

CONFORMED COPY

CREDIT NUMBER 3784-IND

Development Credit Agreement

(Health Workforce and Services Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 1, 2003

CREDIT NUMBER 3784-IND

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 1, 2003, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is making a loan to the Borrower in the amount of thirty one million one hundred thousand Dollars (\$31,100,000) (the Loan); and

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made; 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) (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective

meanings therein set forth and the following additional terms have the following meanings:

- (a) “Bupati” means the chief executive of a District.
- (b) “CPCU-MOH” means the Central Project Coordination Unit established by MOH by Decree No. 387/Menkes/DK/III/2003 dated March 31, 2003 of the Minister of Health and maintained in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement, responsible for (i) managing the implementation of Part C.1, C.2, C.3 and C.4 (a) of the Project, and (ii) monitoring and evaluating the Project other than Part C.3 thereof.
- (c) “CPCU-MONE” means the Central Project Coordination Unit established by MONE by Decree No. 24/DIKTI/Kep/2003 dated April 17, 2003, of the Director General, Higher Education, MONE, and maintained in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement, responsible for managing the implementation of Part C.3 of the Project.
- (d) “DHC” means, for each District in the Project Provinces, the District Health Council established by SK of the relevant Bupati or Walikota, and maintained in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement, responsible for providing overall guidance to the District Health Office (Dinas Kesehatan) for implementation of Part A of the Project in such District.
- (e) “District” means a district or municipality, each an administrative division of the Borrower, within a Participating Province.
- (f) “District Health Funding Allocation” means a funding allocation made or proposed to be made by the Borrower under Part A.1 of the Project out of the proceeds of the Credit to a District in respect of an Eligible Plan.
- (g) “District Funding Allocation Manual” means the funding allocation manual adopted by the Borrower in accordance with the provisions of paragraph 4 of Schedule 4 to this Agreement, for the purposes of carrying out Part A of the Project, as such Manual may be amended from time to time with the agreement of the Association.
- (h) “DIU” means, for each District in the Project Provinces, 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) Project procurement and financial management activities at the District level; (ii) coordinating the actions required at the District level to prepare

proposals intended to qualify as Eligible Plans; and (iii) contracting for health service delivery in such District.

(i) “DPRD” means the provincial council of a Project Province or the local council of a District, as the case may be.

(j) “Eligible Categories” means Categories 1 through 7 set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(k) “Eligible Expenditures” means the expenditures for District Health Funding Allocations, goods, works, consultants’ services, training, studies and workshops referred to in Section 2.02 of this Agreement.

(l) “Eligible Plan” means an annual District health services plan eligible for financing out of a District Health Funding Allocation in accordance with the terms of the District Funding Allocation Manual and the provisions of paragraphs 5 and 6 of Schedule 4 to this Agreement.

(m) “Environmental Management Plan” means the plan adopted by the Borrower on May 1, 2003, setting forth the measures to be taken during the implementation and operation of the Project (including, without limitation, any Eligible Plan) to eliminate or offset adverse environmental impacts or to reduce such impacts to acceptable levels, and setting forth the actions needed to implement such measures.

(n) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement.

(o) “Fiscal Year” means the Borrower’s fiscal year commencing January 1 and ending December 31.

(p) “IMA” means the Indonesia Medical Association, an organization established under a notarized document, dated 24 October 1950.

(q) “IACC” means the Inter-agency Coordinating Committee established pursuant to Decree No. 254/M.PPN/04/2003 dated April 25, 2003 of the Minister of BAPPENAS and maintained by BAPPENAS in accordance with the provisions of paragraph 2 of Schedule 4 to this Agreement, responsible for inter-agency coordination of the Project at the national level.

(r) "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 Plan or any other part of the Project.

(s) "Isolated Vulnerable People Development Strategy" means the strategy for the mitigation of any social or cultural impact of the Project (including, without limitation, any Eligible Plan) on Isolated Vulnerable People adopted by the Borrower on May 1, 2003.

(t) "JHC" means the Joint Health Council established in each of the Project Provinces pursuant to a decree of the governor of such province and maintained in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement; in each case responsible for determining broad health policy in such province.

(u) "Loan Agreement" means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

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

(w) "MONE" means the Borrower's Ministry of National Education and any successor thereto.

(x) "PCIU" means the Provincial Coordination and Implementation Unit to be established and maintained pursuant to a decree of the governor of each of the Project Provinces and in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement; in each case responsible for Project implementation activities at the province level.

