

CONFORMED COPY

CREDIT NUMBER 4385-ID

Financing Agreement

(National Program for Community Empowerment in Rural Areas Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 6, 2008



CREDIT NUMBER 4385-ID

FINANCING AGREEMENT

AGREEMENT dated June 6, 2008, entered into between REPUBLIC OF INDONESIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The IDA General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the IDA General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to one hundred nineteen million five hundred thousand Special Drawing Rights (SDR 119,500,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 1 and October 1 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MOHA and in accordance with the provisions of Article IV of the IDA General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following: The Recipient has adopted the Project Manual in accordance with the provisions of Section I.B.1 of Schedule 2 to this Agreement.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.03. For purposes of Section 8.05(b) of the IDA General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance
- 5.02. The Recipient's Address is:

Ministry of Finance
c/o Directorate General of Debt Management
Jalan Lapangan Banteng Timur 2-4
Jakarta 10710
Indonesia

Cable address:	Telex:	Facsimile:
FINMINISTRY 45799 Jakarta	DJMLN-IA 44319 DEPKEU-IA	(21) 381 2859

5.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Jakarta, Indonesia, as of the day and year first above written.

REPUBLIC OF INDONESIA

By: /s/ Rahmat Waluyanto

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Joachim von Amsberg

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to contribute to the realization of the PNPM's overall development goals, namely, to reduce poverty and improve local-level governance in rural areas of Indonesia through the provision of investment resources to support productive proposals developed by communities, using a participatory planning process.

The Project consists of the following parts:

Part A: Block Grants

Provision of Block Grants to sub-districts and villages to support investments in social and economic infrastructure, including:

- (a) Kecamatan Grants to support investment proposals presented by communities, which are technically and financially feasible, of benefit to the communities themselves, and with special focus on the poor, and respond to a public need;
- (b) Planning Grants to facilitate the village and sub-district planning process and community training, and to support village cross-audits, dissemination materials and related local travel costs.

Part B: Facilitation and Training.

Provision of technical advisory services and other material support, and training to strengthen the capacity of the local government institutions created through the decentralization program in order to familiarize the relevant officials and community members with their rights, duties and obligations under the relevant laws and regulations, and to train the technical staff of local governments, including the district parliaments, concerned with village development.

Part C: Implementation Support and Technical Assistance

1. Provision of technical advisory services and other material support, and training, to support implementation at national, provincial and district-level through the recruitment of technical and social facilitators to provide technical advice, field oversight, and local-level coordination to the Project.
2. Provision of technical advisory services and other material support, and training, to strengthen the Borrower's internal monitoring and evaluation system, and to implement an enhanced audit program that expands sampling, provides capacity development support for district government auditors, and address related issues.

Part D: Support for Project Management

Provision of technical advisory services and other material support, and training, to strengthen PMD and support the management of the incremental activities generated by the Project, including introduction of electronic file management for PMD, office improvements, and provision of advanced specialized training in management, fiduciary controls and evaluation.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Recipient shall ensure that the Project shall be implemented under the umbrella of PNPM, and subject to the overall guidance and authority of the ministerial-level working group on development and oversight of PNPM (Tim Pengendali PNPM) chaired by Menko Kesra, and including representatives of Bappenas, MOHA and Ministry of Finance, Ministry of Public Works, and State Ministry for Development of Disadvantaged Regions.
2. The Recipient shall, through MOHA, designate PMD to be responsible for the overall management and monitoring of the Project at the central level.
3. The Recipient shall, through PMD:
 - (a) establish and thereafter maintain, until the completion of the Project, a PMD Secretariat, whose mandate, composition and terms of reference shall be acceptable to the Association, to be responsible for the day-to-day coordination and supervision of the Project;
 - (b) ensure that the PMD Secretariat shall be provided with adequate funds and other resources, and supported by suitably qualified and experienced technical, financial and administrative personnel in adequate numbers as needed to accomplish the objectives of the Project, including: (A) a suitably qualified and experienced person who shall be the Project Manager and, as such, responsible for the day-to-day management of the Project; and (B) National Management Consultants to provide support in terms of overall Project management support, monitoring of implementation, and technical and financial reporting and oversight.
4. The Recipient shall, through PMD:
 - (a) cause to be established and thereafter maintained, until the completion of the Project:
 - (i) at the level of each Project Province: (A) a Provincial Poverty Reduction Board (PPRB), whose mandate, composition and terms of reference shall be acceptable to the Association, to be

