

CONFORMED COPY

LOAN NUMBER 3762 IND

Loan Agreement

(Java Irrigation Improvement
Water Resources Management Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 25, 1994

LOAN NUMBER 3762 IND

LOAN AGREEMENT

AGREEMENT, dated July 25, 1994, 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) "Bupati" means the head of an administrative district (kabupaten);

(b) "DGWRD" means the Directorate General of Water Resources Development in the Borrower's Ministry of Public Works;

(c) "Efficient Operation and Maintenance" means routine operation and maintenance activities carried out on an irrigation system so as to provide the expected service to water users and to maintain such irrigation system in sustainable working condition;

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

(e) "Project Area" means the Borrower's provinces of Central Java, East Java, West Java, and D.I Yogyakarta;

(f) "Provincial Water Resources Services" or "PWRS" means such Services as established within the Borrower's provincial governments in the Project Area;

(g) "Real-time Basin Water Resources Management" means the monitoring and management of the flow conditions within a river basin at hourly intervals for flood flows and at daily or weekly intervals for water operations;

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

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

(j) "Special Maintenance" means those deferred maintenance needs that have accumulated in a system that had been fully rehabilitated or constructed and that otherwise contains the essential structures required in the systems; and

(k) "Basin Water Operations Unit" means such unit as established for a river basin and administratively responsible to the relevant PWRS.

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 one hundred sixty five million seven hundred thousand dollars (\$165,700,000), 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 or in a commercial bank on terms and conditions satisfactory to the Bank, including 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 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000, 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 February 15 and August 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, 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.

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

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 2458
Jakarta 10710, 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/ Arifin M. Siregar

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marianne Haug

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:		60%
(a) Part C of the Project	17,300,000	
(b) Part D.1 (except deferred schemes), D.2 and D.3 of the Project	79,300,000	
(c) Deferred schemes under Part D.1 of the Project	4,200,000	
(d) Part D.4 of the Project	4,900,000	
(2) Equipment and materials (except vehicles)	8,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(3) Incremental operating expenditures and training:		80%
(a) Part A of the Project	10,700,000	
(b) Parts B, C, E and F of the Project	3,600,000	
(4) Consultants' services	15,900,000	80%
(5) Engineering	9,600,000	100%

	services for PWRS	
(6)	Unallocated	12,000,000
	TOTAL	<u>165,700,000</u>

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; and

(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 "deferred schemes" means the following irrigation schemes in the Project Area: Rawa Jabung and Waduk Gondang in East Java Province and Lewigoong in West Java Province; and

(d) the term "incremental operating expenditures" means expenditures for real-time operation and maintenance of basin water management systems.

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;

(b) payments made for expenditures in respect of Category 1 (c), until the Bank has received an environmental analysis and economic justification, satisfactory to the Bank, for each of the deferred schemes, including, if necessary, a resettlement plan as set forth in paragraph 12 of Schedule 5 to this Agreement; and

(c) payments made for expenditures in respect of Category 1 (d), until the Bank has received (i) cost estimates and design, acceptable to the Bank, for the remedial works, and (ii) evidence, satisfactory to the Bank, of adequate availability of water supply based on actual measurements of the Lusi river flows.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for works not exceeding \$ 500,000 equivalent, contracts for goods not exceeding \$200,000 equivalent, contracts for employment of consulting firms not exceeding \$100,000, and contracts for employment of individual consultants not exceeding \$50,000, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to (i) establish comprehensive and decentralized integrated basin water resources management in selected river basins in the provinces of Central Java, East Java, West Java, and D.I. Yogyakarta; (ii) rehabilitate, provide special maintenance, and improve sustainability of, irrigation schemes in such provinces; and (iii) transfer operation and maintenance of small irrigation schemes in such provinces to water users associations.

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: River Basin Water Resources Management

1. Preparation of long-term basin water resources plans in the following

river basins: Citarum in West Java, Cidurian/Ciujung in West Java, and Jratunseluna/Garang in Central Java.

2. Carrying out of public awareness activities of river basin planning and management activities, including water pollution and conservation issues, in the following river basins: Citarum in West Java, Cidurian/Ciujung in West Java, and Jratunseluna/Garang in Central Java.

3. Establishment of institutional arrangements, including procedures and guidelines, to enhance real-time basin water resources management in the following river basins: Jratunseluna/Garang in Central Java, Cidurian/Ciujung in West Java, Sampean in East Java, Cisanggarung in West and Central Java, and Progo-Opak-Oyo in D. I. Yogyakarta and Central Java.

4. Establishment of appropriate procedures and institutional arrangements for the allocation and management, by provincial governments, of water resources in selected basins in the Project Area.

5. Establishment of procedures and guidelines for water service fees in selected basins in the Project Area and introduction of such fees in at least three basins in the Project Area.

6. Establishment of a pilot river infrastructure and facilities maintenance program in the Cisanggarung and Jratunseluna/Garang basins.

7. Carrying out of sediment and erosion control measures around river channels and water works in the Project Area through the introduction of hedge row vegetation technology.

8. Improvement of flood forecasting and water monitoring system in basins selected for real-time water resources management in the Project Area, including provision of equipment and training.