(y) "Pesticide Management and Monitoring Plan" means the plan adopted by the Borrower on May 1, 2003, setting forth the measures to be taken during the implementation and operation of the Project (including, without limitation, any Eligible Plan) to ensure the appropriate handling and disposal of chemical insecticides that may be acquired under Part A.1 of the Project.

(z) "Project Management Manual" means the manual adopted by the Borrower in accordance with the provisions of paragraph 3 of Schedule 4 to this Agreement, to assist the CPCU-MOH, the CPCU-MONE, 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, all consistent with the relevant provisions of this Agreement, as such Project Management Manual may be amended from time to time with the prior agreement of the Association.

(aa) "Project Provinces" means the Borrower's Provinces of East Kalimantan, West Kalimantan, Jambi, and West Sumatera.

(bb) "Propinsi" means a province, an administrative division of the Borrower.

(cc) "Report-based Disbursements" means the Borrower's option for withdrawal of funds from the Credit Account referred to in paragraph 4 of Part A of Schedule 1 to this Agreement.

(dd) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement.

(ee) "TRC" means the technical review committee established by Decree No. HK.00.SJ.SK.VII.0561 dated March 27, 2003 of The Secretary General of MOH and maintained in MOH in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement.

(ff) "TRT" means the technical review team to be established and maintained in the health planning unit in the Propinsi Health Office (Dinas Kesehatan) in each of the Project Provinces in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement.

(gg) "Walikota" means the chief executive of a municipality.

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 this Agreement, an amount in various currencies equivalent to fifty four million Special Drawing Rights SDR54,000,000.

Section 2.02. 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 a District Health Funding Allocation to meet the reasonable cost of goods, works and services required for an Eligible Plan under Part A of the Project and in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts B and C of the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be December 31, 2008, 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 May 1 and November 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 May 1 and November 1 commencing November 1, 2013 and ending May 1, 2038. Each

installment to and including the installment payable on May 1, 2023 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 objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, financial, health, educational and technical practices, and with sound ecological, environmental and social standards acceptable to the Association, 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 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the 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 Report-based Disbursements or were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and 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 statements of expenditure or the reports referred to in Part A.4 of Schedule 1 to this Agreement, as the case may be, 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 Borrower's progress reporting obligations set out in paragraph 9 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower shall make publicly available, promptly after their finalization, and agrees that the Association may also make publicly available, each final audit report referred to in Section 4.01 of this Agreement, promptly after its issuance by the independent auditors referred to therein.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled;

(b) that (i) a Project Management Manual for the implementation of the Project, and (ii) District Funding Allocation Manual for the implementation of Part A of the Project, each acceptable to the Association, have been issued in accordance with the provisions of paragraphs 3 and 4, respectively, of Schedule 4 to this Agreement; and

(c) that budget proposals have been prepared and formally submitted to the Borrower's Ministry of Finance by each of MOH and MONE, each Participating Province and each District within said Participating Provinces, for all Project activities to be carried out in Fiscal Year 2004 by such entity.

Section 5.02. The following are specified as additional matters, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Environmental Management Plan and the Isolated Vulnerable Persons Development Strategy have each been adopted by the Borrower and are each legally binding upon the Borrower in accordance with the laws of the Republic of Indonesia.

Section 5.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

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

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

For the Association:

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

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

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, Republic of Indonesia, as of the day and year first above written.

REPUBLIC OF INDONESIA

By /s/ Dr. Boediono

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Andrew Steer

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

Part A: General

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in <u>SDR Equivalent</u>)</u>	<u>Amount of the Loan Allocated (Expressed in <u>Dollars</u>)</u>	<u>% of Expenditures to be Financed</u>
(1) Works (except under Part A of the Project)	1,130,000	645,000	80%
(2) Goods (except under Part A of the Project and excluding vehicles)	1,490,000	850,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Consultants' services (except Part A of the Project)	5,490,000	3,130,000	100%
(4) Training, study tours and workshops (including studies) (except under Part A of the Project)	4,170,000	2,380,000	100% of foreign expenditures and 80% of local expenditures
(5) Fellowships (except under Part A of the Project)	1,720,000	985,000	100%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Loan Allocated (Expressed in dollars)</u>	<u>% of Expenditures to be Financed</u>
(6) Incremental operating costs (except under Part A of the Project)	720,000	410,000	80%
(7) District Funding Allocations under Part A of the Project	38,210,000	21,780,000	100% of amounts disbursed
(8) Front-end Fee	--	311,000	Amount due under Section 2.04 of the Loan Agreement
(9) Unallocated	<u>1,070,000</u>	<u>609,000</u>	
TOTAL	<u>54,000,000</u>	<u>31,100,000</u>	