responsible for overall coordination and management of the Project at the Province-level; and (B) a Provincial Satker, whose mandate, composition and terms of reference shall be acceptable to the Association, to be responsible for the day-to-day implementation of the Project at the Province-level, including recruitment of facilitators and consultants, management of contracts, execution of payments and production of reports on the progress of the Project;

- (ii) at the level of each Project Kabupaten, a Kabupaten Poverty Reduction Board (KPRB), whose mandate, composition and terms of reference shall be acceptable to the Association, to be responsible for overall coordination and management of the Project at the Kabupaten-level; and
- (b) ensure that the PPRB, KPRB and Provincial Satker shall be provided with adequate funds and other resources, and supported by suitably qualified and experienced technical, financial and administrative personnel in adequate numbers as needed to accomplish the objectives of the Project, including, in the case of the Provincial Satker, a suitably qualified and experienced person who shall be the PJOK, along with a team of suitably qualified and experienced Kecamatan-level Management Consultants.

B. Implementation Obligations

1. The Recipient shall:

- (a) adopt, and thereafter apply in the implementation of the Project, a Project Manual acceptable to the Association (“Project Manual”), giving details of: (i) implementation arrangements; (ii) procurement procedures as set forth in Section III of this Schedule and standard procurement documentation; (iii) reporting requirements, financial management procedures and audit procedures as set forth in Section II.B of this Schedule; (iv) project performance indicators as set forth in Section II.A of this Schedule; (v) the Environmental Management Framework, (vi) the Isolated Vulnerable Peoples Framework; (vii) the Land Acquisition and Resettlement Policy Framework; (viii) criteria for the selection of Sub-projects, along with the terms and conditions governing Block Grants and Local Government Participation, including the additional terms and conditions set forth in the Annex to this Schedule; (ix) maintenance provisions for works to be carried out under a Sub-project; and (x) the Better Governance Action Plan;

- (b) undertake not amend, suspend, abrogate, repeal or waive any provisions of the Project Manual without the prior agreement of the Association.
 - (c) ensure that the Project Manual is made available, at all times until completion of the Project, to Kecamatan Facilitators and Kabupaten engineers, and applied in the carrying out of Sub-projects; and
 - (d) with the prior agreement of the Association, update the Project Manual, as necessary.
2. For purposes of providing Block Grants under the Project, the Recipient shall apply the proceeds of the Credit allocated to Category (1) to finance Sub-projects in accordance with the guidelines, procedures and criteria set forth in the Project Manual, and the additional terms and conditions set forth in the Annex to this Schedule.
3. The Recipient shall:
- (a) ensure that auditing activities under the Project, including those referred to in Section II.B of this Schedule, are carried out in accordance with:
 - (i) BPKP's audit manual, dated November 30, 2007, as such manual may be amended from time to time with the prior agreement of the Association; and
 - (ii) in accordance with terms of reference agreed with the Association; and
 - (b) not later than October 31, 2008, in each year, and until completion of the Project, inform each Project Kabupaten that all auditing activities with respect to Sub-projects are to be carried out exclusively by independent auditors appointed by PMD in accordance with Section II.B of this Schedule and in accordance with the manual and terms of reference referred to in sub-paragraph (a) of this paragraph.
4. The Recipient shall ensure that:
- (a) Tim Pengendali PNPM shall, in consultation with the relevant Kabupaten, annually select proposed Project Kecamatan from a list of Kecamatan provided by PMD, in accordance with criteria set forth in the Project Manual, and furnish such list for approval to the Association; and
 - (b) the PMD Secretariat shall make available to the public, at all times, until completion of the Project, free of charge, the list of Project Kecamatan.

