

CONFORMED COPY

LOAN NUMBER 3629 IND

(Water Supply and Sanitation for
Low Income Communities Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 12, 1993

LOAN AGREEMENT LOAN NUMBER 3629 IND

AGREEMENT, dated August 12, 1993, between REPUBLIC OF
INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT (the Bank).

WHEREAS 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;

WHEREAS 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) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (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) "BAPPEDA" means any one of the Borrower's Provincial Development Planning Agencies in the Project Provinces;
- (b) "BAPPENAS" means the Borrower's National Development Planning Agency;
- (c) "Bupati" means a Kabupaten chief executive;
- (d) "Fiscal Year" means the Borrower's fiscal year commencing April 1 and ending March 31;
- (e) "Indigenous 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;
- (f) "INPRES" means, for purposes of the Project, the Borrower's development programs, funded through a special authorization by Presidential Instruction, relating to (i) health and water supply and sanitation for Kabupaten/Kotamadya governments, and (ii) development fund for village and Kabupaten/Kotamadya level governments;
- (g) "Kabupaten" means an administrative sub-division of a province;
- (h) "Kotamadya" means a municipality within a province;
- (i) "NGO" means a non-governmental organization, a private not for profit enterprise whose objectives are to promote humanitarian assistance and socio-cultural cooperation and development;
- (j) "Participating Village" means a village or a community in a Project Province for which an acceptable Village Action Plan has been prepared and signed, and where water supply schemes will be constructed or rehabilitated under the Project;
- (k) "Project Provinces" means the Borrower's provinces of Central Java, Southeast Sulawesi, Central Sulawesi, North Sulawesi, Maluku, and East Nusa Tenggara, and "Project Province" means any one of such provinces;
- (l) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated December 2, 1992 and January 22, 1993, between the Borrower and the Bank;
- (m) "Special Account" means the account referred to in

Section 2.02 (b) of this Agreement; and

(n) "Village Action Plan" means the action plan prepared for purposes of Part A of the Project by a village in a Project Province in accordance with paragraph 4 of Schedule 5 to 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 eighty million dollars (\$80,000,000), 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 shall, for the purposes of the Project, open and maintain in United States dollars a special deposit account in Bank Indonesia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be September 30, 1998, 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 March 15 and September 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 the Project with due diligence and efficiency and in conformity with appropriate administrative, educational, engineering, environmental, financial, health, and technical 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.

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 nine 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 or payment out of the Special 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

Effective Date; 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 139
Jakarta, Indonesia

Cable address:	Telex:
FINMINISTRY Jakarta	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:	Telex:
INTBAFRAD Washington, D.C.	248423 (RCA) 82987 (FTCC) 64145 (WUI) or 197688 (TRT)

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/ Mr. Tjahjono, Charge d'Affaires
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gautam Kaji
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 and construction materials for:		

(a) water supply systems and sanitation facilities other than (b) below	33,300,000	55%
(b) type C non-piped systems constructed by force account	2,500,000	55% of standard unit cost per completed unit
(2) Equipment (other than computers and vehicles) and furniture	1,400,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(3) Educational materials	1,400,000	55%
(4) Consultants' services, design and survey services, studies	22,500,000	100%
(5) Training	6,400,000	55%
(6) Local travel and allowances for Project staff and consumable office supplies	4,600,000	100%
(7) Refunding of Project Preparation Advance		Amounts due pursuant to Section 2.02 (c) of this Agreement
(8) Unallocated	7,900,000	
TOTAL	80,000,000	

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; and

(c) the term "type C non-piped system" means a simple, non-piped, point source, water supply system.

3. 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) payments made for expenditures in respect of Category (1) until the Borrower has:

- (i) employed the following consultants in accordance with Section II of Schedule 4 to this Agreement: (1) a Project management expert to assist the Central Project Secretariat, in the Borrower's Ministry of Health, and the Technical Coordinating Committee's Working Groups; (2) a community development and training expert to assist the Directorate General for Regional Development and the Directorate General for Rural Development in the Borrower's Ministry of Home Affairs; and (3) a national policy management expert to assist the Central Project Secretariat in the Borrower's Ministry of Health; and
- (ii) employed, in accordance with Schedule 4 to this Agreement, qualified NGOs to assist in the carrying out of Parts A, B.1 (a) and B.1 (b) of the Project in the initial fifty-two Participating Villages.

SCHEDULE 2

Description of the Project

The objectives of the Project are to provide safe, adequate and easily accessible water supply and sanitation services, and support hygiene and health education, for poor communities in under-served and unserved rural villages and in communities around a few densely populated centers through sustainable and community-based arrangements.

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: Direct Infrastructure Development Support

1. Construction of piped and non-piped water systems and rehabilitation of existing water systems in about 1,400 Participating Villages, and provision of related technical assistance.
2. Construction of sanitation facilities in Participating Villages, including individual household and communal latrines, and institutional sanitation facilities at schools, health centers and religious institutions; provision of demonstration and training in construction of sanitation facilities and solid waste disposal schemes in Participating Villages, and provision of related technical assistance.

