

CONFORMED COPY

LOAN NUMBER 4007 IND

Loan Agreement

(Sulawesi Agricultural Area Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 17, 1996

Loan No. 4007 IND

LOAN AGREEMENT

AGREEMENT, dated June 17, 1996, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

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

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

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

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

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

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

(b) "BANGDA" means the Directorate General for Regional Development in the Borrower's Ministry of Home Affairs;

(c) "BAPPEDA I" means each of the Borrower's Provincial Development Planning Agencies;

(d) "BAPPEDA II" means each of the Borrower's District Development Planning Agencies;

(e) "DINAS" means each of the Borrower's provincial and district level government agencies;

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

(g) "Grantee" means a village within a Project sub-district, to which the Borrower proposes to make or has made a Grant;

(h) "Grants" means grants made or proposed to be made by the Borrower, partly out of the proceeds of the Loan, to a Grantee for on-lending to villagers and groups of villagers under Part A.2 of the Project, in accordance with the provisions of Schedule 6 to this Agreement;

(i) "Kabupaten Coordinating Committee" means the Committee, composed of the BAPPEDA II Project manager, representatives from the Office of the Secretary of the District Government, and representatives from relevant DINAS, and responsible for approving requests from Project Kecamatans for Grants and Local Community Initiatives;

(j) "Local Community Initiatives" means activities selected for financing under Part A.6 of the Project in accordance with the criteria set out or referred to in Schedule 7 to this Agreement;

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

(l) "Project Kecamatan" means a sub-district within a Kabupaten, selected for participation in the Project in agreement with the Bank;

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

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, various currencies that shall have an aggregate value equivalent to the amount of twenty six million eight hundred thousand dollars (\$26,800,000), 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 (i) 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 (other than Part A.2 thereof) described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan, and (ii) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of Grants made under Part A.2 of the Project and in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank Indonesia or in a commercial bank on terms and conditions satisfactory to the Bank, including, in the case of a commercial bank, appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 8 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2003, 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 January 15 and July 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, agricultural, engineering, environmental and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

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

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

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

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

ARTICLE IV

Financial Covenants

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

responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than 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 was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Termination

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

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4

P. O. Box 1139
Jakarta 10710
Indonesia

Cable address:

FINMINISTRY
Jakarta

Telex:

45799 DJMLN-IA
44319 DEPKEU-IA

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

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

REPUBLIC OF INDONESIA

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Harold Messenger
Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works:		65%
(a) Part A.5 of the Project	6,300,000	
(b) Part B. 1 and B.2 of the Project	400,000	
(2) Equipment (except vehicles) and furniture	200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory

		cost) and 65% of local expenditures for other items procured locally
(3) Agricultural inputs (except fertilizers), veterinary supplies, and tools under Parts A.1, A.4 and C of the Project	1,700,000	90%
(4) Breeding animals and related medicines and tools	2,400,000	90%
(5) Research and development expenditures under Part C of the Project	1,000,000	90%
(6) Grants under Part A.2 of the Project	4,000,000	70% of Grant amount disbursed
(7) Goods and works for Local Community Initiatives	1,700,000	70%
(8) Survey, design and mapping	400,000	90%
(9) Incremental operating expenditures:		60% in FY 1997 and FY 1998; 50% in FY 1999 and FY 2000; and 40% in FY 2001 and thereafter
(a) Parts A and B of the Project	1,400,000	
(b) Part C of the Project	300,000	
(10) Training	800,000	90%
(11) Consultants' services:		90%
(a) Parts A and B of the Project	3,500,000	
(b) Part C of the Project	100,000	
(12) Unallocated	2,600,000	
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TOTAL	26,800,000	=====

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

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

(c) the term "agricultural inputs" means expenditures for inputs required for farming demonstration activities, seed and seedling

farms, and research;

(d) the term "incremental operating expenditures" means expenditures on account of the Project by the Project management units at the central and provincial levels, and the Project implementation units at the district level, for travel, per diem, allowances, supplies, and maintenance (but excluding salaries); and

(e) the term "research and development expenditures under Part C of the Project" means expenditures for civil works for seed gardens, agricultural research inputs, wages of field labor, and salaries and travel expenses for contract (including university) research staff, under Part C of the Project.