5. The Recipient shall ensure that the relevant Bupatis and Camats shall:
 - (a) prior to the beginning of each Fiscal Year, issue to Project Kecamatans, not later than October 31 of each year, commencing on October 31, 2008, and until completion of the Project, public information aimed at disclosing to villagers and their representatives, all administrative, financial, environmental, social, procedural and technical details pertaining to the selection, design, preparation and implementation of Sub-projects; and
 - (b) make such information, including the Project Manual, available free of charge for consultation at the Project Kecamatan office.

6. For the purposes of Sub-projects under Part A of the Project, the Recipient shall, through the relevant PJOK, ensure that, prior to the carrying out of works under a Sub-project, the Project Kabupaten Facilitator (technical) shall have completed a technical review of such Sub-project and shall have confirmed the following:
 - (a) the criteria described in the Annex to this Schedule have been complied with;
 - (b) necessary funding to fully finance the proposed Sub-project has been obtained, including a Block Grant, a Local Government Participation and any additional contributions to be made by communities themselves or from other sources;
 - (c) appropriate engineering and environmental standards and practices that would minimize any acquisition of land and avoid involuntary resettlement of Displaced Persons have been considered in the design of the Sub-project in accordance with the Project Manual;
 - (d) the provisions of the Environmental Management Framework have been complied with and, where applicable, an EMP fully consistent with this Agreement and the Environmental Management Framework has been prepared and agreed upon and adopted;
 - (e) the provisions of the Land Acquisition and Resettlement Framework have been complied with and, where applicable, a Land Acquisition and Resettlement Action Plan fully consistent with this Agreement and the Land Acquisition and Resettlement Framework, and deemed satisfactory to the Displaced Persons, has been agreed upon and adopted;

- (f) the provisions of the Isolated Vulnerable People Development Framework, if applicable, has been complied with;
 - (g) a Sub-project Agreement has been entered into and an implementation plan for the Sub-project has been prepared in accordance with the provisions of the Project Manual; and
 - (h) a maintenance program for works to be carried out under the Sub-project and related goods has been prepared in accordance with terms acceptable to the Association, and included in the Sub-project Agreement, which shall include assignment of maintenance responsibilities in the respective Village, preparation of training programs to strengthen the maintenance capabilities of the Village, and identification of available sources of financing to carry out such programs.
7. In the case of every Sub-project involving infrastructure works, the Recipient shall ensure that:
- (a) upon its completion, the Sub-project is reviewed by the Kabupaten Facilitator (technical) and, in the event of a finding of satisfactory Sub-project completion, a certificate of Sub-project completion issued by the Kabupaten Facilitator (technical), in accordance with the Project Manual and approved designs; and
 - (b) in the event of a finding of unsatisfactory completion of the Sub-project, except for cases of force majeure, UPK shall recover the amounts disbursed under the Block Grant, in accordance with procedures acceptable to the Association and set forth in the Project Manual, to be applied for the purposes of the Project or cancelled, as the case may be.
8. For the purposes of Sub-projects under Part A of the Project, the Recipient shall:
- (a) take measures to avoid or minimize the acquisition of land or assets of villagers, and to avoid the displacement of said villagers;
 - (b) where the acquisition of land or assets, or the displacement of people is unavoidable under a proposed Sub-project, ensure that the Beneficiary shall, before carrying out the works which would result in such acquisition or displacement, provide to such people, adequate compensation, and other resettlement and rehabilitation benefits, in accordance with the Land Acquisition and Resettlement Framework; and

- (c) in the case of the physical displacement of persons involving the loss of more than 10 percent of their productive assets or the displacement of more than 200 people as a result of a Sub-project, ensure that:
 - (i) a Land Acquisition and Resettlement Action Plan shall be prepared in accordance with the Land Acquisition and Resettlement Framework, and furnished 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 and provided with applicable resettlement and rehabilitation benefits in accordance with the provisions of such Land Acquisition and Resettlement Action Plan.
9. For the purposes of Sub-projects under Part A of the Project, the Recipient 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, by taking appropriate mitigating measures; and
 - (b) through a process of informed 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 likely to protect their customary user rights.
10. For the purposes of studies provided for under Part D of the Project, the Recipient shall:
- (a) carry out such studies in accordance with terms of reference acceptable to the Association;
 - (b) not later than January 1 in each year, commencing on January 1, 2009, furnish to the Association for comments the recommendations of the studies carried out in the preceding year;
 - (c) not later than July 31 in each year, commencing on July 31, 2009, prepare action plans for the implementation of the recommendations of such studies, taking into account the comments of the Association on such recommendations; and

