

CONFORMED COPY

CREDIT NUMBER 3381 IND

Development Credit Agreement

(Provincial Health Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 20, 2000

CREDIT NUMBER 3381 IND

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 20, 2000, between the REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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 Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit 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 Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (c) is added to Section 3.04 to read:

"If the Association shall at any time receive less than the full amount then due and payable to it under the Development Credit Agreement, the Association shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Development Credit Agreement as the Association shall in its sole discretion determine."; and

(b) Section 11.01 is modified by replacing, in the second sentence, the word "radiogram" with the word "facsimile" and adding a new sentence at the end of the said Section to read:

"Deliveries made by facsimile transmission shall also be confirmed by mail."

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

(a) "Affected Person" means a person who, on account of the execution of Part A.4 (b) of the Project, has or would have his or her (i) standard of living adversely affected; (ii) right, title or interest in any house, land (including premises, agricultural land and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, or place of residence or habitat adversely affected.

(b) "CPCU" means the Central Project Coordination Unit maintained in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement, responsible for monitoring the Project.

(c) "District" means a district or municipality in Lampung or Yogyakarta.

(d) "District Grant" means a grant made or proposed to be made by the Borrower under Part A.4 (b) of the Project out of the proceeds of the Credit to a District in respect of an Eligible Program.

(e) "DIU" means, for each District in Lampung and Yogyakarta, the District Implementation Unit established in the District health office of such District and maintained in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement, responsible for (i) preparing a consolidated annual investment plan for health services in such district, (ii) developing and recommending health service reforms and innovations in such district, and (iii) contracting for health service delivery in such district.

(f) "Eligible Activities" means activities in furtherance of developing capacity for managing decentralization and resource mobilization that are eligible for financing out of MD and RM Grants in accordance with the terms of the Grants Operational Manual and the provisions of paragraph 6 of Schedule 4 to this Agreement.

(g) "Eligible Part B.2 Activities" means activities that are eligible for financing out of Matching Grants in accordance with the provisions of paragraph 9 of Schedule 4 to this Agreement.

(h) "Eligible Program" means an annual District health services program eligible for financing out of a District Grant in accordance with the terms of the Grants Operational Manual and the provisions of paragraphs 7 and 8 of Schedule 4 to this Agreement.

(i) "Grants Operational Manual" means the operational manual referred to in paragraph 5 of Schedule 4 to this Agreement, as such

manual may be amended from time to time with the agreement of the Association.

(j) "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 an Eligible Program.

(k) "JHC" means, for each of Lampung and Yogyakarta, the Joint Health Council established pursuant to Governor's Decree No. G/108/BAPPEDA/HK/2000 in respect of Lampung and Governor's Decree No. 61/SK/2000 in respect of Yogyakarta, and maintained in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement, responsible for determining broad health policy in such province.

(l) "Lampung" and "Yogyakarta" means the Borrower's provinces of Lampung and D.I. Yogyakarta respectively.

(m) "Matching Grant" means a grant made or proposed to be made available by the Borrower out of the proceeds of the Credit under Part B.2 of the Project in accordance with the terms of paragraph 9 of Schedule 4 to this Agreement.

(n) "MD and RM Grants" means grants made or proposed to be made available by the Borrower out of the proceeds of the Credit under Parts A.4 (a) of the Project for Eligible Activities in accordance with the terms of paragraph 6 of Schedule 4 to this Agreement.

(o) "MOH" means the Borrower's Ministry of Health and any successor thereto.

(p) "PHPB" means, for Yogyakarta, the Provincial Health Promotion Board established pursuant to Governor's Decree No. 62/SK/2000, and maintained in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement, responsible for developing strategies for raising public awareness of health issues.

(q) "PCIU" means, for each of Lampung and Yogyakarta, the Provincial Coordination and Implementation Unit established pursuant to Governor's Decree No. G/107/BAPPEDA/HK/2000 in respect of Lampung and Governor's Decree No. 63/SK/2000 in respect of Yogyakarta, and maintained in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement, responsible for Project implementation activities at the provincial level.

(r) "Project Management Manual" means the Project Management Manual referred to in Section 5.01 of this Agreement, to assist the PCIUs and the DIUs in the implementation of the Project through the description of, inter alia, procurement procedures and standard documentation, financial management requirements and monitoring and reporting requirements and procedures, as such Project Management Manual may be amended from time to time with the agreement of the Association.