9. Provision of technical assistance for river basin planning and real-time water resources management; training for staff of DGWRD, Provincial Water Resources Services, and Basin Water Operations Units; and provision of equipment.

PART B: Hydrology

Strengthening of the hydrological units of the Provincial Water Resources Services in the Project Area through:

- (a) upgrading of the hydrological network for operational purposes;
- (b) provision of related hydrological and meteorological metering and communications equipment, and computer hardware and software, for collecting and processing hydrological and meteorological data; and
- (c) provision of equipment, vehicles, staff training and technical assistance.

PART C: Transfer of Operation and Maintenance of Small Irrigation Schemes to Water Users Associations

1. Preparation and completion of designs and carrying out of Special Maintenance on about 356,000 hectares of public irrigation systems of less than 500 hectares each in the Project Area, before transferring the operation and maintenance of such systems to water users associations.

2. Preparation of designs for special maintenance on about 80,000 additional hectares of public irrigation systems of less than 500 hectares each in the Project Area.

3. Provision of engineering services for special maintenance, provision of technical assistance for the establishment and strengthening of water users associations, and provision of related training.

PART D: Irrigation Development

1. Rehabilitation and upgrading of about 202,000 hectares of medium-sized (500 to 3,000 hectares) public irrigation systems.

2. Carrying out of works for the expansion, by about 15,500 hectares, of

existing medium-sized public irrigation systems.

3. Construction of the proposed Cibareno irrigation scheme on about 600 hectares in the District of Banten in West Java.

4. Carrying out of remedial works on about 9,300 hectares of the Dumpil irrigation system in Central Java, and provision of technical assistance for construction supervision.

5. Provision of technical assistance and engineering services for planning, design and construction supervision of the works referred to in paragraphs 1 through 3 above.

PART E: Efficient Operation and Maintenance

Provision of Efficient Operation and Maintenance on about 776,000 hectares of public irrigation systems in the Project Area, and provision of related training and equipment.

PART F: Irrigation Service Fees

Establishment of a program of direct cost recovery for operation and maintenance from irrigation beneficiaries on public irrigation schemes on about 1,200,000 hectares in the Project Area, and provision of related technical assistance.

PART G: Quality Assurance and Technical Audits

1. Strengthening of the Quality Assurance Office in DGWRD, including provision of technical assistance.

2. Provision of technical assistance for the carrying out of technical audits of Project activities under Parts C, D, E and F of the Project.

PART H: Project Coordination

Provision of technical assistance to DGWRD for Project coordination, implementation and monitoring.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 15, 2000	3,140,000
August 15, 2000	3,255,000
February 15, 2001	3,370,000
August 15, 2001	3,495,000
February 15, 2002	3,620,000
August 15, 2002	3,755,000
February 15, 2003	3,890,000
August 15, 2003	4,030,000
February 15, 2004	4,175,000
August 15, 2004	4,330,000
February 15, 2005	4,485,000
August 15, 2005	4,650,000
February 15, 2006	4,820,000
August 15, 2006	4,995,000
February 15, 2007	5,175,000
August 15, 2007	5,365,000
February 15, 2008	5,560,000
August 15, 2008	5,760,000
February 15, 2009	5,970,000
August 15, 2009	6,185,000
February 15, 2010	6,410,000
August 15, 2010	6,645,000
February 15, 2011	6,885,000

August 15, 2011	7,135,000
February 15, 2012	7,395,000
August 15, 2012	7,665,000
February 15, 2013	7,945,000
August 15, 2013	8,230,000
February 15, 2014	8,530,000
August 15, 2014	8,835,000

* 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

1. Except as provided in Part D hereof, goods and works 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 and works 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.

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost more than the equivalent of \$200,000.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 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: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

1. Except as provided in paragraph 2 below, contracts for civil works estimated to cost the equivalent of \$3,000,000 or less per contract may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. To the extent practicable, contracts for civil works under Part D.4 of the Project shall be grouped into bid packages estimated to cost the equivalent of \$2,000,000 or more.

3. Civil works for efficient operation and maintenance and special maintenance may be carried out by force account.

4. Equipment and materials estimated to cost the equivalent of \$200,000 or less per contract up to an aggregate amount equivalent to \$900,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

Part E: 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 civil works estimated to cost more than the equivalent of \$500,000, and each contract for goods estimated to cost more than the equivalent of \$200,000, 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, with such modifications as shall have been agreed 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.

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 individuals estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to (i) the terms of reference for such contracts, (ii) single source selection of consulting firms, (iii) assignments of a critical nature, as reasonably determined by the Bank, (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (v) amendments to contracts for the employment of individuals raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. The Borrower shall, until completion of the Project, maintain the Project Coordination Unit within DGWRD with terms of reference acceptable to the Bank, and qualified staff in adequate numbers, including a Project coordinator who shall be the head of the Unit and shall report to the Director of the Directorate of Planning and Programming in DGWRD.

