Acquisition and Resettlement Policy Framework” means the Policy Framework set out in the Borrower’s letter to the Association of even date with this Agreement for the provision of compensation, rehabilitation and resettlement assistance to Displaced Persons;

(t) “Loan Agreement” means the agreement of even date herewith between the

Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the “General Conditions applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

- (u) “Lurah” means the head of a Kelurahan;
- (v) “National Management Consultants” means the team of consultants within the Project Management Unit at the central level to assist in Project implementation and monitoring;
- (w) “Oversight Consultants” means the team of consultants and facilitators at the provincial and district level to assist Project Kotas, Project Kabupatens and Project Kelurahan with Project implementation and monitoring;
- (x) “PJOK” means a Project manager at the Kecamatan level;
- (y) “PJOK PAPG” means a Project manager at the Kota and Kabupaten level;
- (z) “Poverty Alleviation Partnership Grant” means a grant made out of the proceeds of the Credit and the Loan to a Grantee or Grantees for a Sub-project under Part C of the Project;
- (aa) “Project Kabupaten” means a regional autonomous district within a province of the Borrower, participating in the Project;
- (bb) “Project Kecamatan” means an administrative sub-district of a Kabupaten and a Kota, participating in the Project;
- (cc) “Project Kelurahan” means a Kelurahan in the urban areas of the Project Provinces, participating in the Project;
- (dd) “Project Kota” means a municipality, an administrative division within a province of the Borrower, participating in the Project;
- (ee) “Project Management Unit” means the unit established in the Borrower’s Ministry of Settlements and Regional Infrastructure;
- (ff) “Project Manual” means the Project Manual to assist the Borrower, including central government ministries, the PMU, Project Provinces, Project Kotas, Project Kabupatens, Project Kecamatans and Project Kelurahan, and BKMs in the implementation of the Project through the description of, among others, procurement procedures and standard documentation as set forth in Schedule 3 to this Agreement, reporting requirements as set forth in Article 4 of this Agreement, the Project Performance Indicators as set forth in Schedule 5 to this Agreement, the Land Acquisition and Resettlement Policy Framework as set forth in the supplemental letter of even date with this Agreement, the Framework for the Treatment of Isolated Vulnerable People, environmental criteria applicable to Sub-project design, maintenance provisions for works to be carried out under a Sub-project and criteria for the selection of Sub-projects as set forth in Schedule 4 to this Agreement, as such Project Manual may be amended from time to time with the agreement of the Association;

(gg) “Project Provinces” mean the Borrower’s provinces of Banten, Jawa Barat, Jawa Tengah, Jawa Timur, Nusa Tenggara Barat, Kalimantan Barat, Kalimantan Tengah, Kalimantan Selatan, Sulawesi Utara, Gorontalo, Sulawesi Tengah, Sulawesi Selatan, and Sulawesi Tenggara;

(hh) “Rupiah” and “Rp” mean the currency of the Borrower;

(ii) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(jj) “Sub-loan” means a loan made to a Kelurahan-borrower or Kelurahan-borrowers for a Sub-project under Part B.2 of the Project out of funds made available by the Borrower out of the proceeds of the Credit and the Loan and out of its own funds;

(kk) “Sub-project” means a specific infrastructure investment project, social services project, income-generating investment project or social welfare project carried out under Parts B and C of the Project and utilizing the proceeds of a Grant or a Sub-loan;

(ll) “Sub-project Implementation Agreement” means the agreement to be entered into among the relevant (i) Grantee or Grantees, BKM, and PJOK for purposes of implementing the activities under a Sub-project under Parts B.1, B.3 and C of the Project; and (ii) Kelurahan-borrower or Kelurahan-borrowers, BKM and PJOK for purposes of implementing the activities under a Sub-project under Part B.2 of the Project; and