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

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for (i) goods and works under contracts costing less than \$100,000 equivalent (including agricultural inputs, breeding animals, and Local Community Initiatives), except for the first contract for goods and for works in Sulawesi Tengah and Sulawesi Tenggara; (ii) grants, incremental operating expenditures, research and development expenditures, training, and survey, design and mapping expenditures; and (iii) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each and contracts for the employment of individuals valued at less than \$50,000 equivalent each.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in reducing the incidence of poverty in the provinces of Sulawesi Tengah and Sulawesi Tenggara through the increase of rural incomes, the promotion of equitable regional development, the promotion of environmentally sustainable farming practices, and the strengthening of local level institutions.

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: Agriculture-Based Area Development in Sulawesi Tengah and Sulawesi Tenggara

1. Carrying out of a crop development program, including:

(a) improvement of agricultural practices on village irrigation schemes through the establishment of demonstration plots;

(b) introduction of dryland conservation farming technology and provision of extension support to upland farmers, including establishment of conservation farming demonstration plots;

(c) demonstration of rehabilitation of overgrown cashew and cacao farms, including establishment of cacao rehabilitation demonstration plots in Sulawesi Tengah and cacao and cashew rehabilitation demonstration plots in Sulawesi Tenggara;

(d) establishment of small treecrop nurseries for provision of improved treecrop seedlings to farmers, and support for the improvement of seed multiplication for foodcrops; and

(e) upgrading of household garden agricultural technologies through extension support and demonstration activities.

2. Financing of : (i) the replication of agricultural programs and technologies developed under Part A.1 and A.3 (b) of the Project, and (ii) processing and marketing of agricultural products, through the

provision of Grants to villages for on-lending to villagers and groups of villagers.

3. Improvement of livestock management through:

(a) provision of breeding cattle and related tools and medicines to farmers; and

(b) introduction and demonstration of intensive smallholder livestock management systems, integrated with dryland crop development, including development of forage crops.

4. Improvement of veterinary care at animal health clinics, including provision of vaccines and other materials for the vaccination of chickens against Newcastle disease.

5. Improvement of village to market and village to village access through construction of village roads, bridges, culverts, road sections on village access roads, village docks and jetties; and marketing and storage facilities.

6. Carrying out of productive activities in local communities, that are agriculture based, technically and economically feasible and considered to be of a high priority by the relevant community.

Part B: Project Management and Capacity Strengthening of Local Agricultural Support Services in Sulawesi Tengah and Sulawesi Tenggara

1. Rehabilitation of about 25 rural extension centers and about four animal health clinics, and construction or refurbishing of additional space at selected rural extension centers for animal health services.

2. Rehabilitation of Kabupaten-level seed multiplication centers for production of stock seed.

3. Provision of vehicles for field level staff and technical services staff for the carrying out of Project management and supervision.

4. Provision of training in management, organization, planning and technical activities to provincial, Kabupaten and field level staff, and leadership and organizational training to farmers and village leaders.

5. Mapping of Project Kecamatan to serve as a basis for improved planning, implementation and monitoring and evaluation of development activities.

Part C: Farming Systems and Fisheries Research

Carrying out of specific applied priority research programs in support of regional agricultural development, based on local specific needs, including post-harvest research and fisheries research, at the Assessment Institutes for Agricultural Technology in Sulawesi Tengah and Sulawesi Tenggara.

* * *

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
January 15, 2002	520,000
July 15, 2002	540,000
January 15, 2003	555,000
July 15, 2003	575,000
January 15, 2004	595,000

July 15, 2004	615,000
January 15, 2005	640,000
July 15, 2005	660,000
January 15, 2006	685,000
July 15, 2006	710,000
January 15, 2007	735,000
July 15, 2007	760,000
January 15, 2008	785,000
July 15, 2008	810,000
January 15, 2009	840,000
July 15, 2009	870,000
January 15, 2010	900,000
July 15, 2010	930,000
January 15, 2011	965,000
July 15, 2011	1,000,000
January 15, 2012	1,035,000
July 15, 2012	1,070,000
January 15, 2013	1,105,000
July 15, 2013	1,145,000
January 15, 2014	1,185,000
July 15, 2014	1,225,000
January 15, 2015	1,270,000
July 15, 2015	1,315,000
January 15, 2016	1,360,000
July 15, 2016	1,400,000

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

Premiums on Prepayment

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

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

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. National Competitive Bidding

Except as provided in paragraphs 2, 3 and 4 of this Schedule, goods and works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Agricultural inputs under Parts A.1, A.4 and C of the Project estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, breeding animals estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$1,600,000 equivalent, and inputs under Part A.2 of the Project, estimated to cost less than \$10,000 equivalent per contract, up to an aggregate amount not to exceed \$6,300,000 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.