Part B: Institutional Development and Capacity Building Support

1. Hygiene and Sanitation Education
 - (a) Provision of hygiene and sanitation education in Participating Villages, including mass media campaigns on hygiene, water and sanitation-related issues, and provision of related technical assistance.
 - (b) Provision of orientation and training in hygiene and sanitation for health staff, Kabupaten/Kotamadya level and below Project implementation staff, school teachers, NGOs participating in Project activities, and community groups including cadres, in the Project Provinces, and provision of related technical assistance.
 - (c) Acquisition of audio-visual equipment, educational materials, and communication packages for selected health offices, health centers and schools in the Project Provinces.
 - (d) Carrying out of water quality surveillance and monitoring in selected Participating Villages, and provision of related technical assistance.
2. Training and Community and Institutional Development

(a) Provision of training to health staff, Kabupaten/Kotamadya level and below Project implementation staff, and community groups in water supply and sanitation for homes and institutions and in the development of community-based approaches to water supply and sanitation.

(b) Strengthening the capacities of government institutions involved in Project implementation at the Kabupaten/Kotamadya level and below in Project planning, Project management and other relevant technical capabilities, and strengthening Project planning, Project management and relevant technical capabilities of NGOs participating in Project activities, through provision of relevant training and technical assistance.

3. Studies

(a) Carrying out of studies on the following subjects: poverty targeting of villages; determinants of water demand; Project impact evaluation; sanitation stimulant strategy and its effectiveness; impact of hygiene and sanitation on health knowledge, attitudes and practices of village communities; women in development; and related subjects.

(b) Preparation of a Project completion report.

* * *

The Project is expected to be completed by March 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
March 15, 1999	1,495,000
September 15, 1999	1,550,000
March 15, 2000	1,610,000
September 15, 2000	1,670,000
March 15, 2001	1,730,000
September 15, 2001	1,795,000
March 15, 2002	1,860,000
September 15, 2002	1,930,000
March 15, 2003	2,000,000
September 15, 2003	2,075,000
March 15, 2004	2,155,000
September 15, 2004	2,235,000
March 15, 2005	2,315,000
September 15, 2005	2,405,000
March 15, 2006	2,490,000
September 15, 2006	2,585,000
March 15, 2007	2,680,000
September 15, 2007	2,780,000
March 15, 2008	2,885,000
September 15, 2008	2,990,000
March 15, 2009	3,100,000
September 15, 2009	3,215,000
March 15, 2010	3,335,000
September 15, 2010	3,460,000
March 15, 2011	3,590,000
September 15, 2011	3,725,000
March 15, 2012	3,860,000
September 15, 2012	4,005,000
March 15, 2013	4,155,000
September 15, 2013	4,320,000

* 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 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other

internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Indonesia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Civil works, including construction materials for large and medium sized piped water supply systems, up to an aggregate amount equivalent to \$22,100,000, shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Civil works, including construction materials for large and medium sized piped water supply systems, estimated to cost less than the equivalent of \$65,000 per contract, up to an aggregate amount equivalent to \$7,600,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three contractors eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Civil works, excluding construction materials, in remote areas estimated to cost less than \$15,000 per contract, up to an aggregate amount equivalent to \$2,300,000, may be carried out through force account in accordance with procedures satisfactory to the Bank.

4. Equipment, materials and furniture, including pipes and accessories, reinforced steel bars, electro-mechanical equipment, pumps and hand-pumps, small tools, cement, and office equipment (except computers and vehicles) estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount equivalent to \$26,100,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank. Provided, however, that such equipment, materials and furniture estimated to cost less than the equivalent of \$10,000 per contract, up to an aggregate amount equivalent to \$12,700,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank. Provided further that such equipment, materials and furniture estimated to cost less than the equivalent of \$10,000 per contract, up to an aggregate amount equivalent to \$2,800,000, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

5. Educational materials estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount equivalent to \$2,400,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

6. Educational materials estimated to cost less than the equivalent of \$25,000 per contract, up to an aggregate amount equivalent to \$300,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines

shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis 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, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank. The consultants, other than those referred to in paragraph 3(b) of Schedule 1 to this Agreement, shall be employed not later than February 28, 1994.

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 contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain, until completion of the Project:

(a) the Functional Coordination Committee, chaired by BAPPENAS, to coordinate and provide guidance on policy matters relating to the Project;

(b) the Technical Coordinating Committee to provide routine coordination and guidance to the three working groups referred to in sub-paragraph (c) below;

(c) the following working groups of the Technical Coordinating Committee:

(i) the working group for drinking water quality and

health and hygiene education;

(ii) the working group for institutional and administrative arrangements, community participation, and operation and maintenance of the water supply and sanitation schemes under the Project; and

(iii) the working group for technical aspects of water schemes and sanitation; and

(d) the Central Project Secretariat, established within the Ministry of Health, to coordinate Project activities between the central and provincial levels.

2. The Borrower shall select villages and communities in the Project Provinces for participation in the Project in accordance with criteria acceptable to the Bank, including: poverty level, incidence of water-borne diseases, water scarcity, water quality, infant mortality, and willingness to contribute to the cost of construction and operations and maintenance of water supply and sanitation schemes.