(mm) “UPK” means *Unit Pengelola Keuangan*, the financial management unit responsible for the management of funds for the BKM.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to fifty five million seven hundred thirteen thousand Special Drawing Rights (SDR 55,713,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement : (i) for amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of a Grant or a Sub-loan made under Parts B and C of the Project to meet the reasonable cost of goods, works and services required for a Sub-project and in respect of which the withdrawal from the Credit Account is requested; and (ii) for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A and D of the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be June 30, 2008, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2

of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semi-annually on February 15 and August 15, in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 15 and August 15, commencing August 15, 2012 and ending February 15, 2037 Each installment to and including the installment payable on February 15, 2022 shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification

referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, engineering and financial practices, and sound environmental and social standards, 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 Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association 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 Association, a plan designed to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association,

adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(ii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(ii) enable the Association'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 FMRs 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.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 14 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively

and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) that the Project Management Unit has been established in accordance with paragraph 1 of Schedule 4 to this Agreement;
- (b) that the Project Manual, acceptable to the Association, has been issued;
- (c) that the Borrower has prepared materials required to carry out poverty awareness, acceptable to the Association, in accordance with paragraph 5 (a) of Schedule 4 to this Agreement; and
- (d) that the Borrower has prepared training materials, acceptable to the Association, in accordance with paragraph 6 (a) of Schedule 4 to this Agreement.

Section 5.02. 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: Telex: Facsimile:

FINMINISTRY45799 DJMLN-IA (21) 381 2859
Jakarta 44319 DEPKEU-IA

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: Telex: Facsimile:

INDEVAS 248423 (MCI) or (202) 477-6391
Washington, D.C. 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 Jakarta, Republic of Indonesia, as of the day and year first above written.

REPUBLIC OF INDONESIA

By /s/ A. Anshari Ritonga

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mark Baird

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Loan Allocated (Expressed in dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Kelurahan Grants and Sub-loans	40,461,000	-0-	100% of Grant or Sub-loan amount disbursed
(2) Poverty Alleviation Partnership Grants	-0-	17,200,000	100% of Grant amount disbursed
(3) Consultants' services under Parts A and D of the Project	15,252,000	6,200,000	100%
(4) Fee	- - -	295,000	Amount due under Section 2.04 of the Loan Agreement
(5) Unallocated	-0-	5,805,000	
TOTAL	<u>55,713,000</u>	<u>29,500,000</u>	
	=====	=====	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of (a) payments made for expenditures prior to the date of this Agreement; and (b) a Grant or a Sub-loan under Categories (1) and (2) unless a Sub-project Implementation Agreement has been entered into in accordance with the Annex to Schedule 4 to this Agreement.

B. Special Account

1. The Borrower shall open and maintain in Dollars a special deposit account in Bank Indonesia or in a state commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including, in the case of a commercial bank, appropriate

protection against set-off, seizure and attachment. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of this Schedule. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

2. Except as the Association shall otherwise agree, after the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) Each application for withdrawal from the Credit Account shall be supported by a FMR.

(b) Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (i) the amount so requested; and (ii) the amount which the Association has determined, based on the FMR accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said report to be remaining in the Special Account, shall not exceed the equivalent of \$16,400,000. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

3. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any FMR does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association, 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 Association pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of FMRs.

4. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association 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 Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

5. (a) If the Association determines at any time that any payment out of the Special

Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 5 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower: (i) establish or support representative, responsive and accountable community organizations that are able to provide services to the urban poor and increase the voice of the poor in local decision making; (ii) make local government more responsive to the needs of the poor through increased cooperation with community organizations; and (iii) improve services for the urban poor (financial services, social services and infrastructure).

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

Part A: Community Development and Local Government Capacity Building

1. Carrying out of poverty awareness-raising activities in Project Kelurahan, including national level public campaigns, Kelurahan level workshops, and training of community volunteers, to encourage communities (i) to discuss the nature of poverty in the Project Kelurahan and methods to address poverty, and (ii) to carry out community self-surveys.

2. Establishment of BKMs and strengthening of existing BKMs.

3. Preparation of a Community Development Plan by the BKM in each Project Kelurahan, on the basis of the community self-survey and provision of technical assistance.

4. Carrying out of: (a) poverty awareness-raising training for Project Kelurahan cadres and other relevant stakeholders; (b) leadership training for BKM and Kelurahan cadres; (c) Project cycle training for community groups, BKM members, UPK, PJOK, and Kelurahan cadres; and (d) training in specific skills required for Project implementation for relevant community groups, BKM members, UPK, PJOK, Kelurahan cadres and facilitators.