3. Force Account

Works under Part B.1 and B.2 of the Project which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$100,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an amount not to exceed \$10,800,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to each contract for goods and civil works estimated to cost the equivalent of \$100,000 or more, the first contract for goods in Sulawesi Tengah and Sulawesi Tenggara estimated to cost less than \$100,000, and the first contract for civil works in Sulawesi Tengah and Sulawesi Tenggara estimated to cost less than \$100,000, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

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

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

SCHEDULE 5

Implementation Program

1. In carrying out Part A.2 of the Project, the Borrower shall provide Grants to Grantees in accordance with the procedures and on the conditions set forth or referred to in Schedule 6 to this Agreement.

2. In carrying out Part A.3 (a) of the Project, the Borrower shall ensure that the second and third born calves of beneficiaries of cattle distribution programs are redistributed among other interested farmers or put up for sale to cover part of the operating costs of the livestock support services.

3. In carrying out Part A.5 of the Project, the Borrower shall:

(a) not later than March 31, 1997, prepare a manual, acceptable to the Bank, for the road construction program, and, promptly thereafter, apply such manual in the village road construction program;

(b) ensure that funds provided for the village infrastructure program shall not exceed \$250,000 equivalent for each Project Kecamatan; and

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

4. In carrying out Part A.6 of the Project, the Borrower shall approve Local Community Initiatives for financing under the Project, in accordance with the criteria set out or referred to in Schedule 7 to this Agreement.

5. In carrying out Part B.1 of the Project, the Borrower shall prepare and furnish to the Bank for comments, a detailed management and operational plan for each rural extension center and each animal health

clinic to be rehabilitated, prior to the commencement of the relevant works, such plan to include the following:

- (a) adequate staffing levels;
- (b) budgetary provisions covering appropriate annual operational and maintenance funding requirements, for the effective operation of the rehabilitated facility;
- (c) delineation of area of coverage in terms of area and number of farmers to be reached by the facility;
- (d) for each rural extension center, identification of: (i) leading sector covered by relevant DINAS, and (ii) proposed budgetary arrangements to ensure that all participating sectors contribute to the functioning of the center; and
- (e) for each animal health center and one-room animal health service, a program to ensure cost recovery and budgeted maintenance of the facility.

6. The Borrower shall, not later than March 31, 1997, prepare a baseline survey to establish the existing socio-economic conditions in Sulawesi Tengah and Sulawesi Tenggara.

7. The Borrower shall:

- (a) provide the fertilizer required for the carrying out of the Project in accordance with a schedule and timetable agreed with the Bank; and
- (b) provide the vehicles required for the carrying out of the Project in accordance with a schedule and timetable agreed with the Bank.

8. The Borrower shall, not later than August 31, 1996, appoint a Project manager and adequate support staff for the Project Management Units in the Sulawesi Tengah and Sulawesi Tenggara BAPPEDA I and in the BAPPEDA II in each Kabupaten in Sulawesi Tengah and Sulawesi Tenggara.

9. The Borrower shall maintain, until the completion of the Project, a Project Implementation Unit in each participating DINAS, with competent staff in adequate numbers.

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

- (a) not later than October 31 in each year, commencing October 31, 1996, and until the completion of the Project, a coordinated work program and cost estimates for the Project for the following Fiscal Year; and
- (b) not later than December 31 in each year, commencing December 31, 1996, and until the completion of the Project, a coordinated budget proposal for the agreed provincial work programs under the Project.

11. The Borrower shall, not later than August 31, 1996, employ, in accordance with the provisions of Section II of Schedule 4 to this Agreement, the following consultants:

- (a) a civil works specialist to assist in the carrying out of Part A.5 of the Project;
- (b) two financial management and accountant specialists to assist in Project accounting and financial management in Sulawesi Tengah and Sulawesi Tenggara BAPPEDA I, respectively; and
- (c) a training specialist to assist in the organization of training in Sulawesi Tengah and Sulawesi Tenggara.