2. In carrying out Part A of the Project, the Borrower shall cause the following units and committees to be established in the Project Area not later than November 1, 1994:

(a) basin water management committees or similar committees, comprised of members appointed by the relevant provincial governors and Bupatis, and responsible for implementing the provincial policies and guidelines of the PWRS in allocating the basin's waters; and

(b) Basin Water Operations Units, with experienced staff, and responsible, inter alia, for water operations and distribution to service areas in the basin.

3. In carrying out Part A of the Project, the Borrower shall carry out basin water resources management in accordance with the Borrower's Position Paper on Integrated Water Resources Management, dated December 1993, Strategy Paper on Integrated Water Resources Management, dated May 16, 1994, and the Detailed Inter-Agency Action Plan agreed with the Bank.

4. In carrying out Parts B, C, D, and E of the Project, the Borrower shall cause the PWRS' in the Project Area to carry out the functions of Project management and Project implementation in the relevant province with qualified staff in adequate numbers.

5. In carrying out Special Maintenance under Part C.1 of the Project, the Borrower shall:

(a) ensure that the average annual cost of Special Maintenance financed under the Project does not exceed the average cost limitation agreed with the Bank;

(b) prepare, and furnish to the Bank for approval, additional economic and design justifications of Special Maintenance of irrigation schemes where the estimated cost of the Special Maintenance exceeds the review threshold agreed with the Bank; and

(c) carry out Special Maintenance only on irrigation schemes where the Borrower has obtained assurances from the relevant water users association that, upon completion of the Special Maintenance, such water user association will assume the responsibility of the operation and maintenance of such scheme.

6. In carrying out rehabilitation and expansion activities under Part D of the Project, the Borrower shall ensure that:

(a) selected schemes have a dependable irrigation water supply;

(b) where the estimated cost of rehabilitation exceeds the review threshold agreed with the Bank, the economic rate of return for such selected schemes shall be acceptable to the Bank;

(c) the relevant provincial government has confirmed that the site of the selected schemes will not be converted to a non-agricultural use for a period of at least ten years after completion of the rehabilitation and expansion works;

(d) the beneficiaries shall participate in water users associations; the water users associations have agreed to have the relevant schemes rehabilitated; and procedures have been established for irrigation service fee collection; and

(e) rehabilitated, expanded and new schemes shall be provided with Efficient Operation and Maintenance.

7. In carrying out Part F of the Project, the Borrower shall cause the Directorate General for Public Administration and Regional Autonomy in its Ministry of Home Affairs to include the areas to be selected for the introduction of the irrigation service fee in each annual work program to be prepared in accordance with paragraph 10 of this Schedule.

8. The Borrower shall, not later than January 15, 1995, employ consultants, in accordance with Section II of Schedule 4 to this Agreement, provided, however, that consultants to be employed for purposes of Part F of the Project, shall be employed not later than April 30, 1995.

9. The Borrower shall provide the vehicles required for the Project in accordance with a schedule and a time-table acceptable to the Bank.

10. The Borrower shall:

(a) not later than September 30 in each year, commencing November 30, 1994, and until completion of the Project, prepare and furnish to the Bank for comments a work program and cost estimates of Project activities to be carried out during the following Fiscal Year; and, thereafter, carry out such work program taking into account the comments of the Bank thereon;

(b) not later than December 31 in each year, commencing December 31, 1994, prepare and furnish to the Bank for comments the budget proposals for the following Fiscal Year's work program, based on the cost estimates for such work program; and, thereafter promptly finalize said budget taking into account the Bank's comments thereon; and

(c) furnish to the Bank, not later than July 1 in each year,

commencing July 1, 1995, and until completion of the Project, evidence, satisfactory to the Bank, that the Borrower: (i) has made budgetary allocations for the following Fiscal Year which (A) maintain, in real terms, financing for nationwide irrigation operation and maintenance at a level at least equal to the Fiscal Year 1993/1994 level, and (B) provide incremental funding needed for efficient operation and maintenance; and (ii) has substantially expended the budgetary allocations for operation and maintenance referred to in (i) above for the prior Fiscal Year.

11. In carrying out Part G.2 of the Project, the Borrower shall:

(a) not later than June 1, 1995, prepare and furnish to the Bank for comments, the terms of reference and proposed organizational arrangements for the carrying out of the technical audits of the Project activities under Parts C, D, E and F of the Project;

(b) cause technical audits to be carried out annually, in a manner acceptable to the Bank, during the implementation of the Project, commencing not later than April 1, 1996; and

(c) annually, commencing not later than October 1, 1996, furnish to the Bank for comments a copy of such audits.

12. In carrying out the Project, the Borrower shall:

(a) take measures to avoid or minimize involuntary resettlement of individuals; and

(b) where displacement of individuals is unavoidable, the Borrower shall, before carrying out the works which would result in such displacement:

(i) prepare a resettlement plan for said individuals in accordance with policies, planning principles, institutional arrangements and design criteria agreed with the Bank, designed to improve the living standards of said individuals;

(ii) furnish the resettlement plan referred to in sub-paragraph (i) hereof to the Bank for approval; and

(iii) take all measures necessary to ensure that said individuals shall be resettled in accordance with the resettlement plan approved by the Bank.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) 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 \$7,000,000 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.