- (d) promptly thereafter, carry out each of such action plans.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

Performance Indicators	2008	2009	2010
# Kabupaten participating	350	350	350
# Kecamatan participating	2,300	2,600	2,600
Min. participation rate of women and poorest community members (as defined in Project Manual) in planning and decision-making meetings	40%	40%	40%
% of agreed workplans completed in each cycle	--	85%	85%
% of infrastructure works sampled are evaluated as high quality	--	>70%	>70%
% of planned consultant positions are filled and consultants are trained by the time the project begins its annual socialization and planning cycle	>70%	>70%	>70%
% of study and evaluation findings used to improve the project	>70%	>70%	>70%

2. The Recipient shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on the date which is three (3) months

after the Effective Date, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Section II, 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.

3. The Recipient shall review with the Association, by the date which is forty-five (45) days after the date on which the report is submitted pursuant to paragraph 2 of this Section II.A, the report referred to in paragraph 2 of this Section II.A 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.
4. The Recipient shall make publicly available the report referred to in subparagraph 2 of this Section II.A at the same time as it is furnished to the Association pursuant to said sub-paragraph.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the IDA General Conditions.
2. The Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the IDA General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Works and Services.** All goods, works and services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

- 2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
- 3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Services

- 1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and services shall be procured under contracts awarded on the basis of International Competitive Bidding.
- 2. **Other Methods of Procurement of Goods, Works and Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) Shopping
(b) Community Participation using procedures acceptable to the Association as set out in the Project Manual

C. Particular Methods of Procurement of Consultants’ Services

- 1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
- 2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Least Cost Selection
(b) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(c) Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing**A. General**

1. The Recipient may withdraw the proceeds of the Financing and the Loan in accordance with the provisions of Article II of the IDA General Conditions, (with respect to the Financing) and the provisions of Article II of the IBRD General Conditions (with respect to the Loan) this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing and the Loan ("Category"), the allocations of the amounts of the Financing and the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Block Grants	83,050,000	28,630,000	100% of Block Grant amount disbursed
(2) Facilitation support	24,350,000	8,390,000	100%
(3) Goods, Consultants' services, training and workshops	11,900,000	4,000,000	100%
(4) Incremental Operating costs	200,000	67,025	100%
(5) Front-end Fee	-	102,975	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	<u>119,500,000</u>	<u>41,190,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2011.

ANNEX
to
Schedule 2

Additional Terms and Conditions Governing Block Grants

1. No Block Grant shall be eligible for financing out of the proceeds of the Credit unless the corresponding proposals for the Block Grants have been prepared and submitted, and the review of proposals and award of Block Grants have been undertaken, in accordance with the guidelines, procedures and selection criteria set forth in the Project Manual.

2. No Block Grant shall be made to finance expenditures pertaining to or involving:
(a) a military or paramilitary purpose; (b) civil works for government administration or religious purposes; (c) the manufacture or use of environmentally hazardous goods (including asbestos, pesticides and herbicides), arms or drugs; (d) the manufacture or use of dynamite; (e) the financing of government salaries; (f) the production, processing, handling, storage or sale of tobacco or products containing tobacco; (g) activities within a nature reserve or any other area designated by the Recipient for the management and/or the protection of biodiversity, except with the prior written approval of the Recipient's agency responsible for the management and/or protection of such area; (h) mining or excavation of live coral; (i) water resources development on rivers which flow into or out of another country; (j) alterations to river courses; (k) land reclamation covering an area in excess of 50 hectares; (l) new irrigation schemes covering an area in excess of 50 hectares; (m) the construction of water retaining or storage structures of a capacity greater than 10,000 cubic meters; or (n) the provision of goods, works or services, directly or through intermediaries, by suppliers or contractors, as the case may be, who have been declared ineligible to participate in the procurement of any Bank-financed or Association-financed contract, whether indefinitely or for a stated period of time, as a result of a decision of the Bank or the Association, and in accordance with the terms of the decision.