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

(t) "TRT" means the technical review team maintained in the provincial health planning unit in each of Lampung and Yogyakarta in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on

the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty eight million, six hundred thousand Special Drawing Rights (SDR 28,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement (i) for amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of MD and RM Grants and District Grants made under Part A.4 of the Project and Matching Grants under Part B.2 of the Project to meet the reasonable cost of goods and services required for Eligible Part A.4 (a) Activities, Eligible Programs and Eligible Part B.2 Activities and in respect of which withdrawals from the Credit Account are requested; and (ii) for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank Indonesia or in a state commercial bank acceptable to the Association on terms and conditions satisfactory to the Association, including, in the case of a state commercial bank, appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2006, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 1 and August 1, commencing August 1, 2010 and ending February 1, 2035. Each

installment to and including the installment payable on February 1, 2010 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever:

(i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and

(ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective 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, financial, health and environmental 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 Association shall

otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association 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 Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit

Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association'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 Project Management Reports or 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than August 31, 2001, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that a Project Management Manual for the implementation of the Project, acceptable to the Association, has been issued.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the

General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P.O. Box 1139
Jakarta 10710
Indonesia

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

For the Association:

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

Facsimile:	Cable address:	Telex:	
(202) 477-6391	INDEVAS	248423 (MCI) or	
	Washington, D.C.	64145 (MCI)	

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

REPUBLIC OF INDONESIA

By /s/ A. Anshari Ritonga
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mark Baird
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works	370,000	80%
(2) Goods (ex-factory local expenditures for other locally	2,580,000	100% of foreign expenditures, 100% of local expenditures cost) and 80% of items procured
(3) Local training and workshops under Parts A.1, A.2, B.1 and B.2 of the Project	2,980,000	80%
(4) Studies and overseas training under Parts A.1, A.2, B.1 and B.2 of the Project	1,500,000	100%
(5) District Grants and MD and RM Grants under Part A. 4 of the Project	19,200,000	100%
(6) Matching Grants under Part B.2 of the Project	310,000	100%
(7) Incremental operating costs	70,000	80%
(8) Consultants' services	1,270,000	100%
(9) Unallocated	320,000	
TOTAL	28,600,000	

2. For the purposes of this Schedule:

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

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

(c) the term "local training" means expenditures incurred by

the Borrower in connection with the carrying out of training activities in Indonesia under the Project, including the travel costs and per diem of trainers and trainees, rental of facilities and training materials;

(d) the term "studies" means expenditures incurred by the Borrower in connection with the carrying of studies under the Project, including the travel costs and per diem of the researchers carrying out such studies and the costs of research materials;

(e) the term "overseas training" means expenditures incurred by the Borrower in connection with the carrying out of training activities outside Indonesia under the Project, including the travel costs and per diem of trainees, rental of facilities and training materials;

(f) the term "workshops" means expenditures incurred by the Borrower in connection with the holding of workshops under the Project, including the travel costs and per diem of the organizers and participants, the rental of facilities and workshop materials; and

(g) the term "incremental operating costs" means expenditures incurred by the CPCU, the DIUs, the JHCs, the PHPB and the PCIUs for administrative costs, including honoraria, consumable materials and travel, but excluding salaries.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement; and

(b) District Grants and MD & RM Grants under Category (5) until the Borrower has issued a Grants Operational Manual acceptable to the Association in accordance with the provisions of paragraph 5 of Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: local training; overseas training and workshops; goods and works under contracts costing less than \$50,000 equivalent each; individual consultant contracts costing less than \$50,000 equivalent each; and consulting firm contracts costing less than \$100,000 equivalent each; in each case under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in bringing about effective health sector decentralization in Lampung and Yogyakarta and at the national level.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Strengthening Health Services in Lampung and Yogyakarta

1. Undertaking institutional and organizational changes in the health sector at the provincial and district/municipal levels consequent to the Law on Regional Government, No. 22/1999, through:

(a) restructuring health service organizations;

(b) reorganizing the management structures of entities implementing health services;

(c) developing and implementing new human resource management policies;

(d) at the provincial level, developing and implementing new health information systems covering health indicators, and service delivery, facility and staffing information;

(e) strengthening public accountability mechanisms; and

(f) strengthening the policy and regulatory framework for health services, including the establishment of a health council and a health care accreditation agency at the provincial level.