12. The Borrower shall:

- (a) maintain policies and procedures adequate to enable it to

monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31, 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by May 31, 1999, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

SCHEDULE 6

Procedures and Conditions for Grants under Part A.2 of the Project

1. Each Grant shall be made by the Borrower only:

(a) to a Grantee which shall have established, to the satisfaction of the Borrower, acting through the relevant Kabupaten Coordinating Committee, on the basis of criteria and procedures, acceptable to the Bank, that said Grantee has the organization, management, staffing and other resources required for the establishment and efficient management of revolving credit accounts; and

(b) to finance (i) the acquisition of agricultural and other related inputs required for the adoption by villagers and groups of villagers of agricultural programs and technologies developed under Part A.1 of the Project, and (ii) the processing and marketing of agricultural products, under proposals meeting criteria acceptable to the Bank.

2. Each Grant shall be made available by the Borrower to the Grantee on an advance basis to cover the estimated cost of the activities under the proposals to be financed under the Grant, provided, however, that the Grantee shall promptly refund to the Borrower any amounts not required for the actual carrying out of such activities.

3. Each Grantee shall receive (i) a maximum of Rp 10,000,000 per year, of which up to 40% may be used for processing and marketing of agricultural products, and (ii) a maximum of Rp 25,000,000 under the Project.

4. Grants shall be made on terms whereby the Borrower shall obtain, through a single written agreement with each of the Grantees, rights adequate to protect the interests of the Borrower and the Bank, including the right, as applicable, to:

(a) require the Grantee to on-lend the Grant to farmers and groups of farmers for a maximum period of 12 months and at an interest rate of at least 15% calculated on the amount withdrawn and outstanding;

(b) require the Grantee to open and maintain a revolving credit account in an institution providing deposit services;

(c) require the Grantee to ensure that villagers and group of villagers shall carry out the activities with due diligence and efficiency and in accordance with sound agricultural, financial and technical standards and to maintain adequate records;

(d) require that the goods and services required for the activities and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this

Agreement, and that such goods shall be used primarily in the carrying out of the activities;

(e) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and any relevant records and documents;

(f) obtain all such information as the Borrower and the Bank shall reasonably request relating to the foregoing and to the benefits to be derived from the activities and the revolving credit accounts; and

(g) suspend or terminate the right of the Grantee to the use of the proceeds of the Grant upon failure by such Grantee to perform its obligations under its agreement with the Borrower providing for the Grant.

SCHEDULE 7

Criteria for Selection of Local Community Initiatives

The Project will support implementation of Local Community Initiatives which are considered to be of a high priority by the relevant community. Such Initiative shall be rural based (but shall exclude water supply and sanitation), and shall result in direct benefits to such community.

Except as the Bank shall otherwise agree, the Borrower shall approve Local Community Initiatives for financing under the Project in accordance with the following provisions:

1. The Kabupaten Coordinating Committee of each participating Kabupaten shall be responsible for the approval of the initiatives to be financed.

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

(a) the Initiative shall be other than the activities carried out under Part A.1, A.3, A.4 and A.5 of the Project;

(b) the proposal shall be technically feasible, economically justifiable and be a productive activity;

(c) maximum amount of financing per Initiative: Rp 10,000,000;

(d) maximum amount of financing per household: Rp 250,000;

(e) minimum number of households per Initiative: 10 (except for sparsely populated areas where the minimum shall be 3 households); and

(f) contributions by households to include locally available materials, unskilled labor, and, where required, land.

3. Preference shall be given to proposals:

(a) that benefit the poorest segment of the community;

(b) that involve women's and youth groups;

(c) that are assisted by local community organizations;

(d) that have the lowest risk of failure; or

(e) where the socio-economic impact is greatest.

4. Procurement procedures shall be as set forth in Schedule 4 to this Agreement.

SCHEDULE 8

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through

(11) 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 \$2,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment 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;

(b) if the Borrower shall have failed to furnish to the Bank,

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

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

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

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

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

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

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

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