3. **Block Grants**

Block Grants may be in the form of Kecamatan Grants or Planning Grants.

4. **Kecamatan Grants**

(a) Kecamatan Grants may be provided to support investment proposals presented on behalf of communities to finance economic or social infrastructure activities pertaining to Sub-projects other than those which

are prohibited pursuant to paragraph 2 of this Annex, provided, however, that such Sub-projects:

- (i) are technically and financially feasible, and capable of being implemented by the communities themselves with only locally available technical assistance;
- (ii) are of benefit to the communities, and to the poor in particular; and
- (iii) respond to a public need.

(b) The amount of each Kecamatan Grant shall be calculated according to a poverty-based weighting formula issued by Bappenas, and shall be expected to vary from Rp 1 billion to Rp 3 billion per year, depending on the size of the population of the Kecamatan.

5. Planning Grants

(a) Planning Grants may be provided to facilitate the Village and Kecamatan planning process and community training, and to support village cross-audits, dissemination materials, and related local travel costs.

(b) The amount of each Planning Grant to a Project Kecamatan shall be calculated on the basis of the number of villages in such Project Kecamatan as well as the degree of difficulty expected in the preparation of the proposed Kecamatan and Village-level planning process; provided, however, that such Planning Grant shall not normally exceed Rp 300,000,000 per Project Kecamatan per year.

6. (a) For purposes of every Block Grant, a Sub-project Agreement shall be signed into between the UPK and the Beneficiary, setting forth the respective obligations of the parties thereunder, including: (i) the amounts of the Block Grant and Local Government Participation, along with details of the agreed disbursement schedule in each case; (ii) procurement procedures consistent with Section III of Schedule 2 to this Agreement; (iii) provisions for audits of the Block Grant; (iv) the amount of any counterpart or matching contribution to be made by the communities or from other sources; (v) details of the Environmental Management Plan; and (vi) an undertaking on the part of the Beneficiary to execute the Block Grant and Local Government Participation with due diligence and efficiency and, upon its completion, to have in place a maintenance program to ensure the continued achievement of the objectives of the Block Grant and Local Government Participation.

(b) No Sub-project shall be eligible for financing out of the proceeds of a Block Grant unless a Sub-project Agreement has been concluded to this effect on terms and conditions set forth in this Agreement and the Project Manual.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)
October 01, 2018	5%
April 01, 2019	5%
October 01, 2019	5%
April 01, 2020	5%
October 01, 2020	5%
April 01, 2021	5%
October 01, 2021	5%
April 01, 2022	5%
October 01, 2022	5%
April 01, 2023	5%
October 01, 2023	5%
April 01, 2024	5%
October 01, 2024	5%
April 01, 2025	5%
October 01, 2025	5%
April 01, 2026	5%
October 01, 2026	5%
April 01, 2027	5%
October 01, 2027	5%
April 01, 2028	5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the IDA General Conditions.

APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Bappenas” means *Badan Perencanaan Pembangunan Nasional*, the Recipient’s National Development Planning Agency, and any successor thereto.
3. “Beneficiary” means a Village or other entity which is the beneficiary of a Block Grant and party to a Sub-project Agreement.
4. “Better Governance Action Plan” means a stand-alone chapter of the Project Manual designed to integrate the contents of the Anti-Corruption Guidelines and to give effect thereto, and giving details of a program of actions, measures and policies designed to reduce or eliminate fraud and corruption in all its forms under the Project, including enhanced information disclosure provisions, civil society oversight provisions, mitigation measures to deal with the risks associated with collusion, forgery and fraud, a complaint handling mechanism, and an appropriate regime of sanctions and remedies.
5. “Block Grant” means a Kecamatan Grant or a Planning Grant, as the case may be, and “Block Grants” means more than one Block Grant.
6. “BPKP” means *Badan Pengawas Keuangan dan Pembangunan*, the Recipient’s Financial and Development Supervisory Agency, or any successor thereto.
7. “Bupati” means the Head of a Kabupaten.
8. “Camat” means the Kabupaten official at the Kecamatan.
9. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
10. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Association in May 2004 and revised in October 2006.
11. “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of

shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and “Displaced Persons” means, collectively, all such Displaced Persons.