5. Provision of technical assistance to BKM Forum for the establishment of BKM Forum and provision of technical assistance and training to BKM Forum.
6. Carrying out of capacity building activities for BAPPEDA and the coordinating teams within the BAPPEDA, including awareness raising in poverty alleviation and training in participatory planning and budgeting.

Part B: Kelurahan Grants and Sub-loans

1. Carrying out of infrastructure investment and social services Sub-projects in Project Kelurahan, through the provision of Kelurahan Grants to Grantees.
2. Carrying out of income-generating investment Sub-projects in Project Kelurahan, through the provision of Sub-loans to Kelurahan-borrowers.
3. Carrying out of social welfare Sub-projects in Project Kelurahan through the provision of Kelurahan Grants to Highly Vulnerable Groups.

Part C: Poverty Alleviation Partnership Grants

Carrying out of infrastructure investment and social services Sub-projects benefiting more than one Project Kelurahan, through the provision of Poverty Alleviation Partnership Grants to Grantees.

Part D: Strengthening Project Implementation Agencies

1. Strengthening the Project Management Unit's capacity in Project implementation and monitoring through the provision of technical assistance by the National Management Consultants.
2. Strengthening the Project Provinces' BAPPEDA, Project Kotas, Project Kecamatan and Project Kelurahan's capacity in Project implementation and monitoring through the provision of technical assistance by the Oversight Consultants.
3. Carrying out evaluations of the impact of the Project on poverty in Project Kelurahan, including provision of technical assistance to the Borrower's Ministry of Settlements and Regional Infrastructure.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Procurement

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 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: Procurement Procedures

1. National Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, 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.

2. Community Participation

Goods and works required for Parts B and C of the Project may be procured in accordance with procedures acceptable to the Association.

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 (3) 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 Association, 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.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association 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 Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for works estimated to cost the equivalent of \$50,000 or more and each contract for goods estimated to cost \$20,000 equivalent or more, the following procedures shall apply:

(a) prior to the selection of any supplier/execution of any contract under shopping procedures and small works procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(b) prior to the execution of any contract procured under shopping procedures and small works procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(c) the procedures set forth in paragraphs 2(f), 2(g) 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

Part A: General

Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for Project evaluation under Part D of the Project and services required by communities under Sub-projects under Parts B and C of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services by the National Management Consultants and the Oversight Consultants under Part D of the Project requiring continuation of existing services, and services required by communities under Sub-projects under Parts B and C of the Project which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

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 Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower shall establish and, thereafter, maintain until completion of the Project, a Project Management Unit in the Borrower's Ministry of Settlements and Regional Infrastructure, responsible for the implementation of the Project and the monitoring of the Project, headed by a Project Manager, and said Unit to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its objectives.

2. The Borrower shall adopt and, thereafter apply in the implementation of the Project, the Project Manual, acceptable to the Association, which shall include the description of: (a) implementation arrangements, (b) the procurement procedures set forth in Schedule 3 to this Agreement and standard procurement documentation, (c) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of this Agreement, (d) the

Project Performance Indicators as set forth in Schedule 5 to this Agreement, (e) the Land Acquisition and Resettlement Policy Framework referred to in Section 1.02 (u) of this Agreement, (f) the environmental criteria applicable to Sub-project design including environmental impact mitigation, (g) maintenance provisions for works to be carried out under a Sub-project, and (h) the criteria for the selection of Sub-projects and terms and conditions of Grants and Sub-loans set forth in the Annex to Schedule 4 to this Agreement.

3. The Borrower shall ensure that, prior to participation in Project activities, a Project Kota or Project Kabupaten has:

(a) agreed to carry out activities under the Project in accordance with procedures acceptable to the Association, including the Project Manual;

(b) established a Project office for purposes of Project coordination and disbursement of funds;

(c) taken all steps required to make available counterpart funds as required; and

(d) established a list of Project Kelurahan in accordance with the criteria set out in the Project Manual.

4. The Borrower shall ensure that, prior to participation in Project activities under Part C of the Project, a Project Kota or Project Kabupaten has:

(a) complied with the provisions of paragraph 3 of this Schedule;

(b) agreed to carry out activities under Part C of the Project in accordance with procedures acceptable to the Association, including the Project Manual;

(c) established an independent Poverty Alleviation Partnership Grant Selection Committee consisting of BKM Forum members, community representatives (including non-governmental organizations if such organizations wish to participate) and local government staff;

(d) taken all steps required to fund the operational costs of the PJOK-PAPG; and

(e) taken all steps required to promote the development of joint proposals by local government agencies and community organizations including the provision of required funds.