2. For the purposes of this Schedule:

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

(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 terms “training”, “study tours” and “workshops” mean expenditures incurred by the Borrower in connection with the holding of training, study tours or workshops, as the case may be, under the Project, including the travel costs and per diem of (i) the trainers and trainees, in the case of training, and of (ii) the organizers and participants, in the case of study tours and workshops, and the rental of facilities and training, study tour or workshop materials, as the case may be;

(d) the term “fellowships” means financial assistance provided by the Borrower in connection with the pursuit by individuals of degrees and other formal academic studies under the Project inside and outside Indonesia; and

(e) the term “incremental operating costs” means reasonable expenditures incurred by the CPCU-MOH, the CPCU-MONE, the JHCs, the TRTs and the PCIUs for staff travel (including per diem costs), communications, consumable materials, and operating costs of equipment, but excluding staff salaries and honoraria, which expenditures would not have been incurred absent the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR1,500,000, may be made in respect of Categories 1 through 6 on account of payments made for expenditures before that date but after May 1, 2003.

4. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the Report-based Disbursements and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: District Funding Allocations; training; workshops; study tours; fellowships; incremental operating costs; goods and works under contracts costing less than \$100,000 equivalent each, contracts for the employment of consulting firms valued at less than \$100,000 equivalent each, and contracts for the employment of individuals costing less than \$50,000 equivalent each; under such terms and conditions as the Association shall specify by notice to the Borrower.

Part B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in Bank Indonesia or a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or

was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$10,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions 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 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.

Annex B
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in achieving the effective delivery of health services in Indonesia in a decentralized setting by strengthening: (i) the financing and delivery of essential health services in the Borrower's provinces of Jambi, East Kalimantan, West Kalimantan and West Sumatera, so as to enhance the quality of care and health outcomes at the District level; and (ii) health workforce policy, management and development at the national and sub-national levels so as to improve allocational efficiencies and equity in the distribution and use of health resources.

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 at the District Level in East Kalimantan, West Kalimantan, Jambi, and West Sumatera

1. Carrying out Eligible Plans through the provision of District Health Funding Allocations in the Project Provinces. Eligible Plans will include the carrying out of activities designed to: (a) improve access to and the quality of health services, (b) develop mechanisms for ensuring equity and sustainability in the provision of health services; and (c) strengthen capacity at the District level in the Project Provinces for the coordination, planning, and management of health sector resources.

2. Establishing a management and administrative capacity and structure appropriate for the coordination, financing and delivery of health services and Project activities at the District level in the Project Provinces, through the provision of technical assistance (including training), equipment and operating expenditure funding.

Part B: Strengthening Health Services at the Propinsi Level in East Kalimantan, West Kalimantan, Jambi, and West Sumatera

1. Strengthening health workforce management and training capacities at the Propinsi level in the Project Provinces by carrying out activities supporting:

(a) the adoption of national minimum health service standards to local conditions and means, including the development of standard operating procedures for service delivery in health facilities;

(b) the improvement of health workforce management systems, and

(c) the upgrading of capacity to coordinate and provide long-term and in-service training; through the provision of technical assistance (including the carrying out of study tours, training and the conducting of workshops), equipment (including software); fellowships, books and instructional materials, the carrying out of civil works, and operating expenditure funding.

2. Strengthening the capacity of Provincial Health Offices in the Project Provinces to provide coordination, planning, and management support to Districts in health service delivery by carrying out activities supporting:

(a) health information and education campaigns and initiatives;

(b) the strengthening of epidemiological surveillance capabilities and disease outbreak response systems;

(c) initiatives to promote cross-sectoral cooperation and strengthen health services development planning (including initiatives to improve the collection, analysis and use of data concerning health services outputs and health status outcomes in decision-making for health development planning); and

(d) initiatives to improve the quality and use of health financing information; through the provision of technical assistance (including the carrying out of studies, training and the conducting of workshops) and operating expenditure funding.

3. Establishing a management and administrative capacity and structure appropriate for the coordination of health service program and Project activities at the Propinsi-level in the Project Provinces through the provision of technical assistance (including the carrying out of study tours, training and the conducting of workshops), office equipment and supplies, and incremental operating expenditure funding.