12. “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement.
13. “Environmental Management Plan” or “EMP” means an Environmental Management Plan, acceptable to the Association and consistent with the Environmental Management Framework, adopted for the purposes of a Sub-project, and giving details of the agreed actions and policies designed to maximize the benefits of the Sub-project, eliminate or offset any adverse environmental impacts, or reduce such impacts to acceptable levels, along with the procedural and institutional measures needed to implement such actions and policies.
14. “Environmental Management Framework” means the Environmental Management Framework, dated January 28, 2008, adopted by the Recipient, giving details of a program of actions, measures and policies designed to maximize the benefits of the Project, eliminate, offset or mitigate any adverse environmental impacts, or reduce such impacts to acceptable levels, as such Environmental Management Framework may be amended from time to time with the prior agreement of the Association.
15. “Facilitator” means a technical or social specialist assigned to work with villages to facilitate their participation in the Project, and “Facilitators” means more than one Facilitator.
16. “Fiscal Year” and “FY” mean the Recipient’s fiscal year commencing January 1 and ending December 31.
17. “High Fiscal Capacity Area” means an area designated as such in the Project Manual.
18. “IBRD General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).

19. “IDA General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
20. “Incremental Operating Costs” means the incremental operating costs arising under the Project on account of local contractual support staff salaries; travel and other travel-related expenditures; equipment rental and maintenance; vehicle operation, maintenance and repair; office rental and maintenance; materials and supplies; and utilities and communications expenses.
21. “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.
22. “Isolated Vulnerable People Development Framework” means the Isolated Vulnerable People Development Framework acceptable to the Association, dated January 28, 2008, adopted by the Recipient, and giving details of the rules, guidelines and procedures needed to: (a) involve Isolated Vulnerable People, through a process of informed consultation, in the design and implementation of Sub-projects in locations in which such people reside or make their living; and (b) design and implement measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts of Sub-projects, as such Isolated Vulnerable People Development Framework may be amended from time to time with the prior agreement of the Association.
23. “Kabupaten” means a district, an administrative sub-division of the Province.
24. “Kecamatan” means a sub-district, an administrative sub-division of a Kabupaten.
25. “Kecamatan Grant” means a grant made or to be made out of the proceeds of the Credit pursuant to Part A (a) of the Project, and “Kecamatan Grants” means more than one Kecamatan Grant.
26. “Kecamatan Poverty Reduction Board” or “KPRB” means the Kecamatan Poverty Reduction Board referred to in Section I.A.4 (a)(ii) of Schedule 2 to this Agreement.
27. “Land Acquisition and Resettlement Action Plan” means a resettlement and rehabilitation action plan, acceptable to the Association, and consistent with the Land Acquisition and Resettlement Policy Framework, adopted for the purposes

of a Sub-project, and giving details of the agreed provisions for compensation, rehabilitation and resettlement assistance to Displaced Persons under the Sub-project, along with the procedural and institutional measures needed to implement such agreed provisions.