5. In carrying out Part A.1 of the Project, the Borrower shall (a) prepare and make available materials for poverty awareness-raising, acceptable to the Association, for the first year of Project implementation; and (b) thereafter, prepare and make available socialization materials, acceptable to the Association, until completion of the Project, in a timely manner.

6. In carrying out Part A.3 and A.4 of the Project, the Borrower shall (a) prepare and make available training materials therefore, acceptable to the Association, for the first year of Project implementation; and (b) thereafter, prepare and make available training materials, acceptable to the Association, until completion of the Project, in a timely manner.

7. The Borrower shall ensure, at all times, that public information, aimed at disclosing to

inhabitants of Project Kecamatan and Project Kelurahan all administrative, financial, environmental, social, procedural and technical aspects pertaining to the selection, design, preparation and implementation of Sub-projects, including the Project Manual, is available free of charge at the offices of the respective Camat and Lurah.

8. The Borrower shall ensure that Sub-projects are selected for purposes of Parts B and C of the Project in accordance with the criteria and the terms and conditions set forth in the Annex to this Schedule.

9. The Borrower shall ensure that, for purposes of Part B.2 of the Project, a revolving fund is established and maintained by the respective BKM in the Project Kelurahan, in accordance with procedures agreed with the Association and set forth in the Project Manual, for repayment of Sub-loans and further on-lending of the repaid funds.

10. In carrying out Parts B and C of the Project, the Borrower shall:

(a) take measures to avoid or minimize the acquisition of land or assets of residents of Kelurahan and to avoid the displacement of said residents;

(b) where the acquisition of land or assets or the displacement of residents is unavoidable under a proposed Sub-project, ensure that the relevant BKM or Dinas shall, before the carrying out of the works which would result in such acquisition or displacement, make available to such residents, compensation in accordance with the Land Acquisition and Resettlement Policy Framework; and

(c) in the event that two hundred or more residents are adversely Displaced by a Sub-project:

(i) prepare a resettlement plan in accordance with the Land Acquisition and Resettlement Policy Framework and furnish such plan to the Association for approval; and

(ii) prior to the carrying out of the Sub-project, ensure that all Displaced Persons shall have been compensated in accordance with the provisions of said plan.

11. In carrying out Parts B and C of the Project, the Borrower shall:

(a) avoid, and, if not possible, minimize cultural, social and economic adverse effects on Isolated Vulnerable People caused or likely to be caused by the Project; and

(b) through a process of informed consultation and participation, involve concerned Isolated Vulnerable People in the design and implementation of Sub-projects so as to ensure that the benefits received by the Isolated Vulnerable People under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights.

12. In carrying out Part C of the Project, the Borrower shall select Project Kotas and Project Kabupaten in accordance with criteria acceptable to the Association and shall select:

(a) by November 30, 2002, four Project Kotas or Project Kabupaten that are

participating in the Urban Poverty Project (Credit 3210-IND), for piloting Poverty Alleviation Partnership Grants;

(b) by September 30, 2003, thirteen Project Kotas or Project Kabupatens; and

(c) by September 30, 2004, an additional thirteen Project Kotas or Project Kabupatens.

13. In carrying out Part C of the Project, the Borrower shall carry out an evaluation of the performance of the selected Project Kotas and Project Kabupatens in the implementation of the Poverty Alleviation Partnership Grant program, and furnish such evaluation to the Association by October 31 of each year, commencing October 31, 2003, and until completion of the Project.

14. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 15, 2005, 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 Association, by November 15, 2005, or such later date as the Association 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 Association's views on the matter.

