

CONFORMED COPY

CREDIT NUMBER 4384-ID

Financing Agreement

(National Program for Community Empowerment in Urban Areas Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 6, 2008

CREDIT NUMBER 4384-IND

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 seventy eight million six hundred thousand Special Drawing Rights (SDR 78,600,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 the Ministry of Public Works, 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.2 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 assist the Recipient to ensure that the urban poor in Participating Kelurahan benefit from improved socio-economic and local governance conditions.

The Project consists of the following parts:

Part 1: Community and Local Government Capacity Building

- (a) Carrying out PNPM poverty awareness-raising and training activities in Participating Kelurahan, including public relations campaigns, workshops and production of socialization materials and publications.
- (b) Carrying out a community self survey in each Participating Kelurahan.
- (c) Establishing a BKM or strengthening an existing BKM in each Participating Kelurahan through the provision of technical assistance, and establishing a BKM Forum or strengthening an existing BKM Forum in each Participating Kelurahan, and, through the Oversight Consultants and Facilitators, provision of technical assistance and training to BKM Forums.
- (d) Preparation of a Community Development Plan, or updating of an existing Community Development Plan, by the BKM in each Participating Kelurahan, on the basis of the community self-survey carried out under Part 1(b) of the Project.
- (e) Carrying out PNPM capacity building training and workshops for (i) BKM, PNPM and Kelurahan level Project staff, including Facilitators, in skills required for Project implementation, including management of Kelurahan Grants and Kelurahan Sub-loans and risk mitigation for possible community conflicts; (ii) community groups in Participating Kelurahan including community volunteers, KSMS, BKM members and other community facilitators in implementation of Sub-projects, including for emergency preparedness, as necessary, to reduce vulnerability of communities to natural disasters; and (iii) local level stakeholders including PJOKs, government and Kelurahan staff.

Part 2: Kelurahan Grants and Sub-loans

- (a) Carrying out Sub-projects for infrastructure and equipment investments, and for community group grants in Participating Kelurahan, through the provision of Kelurahan Grants.
- (b) Carrying out income-generating investment Sub-projects in Participating Kelurahan, through the provision of Kelurahan Sub-loans.

- (c) Carrying out social welfare Sub-projects for Highly Vulnerable Groups in Participating Kelurahan through the provision of Kelurahan Grants.

Part 3: Implementation and Technical Assistance

- (a) Strengthening the Project Management Unit's capacity in Project implementation and monitoring.
- (b) Strengthening the capacity of Participating Province-level government agencies, Participating Kecamatan, Participating Kotas, Participating Kabupaten and Participating Kelurahan in Project implementation and monitoring
- (c) Carrying out evaluations of the impact of the Project on poverty in Participating Kelurahan.

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, chaired by Menko Kesra (Tim Pengendali PNPM), 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:
 - (a) at the central level, maintain, until completion of the Project: (i) the PMU, established in MPW, headed by an appropriately qualified Project Manager, and responsible for the management and monitoring of the Project; and (ii) the central PIU (Satker), established in MPW, responsible for day-to-day implementation of the Project including recruitment of National Management Consultants and Oversight Consultants and production of reports on the progress of the Project, in both cases, with a mandate, composition and terms of reference acceptable to the Association; and
 - (b) ensure that each of the PMU and the central PIU (Satker) are provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its objectives.
3. The Recipient, through MPW, shall:
 - (a) at the level of each Project Province, maintain until completion of the Project: (i) a Provincial PMU, responsible for management of the Project at the Province-level; and (ii) a Provincial PIU (Satker), responsible for day-to-day implementation of the Project, including recruiting the Facilitators and City Coordinators and managing community training, in both cases with a mandate, composition and terms of reference acceptable to the Association;
 - (b) identify each Participating Kecamatan, Participating Kota, Participating Kabupaten and Participating Kelurahan, in each case meeting the criteria set out in the Project Manual;