Part C: Strengthening the Capacity of National Level Institutions to Improve the Health Sector

1. Strengthening the capacity of MOH:

(a) to carry out its human resource development responsibilities within the context of decentralized health workforce management;

(b) to facilitate the improvement of allocational efficiencies and equity in the distribution and use of health resources at the District level;

(c) to facilitate upgrading the quality of pre-service health manpower education;

(d) to promote the upgrading of in-service health workforce training at the District level;

(e) to promote self-regulation, licensing, and certification of the nursing and midwifery professions;

(f) to improve curricula and teaching and learning conditions for training nurses, mid-wives, and other health professionals;

(g) to carry out analytical, advisory and advocacy functions in accordance with its new role of stewardship vis-a-vis both public and private health care functions; and

(h) to plan and provide assistance and oversight to a selected number of Districts on a pilot basis for hospital-based specialty training for physicians;

through the provision of technical assistance (including the carrying out of studies, training and the conducting of workshops), equipment, and instructional materials.

2. Strengthening the capacity of IMA to develop self-regulation of the medical profession, including:

(a) its mechanisms to handle grievances and allegations and findings of professional malfeasance;

(b) its ability to provide in-service training, networking and the dissemination of information on, and set standards for, medical ethics, medical education and current medical practice;

(c) its advocacy role in regulatory matters, through the provision of technical assistance (including the carrying out of studies, training and the conducting of workshops), study tours and equipment;

(d) piloting a health service delivery model in a selected number of Districts in the Project Provinces based on family physicians practicing in an integrated and structured system with effective referral and payment mechanisms; and

(e) supporting the piloting of hospital-based specialty training for physicians in a selected number of Districts in the Project Provinces.

3. Strengthening the capacity of MONE:

(a) to develop competency-based medical education and promote problem-based learning in a limited number of medical faculties;

(b) to develop (i) improved standardized admissions tests, (ii) teaching and learning methods for medical schools and faculties, and (iii) a national competency-based examination; and

(c) to provide improved medical education management, including the establishment of a national medical education development research center, the creation of a higher medical education management training program and the development of a national medical education monitoring and evaluation program;

through the provision of technical assistance (including the carrying out of studies and study tours, training and the conducting of workshops), fellowships, equipment, and instructional materials.

4. Strengthening the institutional capacity of (a) MOH and (b) MONE, to carry out their respective management responsibilities under the Project, through the provision of technical assistance (including training and workshops), office equipment and supplies and incremental operating funding.

* * *

The Project is expected to be completed by June 30, 2008.

SCHEDULE 3

Procurement

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), the provisions of Annex A to this Schedule 3 and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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 and works 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 and works 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

Works estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$2,570,000 equivalent, and goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$11,170,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and in accordance with the provisions of Annex B to this Schedule 3.

2. National Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$6,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Medical education text books and teaching materials that are of a proprietary nature and available from a particular supplier, up to an aggregate amount not to exceed \$770,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$820,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least 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. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Procurement of all goods and works under the Project shall be undertaken only in accordance with such procurement plan (including updates thereof) as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to:

(a) each contract for goods or works to be awarded on the basis of international competitive bidding procedures in accordance with the provisions of paragraph 1, Part B of Section 1 of this Schedule 3;

(b) each contract for goods or works to be awarded on the basis of national competitive bidding procedures in accordance with the provisions of paragraph 1 of Part C of Section 1 of this Schedule 3 estimated to cost the equivalent of \$100,000 or more; and

(c) subject to the provisions of sub-paragraph (b) of this paragraph 2, the first contract for goods and the first contract for works, in each case estimated to cost the equivalent of \$25,000 or more, to be awarded by each of MOH and MONE and by each Project Province and District on the basis of national competitive bidding procedures in accordance with the provisions of paragraph 1 of Section 1, Part C of this Schedule 3;

the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, the provisions of Annex A to this Schedule 3 and the following provisions of Section II of this Section.

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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph, namely the short list of consultants for services estimated to cost less than \$400,000 equivalent per contract may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits under the Project and services under Part A of the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for studies, surveys and training under the Project estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$6,860,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate contract value of \$5,360,000 equivalent, 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; provided, however, that where services for tasks meet the requirements of paragraphs 5.1 and 5.4 of the Consultant Guidelines, such services may be selected on a sole-source basis in accordance with the provisions of said paragraph 5.4, subject to prior approval of the Association.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection methods, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) Without limitation on the provisions of sub-paragraphs (b) and (c) of this paragraph 2, the terms of reference with respect to all contracts for the employment of consultants to be awarded in accordance with the provisions of Parts B and C of this Section 2 of this Schedule 3 shall be furnished to the Association for its prior review and approval.