Annex to Schedule 4

Selection Criteria for Sub-Projects

A. Selection Criteria for Sub-projects under Part B of the Project

1. No Sub-project shall: (a) include expenditures intended for a military or paramilitary purpose; (b) include civil works for government administration or religious purposes, (c) relate to the manufacture or use of environmentally harmful products (including pesticides, ozone-depleting substances, tobacco or tobacco products, materials containing asbestos, arms and drugs); (d) relate to activities producing liquid or gaseous effluents or emissions at harmful levels, (e) relate to activities using, producing, storing or transporting hazardous materials and wastes; (f) relate to logging; (g) relate to activities in protected areas; (h) relate to fisheries activities that are not in accordance with standards set by the Borrower's Fishery Service Agency; or (i) include the financing of government salaries.

2. The estimated cost of the proposed Sub-project when added to the amount of Kelurahan Grants and Sub-loans approved in the relevant Project Kelurahan does not exceed in the

aggregate:

- (a) Rp. 150,000,000 in Project Kelurahan with less than 3,000 inhabitants;
- (b) Rp. 250,000,000 in Project Kelurahan with 3,000 or more inhabitants but less than 10,000 inhabitants; and
- (c) Rp. 450,000,000 in Project Kelurahan with 10,000 or more inhabitants.

3. Sub-projects under Part B.1 of the Project

(a) Each Sub-project proposed under Part B.1 of the Project shall be a public infrastructure investment project or a social service project which is technically, financially and environmentally viable, and economically justified by the number of people benefiting from it.

(b) The estimated cost of a proposed Sub-project shall be not more than Rp.30,000,000.

(c) Each Sub-project proposed under Part B.1 of the Project in the education sector shall be compatible with the relevant Kabupaten/Kota education master plan, if such plan exists.

(d) Each Sub-project proposed under Part B.1 of the Project in the health sector shall be compatible with the relevant Kabupaten/Kota health master plan, if such plan exists.

(e) A Sub-project Implementation Agreement shall be entered into between the Grantee and BKM, on terms and conditions set forth in the Project Manual.

4. Sub-projects under Part B.2 of the Project

(a) Each proposed Sub-project shall be a poverty alleviation and income-generating investment project which is technically, financially, socially and environmentally viable, and economically justified.

(b) Sub-loans shall be made on terms and conditions agreed with the Association and set forth in the Project Manual, including the following: the amount of the Sub-loan shall be not more than Rp. 500,000 for first-time Kelurahan borrowers and Rp.2,000,000 for other Kelurahan borrowers.

5. Sub-projects under Part B.3 of the Project

(a) Each Sub-project proposed under Part B.3 of the Project shall be a social welfare project or activity which is technically justified.

(b) The estimated cost of all proposed Sub-projects shall be not more than:

- (i) Rp. 15,000,000 in Project Kelurahan with less than 3,000 inhabitants;
- (ii) Rp. 25,000,000 in Project Kelurahan with 3,000 or more inhabitants but less than 10,000 inhabitants; and

(iii) Rp. 45,000,000 in Project Kelurahan with 10,000 or more inhabitants.

(c) A Sub-project Implementation Agreement shall be entered into between the Grantee and BKM, on terms and conditions set forth in the Project Manual.

B. Selection Criteria for Sub-projects under Part C of the Project

1. No Sub-project shall: (a) include expenditures intended for a military or paramilitary purpose; (b) include civil works for government administration or religious purposes, (c) relate to the manufacture or use of environmentally harmful products (including pesticides, ozone-depleting substances, tobacco or tobacco products, materials containing asbestos, arms and drugs); (d) relate to activities producing liquid or gaseous effluents or emissions at harmful levels; (e) relate to activities using, producing, storing or transporting hazardous materials and wastes; (f) relate to logging; (g) relate to activities in protected areas; (h) relate to fisheries activities that are not in accordance with standards set by the Borrower's Fishery Service Agency; or (i) include the financing of government salaries.

2. Each Sub-project proposed under Part C of the Project shall be:

(a) a public infrastructure investment project or a social service project which is technically, financially, socially and environmentally viable, and economically justified by the number of people benefiting from it;

(b) a Sub-project proposed by Kelurahan organizations in partnership with local government agencies; and

(c) funded at least 50% by DINAS development budget, BKM and private sponsors.