- (c) at the level of each Participating Kota and Participating Kabupaten, maintain until completion of the Project, a Kota/Kabupaten PIU (Satker), responsible for day-to-day implementation of the Project, including channeling of Kelurahan Grants and Kelurahan Sub-loans, with a mandate, composition and terms of reference acceptable to the Association;
- (d) at the level of the Participating Kecamatan, maintain until completion of the Project, a PJOK as a Sub-project implementation unit, with a mandate, composition and terms of reference acceptable to the Association, to be responsible for implementation of the Project and administration of proposals from BKMs and Sub-Project Implementation Agreements;
- (e) at the level of each Participating Kelurahan, establish prior to the commencement of any Sub-project in that Participating Kelurahan, and thereafter maintain until completion of the Project, a BKM, legally established as an association, whose mandate, composition and terms of reference shall include a financial management unit or specialist, and shall be acceptable to the Association, to be responsible for implementation of the Project at the Kelurahan-level; and
- (f) ensure that each Provincial PMU, Provincial PIU (Satker), Kota/Kabupaten PIU (Satker), PJOK and BKM 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.

B. Implementation Obligations

1. The Recipient shall ensure that the Project shall be implemented under the umbrella of PNPM.
2. The Recipient shall:
 - (a) adopt and, thereafter ensure that the Project is implemented in accordance with, a Project Manual, acceptable to the Association, which shall include the description of: (i) implementation arrangements; (ii) the procurement procedures set forth in Section III of this Schedule 2 and standard procurement documentation; (iii) reporting requirements, financial management procedures and audit procedures as set forth in Section II of this Schedule 2; (iv) the Project Performance Indicators; (v) the Environmental Guidelines; (vi) the Isolated Vulnerable Peoples

Framework; (vii) the Land Acquisition and Resettlement Policy Framework; (viii) the Better Governance Action Plan; (ix) the environmental criteria applicable to Sub-project design including environmental impact mitigation; (x) maintenance provisions for works to be carried out under a Sub-project; (xi) the criteria for the selection of Sub-projects, as well as the terms and conditions governing the Kelurahan Grants, Kelurahan Sub-loans and Local Government Participation; and (xii) the Operational Guidelines for Monitoring and Evaluation of PNPM;

- (b) 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 Oversight Consultants and Facilitators and Participating Kelurahans, and applied in the carrying out of Sub-projects; and
 - (d) with the prior agreement of the Association, update the Project Manual, as necessary.
3. In carrying out Part 1(a) of the Project, the Recipient shall:
- (a) prepare and make available materials for poverty awareness-raising, acceptable to the Association, for the first year of Project implementation; and
 - (b) thereafter, prepare and make available in a timely manner publications for distribution to community groups in Participating Kelurahans explaining the purpose and implementation arrangements for the Project, acceptable to the Association, prior to the commencement of each Sub-project in each Participating Kelurahan.
4. In carrying out Part 1(e) the Project, the Recipient shall:
- (a) prepare and make available training materials therefore, acceptable to the Association, for the first year of Project implementation; and
 - (b) thereafter, prepare and make available training materials, acceptable to the Association, in a timely manner in accordance with the training schedule set out in the Project Manual.
5. In carrying out Part 2 of the Project, the Recipient shall ensure that prior to participating in the Project, a Participating Local Government has:

- (a) agreed to carry out activities under the Project in accordance with procedures acceptable to the Association and included in the Project Manual;
 - (b) taken all steps required to make available the Local Government Participation; and
 - (c) published a list of Project Kelurahan in accordance with the criteria set out in the Project Manual.
6. In carrying out Part 2 of the Project, the Recipient shall ensure that, prior to participating in the Project, a Participating Kelurahan has:
- (a) agreed to carry out activities under the Project in accordance with procedures acceptable to the Association and included in Project Manual;
 - (b) established, through the BKM, a Project office for purposes of Project coordination and disbursement of Kelurahan Grants and Kelurahan Sub-loans;
 - (c) adopted, through the BKM, a Community Development Plan, or revised, through the BKM, a previous Community Development Plan meeting the requirements set out in the Project Manual and identifying each Sub-project; and
 - (d) entered into a Sub-project Implementation Agreement for the Sub-project on the terms and conditions set forth in Annex 1 to this Schedule 2.
7. In carrying out Part 2 of the Project, the Recipient shall ensure that, for each Sub-project:
- (a) the Sub-project is implemented on the basis of the Sub-project Implementation Agreement on the terms and conditions set forth in the Annex 1 to this Schedule 2;
 - (b) the Local Government Participation has been funded; and
 - (c) the Recipient shall ensure that each PJOK shall exercise its rights under each Sub-project Implementation Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Sub-project Implementation Agreement or any of its provisions.