(b) With respect to (i) the first contract for the employment of consulting firms to be awarded by each of MOH and MONE, each of the Project Provinces and each

District in accordance with the provisions of Part C.1 of Section 2 of this Schedule 3, (ii) the first contract for the employment of consulting firms to be awarded in accordance with the provisions of Part C.2 of Section 2 to this Schedule 3, and (iii) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to:

- (i) each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more,
- (ii) each contract for the employment of individual consultants to be selected on a sole source basis, and
- (iii) the first contract for the employment of individual consultants estimated to cost the equivalent of less than \$50,000 by each of MOH and MONE, each of the Project Provinces and each District,

the qualifications and experience of the candidates (in the case of candidates to be selected on a sole source basis) or the report on the comparison of the qualifications and experience of qualified candidates (in the case of individual consultants to be selected other than on a sole source basis) and the terms of reference and terms of employment of such consultants, shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

ANNEX A TO SCHEDULE 3

Without limitation on the provisions of Schedule 3 to the Development Credit Agreement (Schedule 3) and of the Guidelines and the Consultant Guidelines (as such terms are defined in said schedule and referred to hereafter as the Procurement Guidelines), the following provisions shall apply in respect of goods, works and consultants' services to be procured under the Project:

1. To ensure end-user participation in the procurement of goods, works and consultant services under the Project, the requestor/user of such goods, works or consultant services (as the case may be) to be acquired, shall be represented on the relevant procurement/selection committee. The criteria for the selection of procurement committee/selection members shall in all cases be consistent with the provisions of the Procurement Guidelines and the Project Management Manual (provided, however, that in the event of any inconsistency between the Project Management Manual and the Procurement Guidelines, the provisions of the Procurement Guidelines shall apply).
2. The annual procurement plans and consultant selection plans referred to in Section I, Part D.1 and Section II, Part D.1 of Schedule 3, including all updates thereof; shall be made publicly available promptly after their finalization.
3. All bidding documents and requests for proposals issued in accordance with Schedule 3 shall be made available to any member of the public promptly upon request, subject only to payment of a reasonable fee to cover the cost of printing and delivery. In the case of requests for proposals, the relevant documents will only be made available after notification of award to the successful firm. Each such document will continue to be made publicly available until a year after completion of the contract entered into for the goods, works or consultants' services in question.
4. All short lists of consultants and, in cases of pre-qualification, lists of pre-qualified contractors and suppliers shall be made available to any member of the public promptly upon request.
5. A summary of the evaluation of all bids and proposals for specific contracts shall be disclosed to all bidders and parties submitting proposals therefor, promptly after the notification of award to the successful bidder/consultant. Information in such summaries will be limited to a list of bidders/consultants, all bid prices and financial proposals as read out at public openings for bids and financial proposals, all bids and proposals declared non responsive (together with reasons for such an assessment), the name of winning bidder/consultant and the contract price. Such summaries will be made available to any member of the public promptly upon request.

6. Contract award information for all contracts for goods and works of \$100,000 equivalent or more, and all contracts for consultants of \$50,000 equivalent or more, shall be made publicly available and published widely, and be made available to any member of the public upon request, promptly after such award.

7. A list of all contracts awarded in the three months preceding the date of such request, including, with respect to each such contract, the name of the contractor/consultant selected, the contract amount, the number of bidders/makers of proposals in respect thereof, the procurement method followed and the purpose of such contract shall be made available, promptly upon request by any member of the public.

8. Representatives of the end-users of goods or works being procured shall be permitted to attend public bid openings in respect thereof.

ANNEX B TO SCHEDULE 3

1. General

Subject to the provisions of paragraph 3 of Section 1, Part C to Schedule 3 of the Development Credit Agreement (the Schedule), the procedures to be followed for national competitive bidding shall be those set forth in Presidential Decree No. 18/2000 of the Republic of Indonesia with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the Guidelines (as such term is defined in the Schedule).

2. Registration

(a) Bidding shall not be restricted to pre-registered firms and shall not be a condition for participation in the bidding process.

(b) Where registration is required prior to award of contract, bidders (i) shall be allowed a reasonable time to complete the registration process, and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

3. Pre-qualification

Pre-qualification shall not be used for simple goods and works. Normally, post-qualification shall be used. Pre-qualification shall be required only for large or complex works with the prior 'no objection' of the Association. When pre-qualification shall be required:

(a) eligible bidders (both national and foreign) shall not be denied pre-qualification, and

(b) invitations to pre-qualify for bidding shall be advertised in at least one widely circulated national daily newspaper a minimum of 30 days prior to the deadline for the submission of pre-qualification applications.