2. Enhancing resource mobilization capacities for the health sector, at the provincial and district/municipal levels, through:

(a) at the provincial level, developing and implementing decentralized health service planning, budgeting and financing systems designed to permit Districts to plan and develop efficient, effective and equitable programs according to community needs;

(b) converting hospitals, health centers and other health service units into autonomous units (swadana) which will possess, inter alia, the authority to apply cost recovery measures; and

(c) at the provincial and district/municipal levels, developing, piloting and, if appropriate, implementing a health insurance system and/or managed care.

3. Improving health service access and quality, at the provincial and district/municipal levels, through:

(a) implementing specific health service activities, including the refurbishing of health care facilities, upgrading medical equipment, increasing the number of mobile health service facilities and contracting private health service providers for the delivery of basic health services to designated areas;

(b) implementing quality assurance programs and upgrading the quality of health sector personnel through the implementation of fellowship programs;

(c) establishing a health promotion board in Yogyakarta to coordinate health public and private sector promotion activities; and

(d) providing specific drugs and supplies based on district/municipal proposals.

4. Financing (a) Eligible Activities through the provision of MD and RM Grants and (b) Eligible Programs through the provision of District Grants.

5. Establishing, at the provincial and district/municipal levels, a management and administration structure appropriate for the coordination and carrying out of health service program and Project activities.

Part B: Strengthening Management of Decentralization in the Health Sector at the National Level

1. Strengthening (a) the institutional capacity of MOH to provide support to provinces and districts in fulfilling their health sector responsibilities allocated to them under the Law on Regional Government, No. 22/1999 through conducting policy studies, sponsoring

national seminars and workshops, and strengthening its policy and technical analytical capabilities and its health service advocacy and information dissemination services and (b) national capacity to evaluate health policy interventions through the establishment of an independent research unit.

2. Strengthening the institutional capacity of MOH to develop and administer a program for the financing of specific health-related programs at the provincial and district/municipal levels by providing Matching Grants for Eligible Part B.2 Activities.

3. Strengthening the institutional capacity of MOH to carry out its management responsibilities for the Project through the provision of technical assistance, training and office equipment and supplies and the carrying out of workshops.

* * *

The Project is expected to be completed by December 31, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract may be procured, and, except as provided in paragraph 4 of this Part C, works shall be procured, under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent for goods to be procured other than under Part A.4 of the Project, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods estimated to cost \$50,000 equivalent or less per contract, up to an aggregate amount not to exceed \$760,000 equivalent for goods to be procured other than under Part A.4 of the Project, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$20,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to (i) each contract for goods to be awarded on the basis of international competitive bidding procedures or national competitive bidding procedures in accordance with the provisions of Part B or paragraph 1 of Part C, as the case may be, of this Schedule 3, (ii) each contract for works estimated to cost more than \$50,000 and to be awarded on the basis of national competitive bidding procedures in accordance with the provisions of paragraph 1 of Part C of this Schedule 3, and (iii) the first contract to be awarded by each of MOH, Lampung and Yogyakarta and by each District for works estimated to cost \$50,000 or less and to be awarded on the basis of national competitive bidding procedures in accordance with the provisions of paragraph 1 of Part C of this Schedule 3, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract for (i) goods to be awarded on the basis of each of international shopping procedures and national shopping procedures in accordance with the provisions of paragraphs 2 and 3, respectively, of Part C of this Schedule 3, and (ii) works to be awarded on the basis of quotations in accordance with the provisions of Part C.4 of this Schedule 3, by each of MOH, Lampung

and Yogyakarta and by each District, the following procedures shall apply:

(i) prior to the selection of any supplier or contractor, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;

(ii) prior to the execution of any contract, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and

(iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under Parts A.1 and A.2 of the Project, estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$5,150,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, and (ii) the first contract to be awarded by each of MOH, Lampung and Yogyakarta and by each District, for consulting firms estimated to cost less than \$100,000, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to (i) each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, and (ii) the first contract for the employment of individual consultants, regardless of the estimated cost thereof, to be awarded by each of MOH, Lampung and Yogyakarta and by each District, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Borrower shall maintain, or cause to be maintained, as the case may be, until completion of the Project, the following units with terms of reference, facilities and staff, acceptable to the Association:

- (a) the CPCU;
- (b) the PHPB, the JHCs and the TRTs; and
- (c) the PCIUs and the DIUs.

2. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, satisfactory to the Association, and in accordance with the indicators set forth in Schedule 5 to this Agreement and with the Project Management Manual, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by March 1 and September 1 of each year, commencing March 1, 2001, and until completion of the Project, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this

paragraph 2, on the progress achieved in the carrying out of the Project during the preceding six months and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the six months following such date, which measures shall include (i) in each report due by September 1 in any year, a detailed procurement plan for carrying out the Project during the next fiscal year following the date of such report, and (ii) in each report due by March 1 in any year, an update of the detailed procurement plan for the fiscal year in which such month falls;

(c) review with the Association, on or about April 1 and October 1 of each year, commencing January 31, 2001, or such later date as the Association shall request, the report referred to in sub-paragraph (b) of this paragraph 2, and, thereafter, take all measures required to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the twelve months following the date of such report, based on the conclusions and recommendations of said report and the Association's views on the matter;

(d) by June 30, 2003, prepare under terms of reference satisfactory to the Association and furnish to the Association, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 2, on the progress achieved in carrying out 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 remainder of the Project; and

(e) review with the Association, on or about July 31, 2003, or such later date as the Association shall request, the report referred to in sub-paragraph (d) of this paragraph 2, 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 such report and the Association's views on the matter.

3. The Borrower shall:

(a) by each of March 31, 2001, March 31, 2002, March 31, 2003 and March 31, 2004, cause a technical audit of Project implementation to be carried out, in accordance with terms of reference and in a manner acceptable to the Association, and by each of September 30, 2001, September 30, 2002, September 30, 2003 and September 30, 2004, cause the most recent report of such audit to be provided to the Association; and

(b) review with the Association, on or about October 30 of each such year, or such later date as the Association shall request, the report referred to in sub-paragraph (a) of this paragraph 3, and, thereafter, take all measures required to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the twelve months following the date of such report, based on the conclusions and recommendations of said report and the Association's views on the matter.

4. The Borrower shall carry out and furnish to the Association for its review each study to be carried out under Parts A.1, A.2, B.1 and B.2 of the Project in accordance with terms of reference and by such dates as are acceptable to the Association, promptly thereafter prepare and review with the Association an action plan to implement the recommendations of such study, and, thereafter, take all measures required to carry out such plan.

5. The Borrower shall:

(a) not later than April 30, 2001, prepare in accordance with guidelines acceptable to the Association and furnish to the Association for its approval a Grants Operational Manual acceptable to the Association describing the detailed criteria, conditions and procedures to be followed for the award of MD and RM Grants and District Grants, which criteria, conditions and procedures shall be consistent with the provisions of paragraphs 6 and 7 of this Schedule 4;

(b) thereafter, carry out Part A.4 of the Project in accordance with such Grants Operational Manual as shall have been approved by the Association and with provisions of paragraphs 6, 7 and 8 of this Schedule 4; and

(c) not amend, delete, suspend or waive any part of the Grants Operational Manual without the prior approval of the Association.

6. MD and RM Grants may only be made after obtaining the prior approval of the Association. When presenting proposals for MD and RM Grants to the Association for review and approval, which proposals must be prepared in accordance with provisions of the Grants Operational Manual, the Borrower shall furnish to the Association for review and approval a draft grant agreement with the intended recipient in a form satisfactory to the Association, together with (a) a description of the proposed activities for strengthening capacity for managing decentralization and/or resource mobilization capacity that the Borrower intends to finance with the proceeds of such grants; (b) a description of the expenditures proposed to be financed out of such proceeds; and (c) such other information as the Association may reasonably request. Activities described pursuant to the provisions of sub-paragraph (b) of this paragraph 6 that meet the criteria set out in, and are prepared in accordance with the provisions of, the Grants Operational Manual and that are approved by the Association shall be deemed to be Eligible Activities for the purposes of Part A.4 (a) of the Project.