8. The Recipient shall ensure that, for purposes of Part 2(b) of the Project, a Participating Kelurahan shall only finance Sub-projects through Kelurahan Sub-loans if such Participating Kelurahan meets the criteria for establishment and operation of a revolving loan fund set out in the Project Manual.
9. In carrying out Part 2 of the Project, the Recipient shall:
 - (a) ensure that the proceeds of Kelurahan Grants and Kelurahan Sub-loans shall not be used to finance the acquisition of land;
 - (b) shall apply, and shall ensure that each Participating Kelurahan shall apply, the Land Acquisition and Resettlement Policy Framework to Sub-project implementation, including:
 - (i) taking all appropriate measures to avoid or minimize the acquisition of land or assets of people and to avoid the displacement of said people;
 - (ii) where the acquisition of land or assets or the displacement of people is unavoidable under a proposed Sub-project, ensuring that all Displaced Persons thereunder shall have been compensated and provided with resettlement and rehabilitation measures prior to the implementation of such Sub-project and in accordance with the provisions of the Land Acquisition and Resettlement Policy Framework; and
 - (iii) in the event that two hundred (200) or more people are displaced by a Sub-project:
 - (A) preparing a Land Acquisition and Resettlement Action Plan in accordance with the Land Acquisition and Resettlement Policy Framework and furnish such plan to the Association for approval; and
 - (B) prior to the carrying out of the Sub-project, ensuring that all Displaced Persons shall have been compensated and provided with applicable resettlement and rehabilitation benefits in accordance with the provisions of said plan;
 - (c) take all such measures and actions, and shall ensure that each Participating Kelurahan shall take all measures and actions, set out in the Environmental Guidelines for the elimination or offsetting of adverse environmental impacts under a proposed Sub-project, or the reduction of such impacts to acceptable levels; and

- (d) apply, and shall ensure that each Participating Kelurahan shall apply, the Isolated Vulnerable Peoples Framework to Sub-project implementation, including:
 - (i) avoiding, and, if not possible, minimizing cultural, social and economic adverse effects on Isolated Vulnerable People caused or likely to be caused by the Project; and
 - (ii) through a process of informed consultation and participation, involving concerned Isolated Vulnerable People in the design and implementation of Sub-projects so as to ensure that the benefits received by the Isolated Vulnerable People under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights.
10. The Recipient shall ensure, at all times, that public information, aimed at disclosing to inhabitants of Participating Kelurahans all administrative, financial, environmental, social, procedural and technical aspects pertaining to the selection, design, preparation and implementation of Sub-projects, including the Project Manual, is available free of charge at the government offices of the respective Participating Kelurahan and Participating Local Government.
11. The Recipient shall ensure that auditing activities under the Project, including those referred to in Section II.B of this Schedule, are carried out in accordance with: (a) 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 (b) in accordance with terms of reference agreed with the Association.

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 IDA 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) are set forth in Annex 2 to this Schedule 2.
2. The Recipient shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by 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.A, 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 sub-paragraph 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) Quality-based Selection
(b) Selection under a Fixed Budget
(c) Single Source Selection
(d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(e) 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) Kelurahan Grants and Kelurahan Sub-loans	57,600,000	38,615,000	100% of Kelurahan Grant or Kelurahan Sub-loan disbursed
(2) Goods and Consultants' services under Parts 1 and 3 of the Project	21,000,000	13,933,300	100%
(3) Front-end Fee	--	131,700	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions
TOTAL AMOUNT	<u>78,600,000</u>	<u>52,680,000</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, except that withdrawals up to an aggregate amount not to exceed \$17,700,000 equivalent may be made for payments made prior to this date but on or after January 3, 2008 for Eligible Expenditures.
2. The Closing Date is March 31, 2011.