3. The Poverty Alleviation Partnership Grant per Sub-project shall be Rp.30,000,000 or more, but not more than Rp.200,000,000, provided, however that the total amount of such grant and all other Poverty Alleviation Partnership Grants approved for the relevant Project Kabupaten or Project Kota shall not exceed:

(a) Rp. 4,500,000,000 in Project Kabupatens or Project Kotas with less than 15 BKMs;

(b) Rp. 6,000,000,000 in Project Kabupatens or Project Kotas with between 15 and 25 BKMs; and

(c) Rp. 7,500,000,000 in Project Kabupatens or Project Kotas with more than 25 BKMs.

4. Each Sub-project proposed under Part C of the Project in the education sector shall be compatible with the relevant Kabupaten/Kota education master plan, if such plan exists.

5. Each Sub-project proposed under Part C of the Project in the health sector shall be compatible with the relevant Kabupaten/Kota health master plan, if such plan exists.

6. A Sub-project Implementation Agreement shall be entered into between the Grantee and PJOK PAPG, on terms and conditions set forth in the Project Manual.

Schedule 5

Performance Indicators

		MID TERM REVIEW	End of Project	Source of Data
		Phase I sites	Phase II sites	
I.	SOCIALIZATION			
	Number of Kelurahan participating	1210	1017	2227MIS
	Percent of Kelurahan population who participated in socialization meetings	10%	10%	10%MIS
	Percent of poor Kelurahan population that attended at least one socialization meeting	25%	25%	25%Surveys
	Number of socialization meetings per Kelurahan	24	24	24MIS
	* Percent of Kelurahan population aware of the Project and its objectives	30%	15%	70%Surveys
II.	COMMUNITY ORGANIZATION			
	Number of coordinating committees formed at city level	53	26	79MIS
	Number of BKMs formed	1210	1017	2227MIS
	Percent of women BKM members	20	20%	20%MIS
	Percent of Kelurahan population that voted in the final stage of BKM election	2%	2%	2%MIS
	* Percent of participating Kelurahan with Community Development Plan completed and ratified	95%	95%	95%MIS
	Percent of Kelurahan population who attended community meeting or focus group discussions as part of Community Development Plan preparation	5%	5%	5%MIS
	Percent of Kelurahan population aware of Community Development Plan	50%	50%	50%Surveys
	Number of community cadres per Kelurahan	3	3	3MIS
	Number of BKM forums established	53	26	79MIS
	Number of community members (BKM, KSM, UPK, community cadre) trained per Kelurahan	20	20	20MIS
	* Percent of BKM/UPK with audit reports	80%	50%	80%MIS
	Percent of BKM/UPK with unqualified audit reports	75%	75%	75%MIS
	Percent of Kelurahan Grants disbursed	80%	20%	100%MIS
III.	SERVICE PROVISION UNDER KELURAHAN GRANTS			
	Number of credit proposals submitted per Kelurahan	20	10	40MIS
	Outstanding loans as a percent of amount allocated to credit	80%	40%	90%MIS
	Repayment rate	75%	75%	90%MIS
	Percent increase in credit to households/micro enterprises at market interest rates	20%	10%	20%Surveys

		MID TERM REVIEW	End of Project	Source of Data
		Phase I sites	Phase II sites	
*	Percent of households whose income increased after having received a credit under the Urban Poverty Project	40%	30%	50% Surveys
	Percent of poor (PS, S1) in credit groups/percent of poor in Kelurahan	1.3	1.3	1.3 MIS
	Number of other service proposals submitted per Kelurahan	5	5	10 MIS
	Percent of accepted proposals for other services completed	70%	50%	90% MIS
*	Percent of poor among direct beneficiaries of other services provided / percent poor in Kelurahan population	1.6	1.6	1.6 Surveys
	Percent of women in KSMS	30%	30%	30% MIS
	IV. SERVICES PROVIDED UNDER PAPG			
	PAPG cities selected	17	13	30 MIS
	PAPG Selection Committees formed	17	13	30 MIS
*	Percent of local government co-financing in PAPG	25%	25%	25% MIS
	Number of PAPG sub-projects completed per city	25	10	40 MIS
	Percent of Kelurahan population aware of PAPG in PAPG participating cities	20%	10%	30% Surveys
	Percent of local government staff aware of PAPG in PAPG participating cities	20%	10%	30% Surveys
*	Percent of poor among direct beneficiaries of services provided under PAPG/ percent poor in city population	1.6	1.6	1.6 Surveys

* Key indicators to be monitored on a yearly basis.