7. For the purposes of Part A.4 (b) of the Project the Borrower shall ensure that:

(a) by no later than August 31, 2001, and each August 31 thereafter, each District shall have prepared in accordance with, and meeting the requirements of, the Grants Operational Manual and paragraph 8 of this Schedule 4, and submitted to the TRT of Lampung or Yogyakarta, as the case may be, for its evaluation: (i) a four-year health improvement framework plan for such District covering the four fiscal years for such District following such date, and (ii) a one year detailed health services program proposal for the fiscal year following such date, which program shall include, without limitation, a procurement implementation plan in respect thereof;

(b) by no later than October 31, 2001 and each October 31 thereafter, each JHC shall have:

(i) determined, pursuant to the procedures and the criteria set out in, and the requirements of, the Grants Operational Manual and of paragraph 8 of this Schedule 4, which District health services program proposals submitted in accordance with the provisions of sub-paragraph (a) of this paragraph 7 and as may have been revised in accordance with the procedures of the Grants Operational Manual, are appropriate for financing with the proceeds of a District Grant ("selected programs"); and

(ii) submitted to the Association for its review and approval such selected programs; and

(c) promptly after such review, each JHC takes, in accordance with the provisions of the Grants Operational Manual, all appropriate steps to award District Grants for those selected programs as have been approved by the Association.

8. Without limitation upon the requirements of the Grants Operational Manual or the provisions of paragraph 7 of this Schedule 4, a District health services program proposal shall only be eligible for financing out of the proceeds of a District Grant:

(i) where such program proposal is determined by the Borrower, on the basis of guidelines acceptable to the Association, to be technically feasible and cost effective, and to have been designed on the basis of appropriate health indicators and priorities;

(ii) for which program proposal (A) an analysis of its environmental effects has been prepared and (B) where applicable, an environmental impact assessment, satisfactory to the Association, has been undertaken and mitigation measures designed, on the basis of environmental standards acceptable to the Association, in accordance with the principles set out in the Grants Operational Manual;

(iii) for which program proposal the Borrower has, where the acquisition of land or assets or the displacement of any person is unavoidable, made or caused to be made available to all Affected Persons under such program proposal, before the works are carried out which would result in such acquisition or displacement, compensation in accordance with principles and guidelines acceptable to the Association and as set out in the Grants Operational Manual;

(iv) for which program proposal, concerned Isolated Vulnerable People, if any, have been involved, through a process of informed participation, in its design so as to ensure that the benefits to be received under such program proposal are in harmony with their economic, social and cultural preferences; and

(v) where such program proposal has been reviewed and approved by the Association.

9. A Matching Grant may only be made after obtaining the prior approval of the Association. When presenting a proposed Matching Grant to the Association for review and approval, the Borrower shall furnish to the Association a draft matching grant agreement with the intended recipient in a form satisfactory to the Association, together with (a) a description of the activities which the Borrower intends to finance with the proceeds of such grant, (b) a description of the expenditures proposed to be financed out of such proceeds, and (c) such other information as the Association shall reasonably request. Activities described pursuant to the provisions of sub-paragraph (a) of this paragraph 9 that are approved by the Association shall be deemed to be Eligible Part B.2 Activities for the purposes of Part B.2 of the Project.

SCHEDULE 5

Project Performance Indicators
Managing Decentralization and Mobilizing Resources:

1. Merging of Kanwil Kesehatan and Dinas Kesehatan, and establishment of a new health organization structure by June 1, 2001.
2. Implementation of new personnel policies related to recruitment, redeployment, retaining, early retirement and career development by January 1, 2002.
3. Reduction of number of non-professional staff at the provincial and district health offices by 20% in Yogyakarta by January 1, 2004 and in Lampung by December 31, 2005.
4. Implementation of a decentralized and province specific health information system by January 1, 2002.
5. Implementation of new licensing and accreditation system by January 1, 2002.
6. Implementation of at least two public accountability arrangements by January 1, 2002
7. At least 80% of hospitals and 40% of health centers become swadana units by December 31, 2005.
8. At least 50% of the province populations are covered by health insurance mechanisms or managed care by December 31, 2005.
9. Contact rate of poor people at the health centers becomes at least 2 times a year, by January 1, 2003.

Implementation of District Grants:

1. The operation of effective, locally specific curative service delivery and financing arrangements by January 1, 2002.
2. The operation of effective, locally specific public health service provision and financing arrangements by January 1, 2002.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (8) 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 Credit 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 \$3,500,000, to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$7,000,000.

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

3. After the Association 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 Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association from the Credit 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

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

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

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association 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 Association shall have determined at any time that any payment out of 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into 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 Association shall have determined at any time that any amount outstanding in Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