3. The Borrower shall furnish to the Bank, not later than February 28 in each year until completion of Part A of the Project, commencing February 28, 1994, a schedule, acceptable to the Bank, of budget ceilings for the grants to be provided by the Borrower to Participating Villages for the construction of water supply schemes under Part A of the Project during the following Fiscal Year.

4. To participate under Part A of the Project, a village or community, selected in accordance with the criteria referred in paragraph 2 of this Schedule, shall prepare a Village Action Plan, acceptable to the Bank, in accordance with the format agreed between the Borrower and the Bank.

5. The Village Action Plan shall include, among others, the following:

(a) evidence that a village water and sanitation committee has been established; and

(b) the amount of the contributions from the Participating Village for operation and maintenance and capital cost recovery, based on the following principles:

(i) the cost of both routine operation and maintenance and replacement of assets with less than seven years expected life shall be covered by contributions by the Participating Village. The Participating Village may, however, use other sources of funds to cover the cost of replacement of such assets, including INPRES funds;

(ii) the Participating Village shall cover at least 4% of the total capital cost of the construction of the water supply and sanitation schemes in cash; and

(iii) households requesting private water connections shall pay the full cost of the services provided, including the capital cost of connection.

6. In cases where a Participating Village is unable to cover the cost of unexpected major repairs from its own resources and such Participating Village has collected at least 75% of the amounts due by households for operation and maintenance of the water supply and sanitation schemes as set forth in the Village Action Plan, the Borrower shall cause the relevant Kabupaten government to provide funds from its general budget to cover the cost of such repairs.

7. In Kabupatens and Kotamadyas where villages or communities have been selected for participation in the Project, the Borrower shall cause the relevant Kabupaten or Kotamadya government to issue:

(a) promptly after the selection, a decree establishing Project implementation procedures and specific responsibilities of Project management offices, acceptable to the Bank; and

(b) promptly after the approval of the Village Action Plan, a decree setting forth the authorization for the collection of the contributions by the relevant Participating Village to the capital cost of the constructions and operation and maintenance of the water supply and sanitation schemes as set out in the relevant Village Action Plan.

8. The Borrower is committed to the protection of the interests of Indigenous People and hereby agrees to ensure that the benefits they receive under the Project are in harmony with their economic, social, and cultural preferences. Notwithstanding the generality of the foregoing, the Borrower shall:

(a) through a process of informed participation, involve concerned Indigenous People in the preparation and implementation of relevant Village Action Plans as agreed with the Bank; and

(b) mitigate or avoid adverse effects on Indigenous People caused or likely to be caused by the Project.

9. The Borrower shall, not later than October 31, 1993, furnish to the Bank a schedule, acceptable to the Bank, for the carrying out of the training program under Part B of the Project.

10. In carrying out Part B of the Project, the Borrower shall, not later than February 28, 1994:

(a) prepare and furnish to the Bank an action plan, acceptable to the Bank, for providing training in Project implementation to women; and

(b) initiate pilot programs in nine Participating Villages to enhance the role of women in water supply and sanitation related programs, and, thereafter, incorporate the successful activities in future Village Action Plans as necessary.

11. In carrying out Part A of the Project, the Borrower shall, not later January 1, 1994, furnish to the Bank an action plan, acceptable to the Bank, for the transfer of the responsibility for the construction of large and medium sized piped water supply systems serving several villages, financed by allocations from the Borrower's development budget (DIP), to Kabupaten level public works project managers in the relevant Kabupatens by not later than April 1, 1996.

12. In order to assist the Borrower in carrying out the Project, the Borrower shall employ, as required, and in accordance with Schedule 4 to this Agreement, qualified NGOs to assist villages in the Project Provinces in the carrying out of the following activities:

- (a) provision of training to community leaders and other members of the community on community organization and development;
- (b) preparation of Village Action Plans;
- (c) provision of hygiene and sanitation education to community members;
- (d) promotion of, and assistance in, latrine construction;
- (e) construction of simple, non-piped, water supply schemes;
- (f) organization and training of water user groups, particularly women, in operation and maintenance and income generating activities; and

- (g) monitoring and evaluation of Project activities and preparation of Project reports.

13. The Borrower shall employ, as required, and in accordance with Schedule 4 to this Agreement, qualified NGOs to assist the Borrower in the carrying out of Parts B.2(b) and B.3 of the Project.

14. The Borrower shall procure the computers and vehicles required for the Project in accordance with a schedule acceptable to the Bank.

15. The Borrower shall monitor and evaluate Project implementation in accordance with criteria and indicators acceptable to the Bank, including monitoring of the effects of the Project on Indigenous People.

16. The Borrower shall, not later than June 30, 1995, carry out a review of the implementation of the Project in the fifty-two initial Participating Villages, in consultation with the Bank, and shall, thereafter, take into account the results of such review when carrying out activities under the Project.

17. The Borrower shall, not later than December 31, 1996, carry out a mid-term review of the implementation of the Project, in consultation with the Bank, and shall, thereafter, take into account the results of such review when carrying out activities under the Project.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) 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 \$4,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 a deposit or deposits 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 in 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 is 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.

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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment 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.