ANNEX 1 to SCHEDULE 2**Selection Criteria for Sub-projects; Terms and Conditions of Sub-project Implementation Agreements**

- A. Selection Criteria for Sub-projects - General
1. No Sub-project shall: (a) include expenditures intended for a military or paramilitary purpose; (b) include civil works for government administration or religious purposes; (c) relate to the manufacture or use of environmentally harmful products (including pesticides, ozone-depleting substances, tobacco or tobacco products, materials containing asbestos, arms and drugs); (d) relate to activities producing liquid or gaseous effluents or emissions at harmful levels; (e) relate to activities using, producing, storing or transporting hazardous materials and wastes; (f) relate to logging; (g) relate to activities in protected areas; (h) relate to fisheries activities that are not in accordance with standards set by the Recipient's Fishery Service Agency; or (i) include the financing of government salaries.
 2. Each Sub-Project shall be selected from the Community Development Plan developed by the BKM of the Participating Kelurahan.
 3. No project shall qualify as a Sub-project eligible for financing out of the proceeds of a Kelurahan Grant or a Kelurahan Sub-loan until a Sub-project Implementation Agreement: (a) has been entered into between the relevant Participating Kelurahan, through its BKM, and the relevant PJOK, in each case on terms and conditions set forth in Section B of this; and (b) has been reviewed and approved by the relevant Oversight Consultants.
- B. Terms and Conditions of Sub-project Implementation Agreements
1. Each Sub-project Implementation Agreement shall be on terms and conditions set forth in the Project Manual, which shall include:
 - (a) the requirement that the Participating Kelurahan carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association in accordance with the Project Manual;
 - (b) the requirement that each Participating Kelurahan carry out its Sub-Project in accordance with the provisions of the Better Governance Action Plan, the Anti-Corruption Guidelines applicable to recipients of credit and/or loan proceeds other than the Recipient, the Environmental

Guidelines, the Land Acquisition and Resettlement Policy Framework and the Isolated Vulnerable Peoples Framework;

- (c) financial details of the Local Government Participation;
- (d) the disbursement schedules for both the Kelurahan Grant or Kelurahan Sub-loan and the Local Government Participation;
- (e) the requirement that each Participating Kelurahan procure the goods, works and services to be financed out of the Sub-financing in accordance with provisions that are fully consistent with the provisions of Section III of Schedule 2 to this Agreement;
- (f) the requirement that each Participating Kelurahan monitor and evaluate the progress of the Sub-project in accordance with the Project Manual;
- (g) the requirement that each Participating Kelurahan maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association; and at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association;
- (h) the requirement that each Participating Kelurahan enable the Recipient and the Association to inspect the Sub-project, its operation and any relevant records and documents; and prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing; and
- (i) include rights adequate to protect the interests of the Recipient and the Association, including the right to: (A) suspend or terminate the right of the Participating Kelurahan to use the proceeds of the Kelurahan Grant or Kelurahan Sub-loan, as applicable; or (B) obtain a refund of the Kelurahan Grant or declare all or any part of the Kelurahan Sub-loan to be immediately due and payable upon the failure of the Participating Kelurahan, as applicable, to perform any of its obligations under the Sub-project Implementation Agreement.

C. Additional Selection Criteria for Sub-projects under Part 2 of the Project (Kelurahan Grants and Sub-loans)

1. **Sub-projects under Part 2(a) of the Project**

- (a) Each Sub-project proposed under Part 2(a) of the Project shall be a public infrastructure or equipment investment project or a social service project (which may include emergency preparedness or risk reduction to reduce vulnerability to natural disasters) which is technically, financially and environmentally viable, and economically justified by the number of people benefiting from it.
- (b) Each Sub-project proposed under Part 2(a) of the Project in the education sector shall be compatible with the relevant Kabupaten/Kota education master plan, if such plan exists.
- (c) Each Sub-project proposed under Part 2(a) of the Project in the health sector shall be compatible with the relevant Kabupaten/Kota health master plan, if such plan exists.

2. **Sub-projects under Part 2(b) of the Project**

- (a) Each proposed Sub-project shall be a poverty alleviation (which may include emergency preparedness or risk reduction to reduce vulnerability to natural disasters) and income-generating investment project which is technically, financially, socially and environmentally viable, and economically justified.

3. **Sub-projects under Part 2(c) of the Project**

- (a) Each Sub-project proposed under Part 2(c) of the Project shall be a social welfare project or activity (which may include emergency preparedness or risk reduction to reduce vulnerability to natural disasters) which is technically justified.