28. “Land Acquisition and Resettlement Framework” means the Land Acquisition and Resettlement Framework acceptable to the Association, dated January 28, 2008, adopted by the Recipient, and giving details of provisions for compensation, rehabilitation and resettlement assistance to Displaced Persons, as such Land Acquisition and Resettlement Framework may be amended from time to time in agreement with the Association.
29. “Loan” means the loan in the amount of forty one million one hundred ninety thousand Dollars (\$41,190,000) to be provided by the Bank to the Recipient under the Loan Agreement.
30. “Loan Agreement” means the agreement (Loan No. 7505) of even date herewith between the Recipient and the Bank for the Project, as such agreement may be amended from time to time.
31. “Local Government Participation” means Local Government funding of the Total Sub-project Cost for participating in the Project, to be made available by a Project Province or Project Kabupaten to a Project Kecamatan for a Sub-project, whether in the form of a grant or sub-loan, in an amount which shall be:
 - a. in the case of a Project Kecamatan in a High Fiscal Capacity Area, not less than 50% of Total Sub-project Cost; and
 - b. in the case of a Project Kecamatan in a Low Fiscal Capacity Area, not less than 20% of Total Sub-project Cost.
32. “Low Fiscal Capacity Area” means an area designated as such in the Project Manual.
33. “Menko Kesra” means the Recipient’s Coordinating Ministry for Social Welfare, and any successor thereto.
34. “Ministry of Finance” means the Recipient’s Ministry of Finance, and any successor thereto.
35. “MOHA” means the Recipient’s Ministry of Home Affairs, or any successor thereto.

36. “National Management Consultants” means the team of consultants at the central level to assist in Project implementation and monitoring.
37. “PJOK” means a Project operations officer at the Kecamatan level, and “PJOKs” means more than one PJOK.
38. “Planning Grant” means a grant made or to be made out of the proceeds of the Credit pursuant to Part A(b) of the Project.
39. “PMD” means *Pemberdayaan Masyarakat dan Desa*, the Directorate General for Community Empowerment of MOHA, or any successor thereto.
40. “PMD Secretariat” means the PMD Secretariat referred to in Section I.A.3 of Schedule 2 to this Agreement.
41. “PNPM” means *Program Nasional Pemberdayaan Masyarakat*, the Recipient’s National Program for Community Empowerment, as set forth in PNPM General Guidelines (*Pedoman Umum*), issued by Tim Pengendali, dated, July 30, 2007, and the PNPM Roadmap.
42. “PNPM Roadmap” means the letter, dated January 9, 2008, from the Recipient to the Association setting out an overall five year policy roadmap for PNPM.
43. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
44. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 19, 2008, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
45. “Project Kabupaten” means a Kabupaten located in a Project Province which is selected by the Recipient for participation in the Project in accordance with the provisions of the Project Manual.
46. “Project Kecamatan” means a Kecamatan located in a Project Kabupaten which is selected by the Recipient for participation in the Project in accordance with the provisions of the Project Manual.
47. “Project Province” means a Province selected by the Recipient for participation in the Project in accordance with the provisions of the Project Manual.

48. “Province” means an administrative sub-division of the Recipient’s territory.
49. “Provincial Poverty Reduction Board” or “PPRB” means the Provincial Poverty Reduction Board referred to in Section I.A.4(a)(i) of Schedule 2 to this Agreement.
50. “Project Manual” means the Project Manual referred to in Section I.B.1 of Schedule 2 to this Agreement, as such Project Manual may be amended from time to time with the prior agreement of the Association.
51. “Rupiah” and “Rp” mean the currency of the Recipient.
52. “Satker” means *Satuan Kerja*, a Project management unit, whether at central level or at the level of the Province or Kabupaten.
53. “State Ministry for Development of Disadvantaged Regions” means the Recipient’s State Ministry for Development of Disadvantaged Regions, and any successor thereto.
54. “Sub-project“ means a specific investment project under Part A of the Project and financed or to be financed in whole or in part out of the proceeds of a Block Grant, and “Sub-projects” means more than one Sub-project.
55. “Sub-project Agreement” means an agreement between UPK and a Beneficiary for purposes of a Sub-project, and referred to in paragraph 6 of the Annex to Schedule 2 to this Agreement, and “Sub-project Agreements” means more than one Sub-project Agreement.
56. “Tim Pengendali PNPM” means the inter-ministerial working group described in paragraph 1 of Section I.A of Schedule 2 to this Agreement.
57. “Total Sub-project Cost” means, in the case of each Sub-project, the total funding required for completion of the Sub-project, including: (a) the amount of the Block Grant; and (b) the amount of the Local Government Participation.
58. “UPK” means a Kecamatan management unit established and operating in a Kecamatan, and “UPKs” means more than one UPK.
59. “Village” means an administrative subdivision of a Kecamatan.