ANNEX 2 to SCHEDULE 2

Performance Indicators	2008	2009	2010
(i) Outcome Indicators			
(A) Improved household expenditure rates or improved access to economic and social services in 7,800 Participating Kelurahan in 2009		7,800	7,800
(B) Infrastructure built is at least 20% cheaper than that built by non- community based approaches in 80% of participating Participating Kelurahan, and	-	6,240	6,240
(C) at least 80% satisfaction level of beneficiaries regarding improved services and local level governance	-	80%	80%
(ii) Results Indicators for Part 1 of the Project			
(A) Minimum 40% participation rate of poorest and vulnerable community members in planning and decision making meetings	» 40%	» 40%	» 40%
(B) Minimum 40% participation rate of women in planning and decision making meetings	» 40%	» 40%	» 40%
(C) Minimum 30% of the adult population voting in BKM elections at the neighborhood level	» 30%	» 30%	» 30%
(D) BKMs formed in minimum of 90% of Kelurahan	» 70%	» 90%	» 90%
(E) Minimum 90% of Participating Kelurahan with Community Development Plans (CDPs) completed and ratified	» 70%	» 90%	» 90%
(F) Minimum 80% local governments provide cost-sharing: 20% cost sharing for local governments with Low Fiscal Capacity, and 50% cost-sharing for local governments with High Fiscal Capacity	» 50%	» 80%	» 80%

Performance Indicators	2008	2009	2010
(iii) Results Indicators for Part 2 of the Project			
(A) Number of each type of infrastructure, economic, and social activities completed in 7,800 Kelurahan	5500 kel	7800 kel	7800 kel
(B) Minimum 70% of infrastructure works evaluated as of good quality	» 70%	» 70%	» 70%
(C) Minimum 70% of Kelurahan with revolving loan funds (RLFs) having a loans at risk (LAR) ratio »3 months of < 10%	» 50%	» 60%	» 70%
(D) Minimum 90% of Kelurahan with RLFs have a cost coverage ratio of > 125%	» 50%	» 90%	» 90%
(E) Minimum 90% of Kelurahan with RLFs have annualized return on investment of > 10%	» 50%	» 90%	» 90%
(F) Minimum 30% participation rate of women as members of community groups	» 30%	» 30%	» 30%
(iv) Results Indicators for Part 3 of the Project			
(A) 90% Oversight Consultants and Facilitators providing accurate data through MIS	» 70%	» 90%	» 90%
(B) Minimum 70% of BKMs with completed annual financial audits		» 70%	» 70%

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. “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, and included as applicable in each Sub-project Implementation Agreement.
4. “BKM Forum” means a forum of BKM representatives at the Kecamatan and Kota level for the exchange of experience and collective actions relating to poverty alleviation.
5. “BKM” means *Badan Keswadayaan Masyarakat*, a Kelurahan level organization with elected members, legally empowered by registering as an association to act on behalf of the Kelurahan community to take actions aimed at reducing poverty in the Participating Kelurahan, and “BKMs” means more than one BKM.
6. “Borrower” means the Republic of Indonesia as the Borrower under the Loan Agreement.
7. “BPKP” means *Badan Pengawas Keuangan dan Pembangunan*, the Recipient’s Financial and Development Supervisory Agency, or any successor thereto.
8. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
9. “City Coordinator” means the consultant assigned to each Participating Kota/Kabupaten to manage implementation of the Project, including coordination of Facilitators, and “City Coordinators” means more than one City Coordinator.

10. “Community Development Plan” means each three-year plan for a Participating Kelurahan prepared by a BKM in accordance the procedures and criteria set out in the Project Manual, for poverty alleviation activities, emergency preparedness to reduce vulnerability to natural disasters and measures to assist Highly Vulnerable Groups, and “Community Development Plans” means more than one Community Development Plan.
11. “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.
12. “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.
13. “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement.
14. “Environmental Guidelines” means the guidelines adopted by the Recipient through MPW on January 31, 2008, setting forth the measures and actions to be taken during the implementation of the Project to eliminate, mitigate or offset adverse environmental impacts or to reduce such impacts to acceptable levels in the design and implementation of Sub-projects, as such guidelines may be amended from time to time with the prior agreement of the Association.
15. “Facilitator” means a technical, economic or social consultant assigned to work with Participating Kelurahans to facilitate their participation in the Project, and “Facilitators” means more than one Facilitator.
16. “Fiscal Year” and “FY” means 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. “Highly Vulnerable Groups” means groups of peoples, including widows, the elderly, the disabled and the victims of natural disaster, having special poverty alleviation needs and to be addressed in the Community Development Plan.

19. “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).
20. “IDA General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
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 Peoples Framework” means the framework, acceptable to the Association, adopted by the Recipient through MPW on January 31, 2008, setting forth the measures and actions to be taken during the implementation of the Project for: (i) the informed involvement of Isolated Vulnerable People, through a process of informed participation, in the design and implementation of each Sub-project to be, or being, carried out in a location in which such people reside or use for their livelihood; and (ii) designing and implementing 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 Framework; as such framework may be amended from time to time with the prior agreement of the Association.
23. “Kabupaten” means a district, an administrative division of the Recipient.
24. “Kecamatan” means an administrative sub-district of a Kabupaten.
25. “Kelurahan” mean an urban section of a Kecamatan.
26. “Kelurahan Grant” means a grant made available by the Recipient out of the proceeds of the Credit to a Participating Kelurahan for a Sub-project under Part 2(a) or 2(c) of the Project, and “Kelurahan Grants” means more than one Kelurahan Grant.
27. “Kelurahan Sub-loan” means a loan made available by the Recipient out of the proceeds of the Credit to a Participating Kelurahan for a Sub-project under Part 2(b) of the Project, and “Kelurahan Sub-loans” means more than one Kelurahan Sub-loan.
28. “Kota” means a municipality, an administrative division within a province of the Recipient.

29. “Kota/Kabupaten PIU (Satker)” means each Project implementation unit (*Satuan Kerja, or Satker*) established by each Participating Kota and each Participating Kabupaten in accordance with paragraphs 3(c) and 3(f) of Section I.A of Schedule 2 to this Agreement.
30. “Land Acquisition and Resettlement Action Plan” means a resettlement and rehabilitation action plan for a Sub-project 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, acceptable to the Association, prepared and implemented by a BKM, pursuant to the Land Acquisition and Resettlement Policy Framework.
31. “Land Acquisition and Resettlement Policy Framework” means the Land Acquisition and Resettlement Policy adopted by the Recipient through MPW on January 31, 2008, setting forth the measures and actions to be taken during the implementation of the Project for the provision of compensation, rehabilitation and resettlement assistance to Displaced Persons, as such framework may be amended from time to time with the prior agreement of the Association.
32. “Loan” means the loan in the amount of fifty two million six hundred eighty thousand Dollars (\$52,680,000) to be provided by the International Bank for Reconstruction and Development to the Republic of Indonesia, as the Borrower, under the Loan Agreement.
33. “Loan Agreement” means the agreement (Loan No. 7504) of even date herewith between the Recipient and the International Bank for Reconstruction and Development for the Project, as such agreement may be amended from time to time.
34. “Local Government Participation” means Local Government funding of the Total Sub-project Cost for participating in the Project, to be made available by a Participating Local Government to a Participating Kelurahan 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 Participating Kota or Participating Kabupaten in a High Fiscal Capacity Area, not less than 50% of Total Sub-project Cost; and
 - (b) in the case of a Participating Kota or Participating Kabupaten in a Low Fiscal Capacity Area, not less than 20% of Total Sub-project Cost.
35. “Low Fiscal Capacity Area” means an area designated as such in the Project Manual.

36. “Menko Kesra” means the Recipient’s Coordinating Ministry for Social Welfare, and any successor thereto.
37. “Ministry of Finance” means the Recipient’s Ministry of Finance, and any successor thereto.
38. “Ministry of Home Affairs” means the Borrower’s Ministry of Home Affairs, and any successor thereto.
39. “Ministry of Public Works” and “MPW” means the Ministry of Public Works of the Recipient, and any successor thereto.
40. “National Management Consultants” means the team of consultants within the Project Management Unit at the central level engaged to assist in Project implementation and monitoring.
41. “Operational Guidelines for Monitoring and Evaluation of PNPM” means the guidelines, drafted in July 2007 and included in the Project Manual, outlining the common objectives, mechanisms and responsibilities for monitoring and evaluation of the Project.
42. “Participating Kabupaten” means a Kabupaten which is responsible for a Local Government Participation for a Sub-project in accordance with the Project Manual, and “Participating Kabupatens” means more than one Participating Kabupaten.
43. “Participating Kecamatan” means a Kecamatan in which one or more Participating Kelurahan are located and which establishes a PJOK for the Project in accordance with the Project Manual, and “Participating Kecamantans” means more than one Participating Kecamatan.
44. “Participating Kelurahan” means a Kelurahan participating in the Project meeting the eligibility requirements set out in the Project Manual.
45. “Participating Kota” means a Kota which is responsible for a Local Government Participation for a Sub-project, and “Participating Kotas” means more than one Participating Kota.
46. “Participating Local Government” means the government of a Participating Kota or a Participating Kabupaten designated by the Recipient as one in which a Participating Kelurahan shall carry out a Sub-project in accordance with the Project Manual, and “Participating Local Governments” means more than one Participating Local Government.

47. “Oversight Consultants” means the team of consultants and facilitators at the provincial and district level engaged to assist Participating Kelurahan with Project implementation and monitoring.
48. “PIU (Satker)” means the central-level Project implementation unit (*Satuan Kerja, or Satker*) established and operating in accordance with paragraph 2 of Section I.A of Schedule 2 to this Agreement.
49. “PJOK” means the Project operations officer at the Kecamatan level responsible for each Sub-project in the relevant Participating Kelurahan, established in accordance with paragraphs 3(d) and 3(f) of Section I.A of Schedule 2 to this Agreement, and “PJOKs” means more than one PJOK.
50. “PMU” means the central-level Project management unit established and operating in accordance with paragraph 2 of Section I.A of Schedule 2 to this Agreement.
51. “PNPM” means *Program Nasional Pemberdayaan Masyarakat*, the Recipient’s National Program for Community Empowerment, as set out in the PNPM General Guidelines (*Pedoman Umum*), issued by Tim Pengendali, dated, July 30, 2007, and the PNPM Roadmap..
52. “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.
53. “Provincial PIU (Satker)” means each Province-level Project implementation unit (*Satuan Kerja, or Satker*) established by each Project Province in accordance with paragraphs 3(a) and 3(f) of Section I.A of Schedule 2 to this Agreement, and “Provincial PIUs (Satkers)” means more than one Provincial PIU (Satker).
54. “Provincial PMU” means each Provincial Project Management unit established by each Project Province in accordance with paragraphs 3(a) and 3(f) of Section I.A of Schedule 2 to this Agreement, and “Provincial PMUs” means more than one Provincial PMU.
55. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
56. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 6, 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.

57. “Project Manual” means the Project Manual, referred to in Section I.B.2 of Schedule 2 to this Agreement, as such Project Manual may be amended from time to time with the prior agreement of the Association.
58. “Project Performance Indicators” means the indicators set out in paragraph 1(b) of Section II(A) of Schedule 2 to this Agreement.
59. “Rupiah” and “Rp” means the currency of the Recipient.
60. “State Ministry for Development of Disadvantaged Regions” means the Recipient’s State Ministry for Development of Disadvantaged Regions, and any successor thereto.
61. “Sub-project” means a specific infrastructure or equipment investment project, social services provision project, income-generating investment project or social welfare project selected pursuant to criteria and procedures set forth in the Project Manual and carried out under Part 2 of the Project and utilizing the proceeds of a Kelurahan Grant or a Kelurahan Sub-loan and the Local Government Participation, and “Sub-projects” means more than one Sub-project.
62. “Sub-project Implementation Agreement” means the agreement to be entered into between the relevant Participating Kelurahan, through the BKM, and the relevant PJOK for purposes of implementing a Sub-project on the terms and conditions set forth in Annex 2 to Schedule 2 to this Agreement and included in the Project Manual, and “Sub-project Implementation Agreements” means more than one Sub-project Implementation Agreement.
63. “Tim Pengendali PNPM” means the inter-ministerial working group described in paragraph 1 of Section I.A of Schedule 2 to this Agreement.
64. “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 Kelurahan Grant or Kelurahan Sub-loan; and (b) the amount of the Local Government Participation.