4. Joint Ventures

A bidder declared the lowest evaluated responsive bidder shall not be required to form a joint venture or to sub-contract part of the provision of works or part of the supply of goods as a condition of award of the contract.

5. Preferences

(a) No preference of any kind shall be given to national bidders.

(b) Regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers shall not be applicable to procurement procedures under the Development Credit Agreement.

6. Advertising

(a) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper allowing a minimum of 30 days for the preparation and submission of bids and allowing potential bidders to purchase bidding documents up to 24 hours prior to the deadline for the submission of bids.

(b) Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee.

(c) Bidders domiciled outside the area/district/province of the unit responsible for procurement shall be allowed to participate regardless of the estimated value of the contract.

(d) Foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign firm declared the lowest evaluated bidder shall be given a reasonable opportunity for registering.

7. Bid Security

Bid security, at the bidder's option, shall be in the form of a letter of credit or bank guarantee from a reputable bank.

8. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids, and if bids are invited in two envelopes, both envelopes (technical and price) shall be opened at the same time.

(b) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated bidder.

(c) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.

(d) No bidder shall be rejected merely on the basis of a comparison with the owner's estimate and budget ceiling without the Association's prior concurrence.

9. Rejection of Bids

(a) All bids shall not be rejected and new bids solicited without the Association's prior concurrence.

(b) When the number of responsive bids is less than three, rebidding shall not be carried out without the Association's prior concurrence.

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 entities/units, each with terms of reference acceptable to the Association:

- (a) the IACC and the TRC;
- (b) the CPCU-MOH and the CPCU-MONE;
- (c) the PCIU, the JHC and the TRT in each Project Province, which in each case shall report directly to the governor of said province; and
- (d) the DHC and the DIU within each District, each of which shall report directly to the Bupati or the Walikota thereof, as the case may be.

The Borrower shall also provide, or cause to be provided, as the case may be, each such unit referred to in this paragraph 1 at all times with adequate funds and other resources, and with qualified and experienced personnel in adequate numbers, acceptable to the Association, and in all cases as shall be necessary to accomplish its terms of reference and objectives.

2. The Borrower shall convene, or cause to be convened, the IACC, the TRC, the JHCs and the KHCs at all times required for each such entity to carry out its responsibilities and functions in accordance with the provisions of the Project Management Manual and the relevant terms of reference referred to in paragraph 1 of this Schedule 4.

3. The Borrower, through MOH, shall adopt and thereafter cause the CPCU-MOH, the CPCU-MONE and each PCIU and DIU to apply, a Project Management Manual acceptable to the Association in the carrying out of the Project or their respective responsibilities therefore, as the case may be. Such Project Management Manual shall include the description of *inter alia*: (i) the procurement procedures set out in Schedule 3 to this Agreement and the Annexes thereto; (ii) standard procurement documentation; (iii) reporting requirements, financial management procedures and audit procedures as set out in Article 4 of this Agreement; and (iv) the Project Performance Indicators set out in Schedule 5 to this Agreement. Except as the Association may otherwise agree, the Borrower shall not amend, abrogate or waive the Project Management Manual.

4. The Borrower shall, for the purposes of Part A of the Project, adopt, and thereafter cause each PCIU, TRT, JHC, DHC and DIU, to apply, a District Funding Allocation Manual, acceptable to the Association, (which manual the Borrower shall not amend, delete, suspend or waive the whole or any part thereof without the prior approval of the Association) and with provisions of paragraphs 5 and 6 of this Schedule 4.

5. For the purposes of Part A of the Project the Borrower shall ensure that:

(a) by no later than September 30, 2003 and each September 30 thereafter, each District shall have prepared in accordance with, and meeting the requirements of, the District Funding Allocation Manual and paragraph 6 of this Schedule 4, and submitted to the JHC of each of East Kalimantan, West Kalimantan, Jambi, or West Sumatera, as the case may be, for its evaluation: (i) a four-year health improvement framework program for such District covering the four fiscal years for such District following such date, and (ii) a one year detailed health services plan proposal for the fiscal year following such date, which plan shall include, without limitation, a procurement implementation plan in respect thereof;

(b) by no later than October 31, 2003 and each October 31 thereafter, each JHC shall have:

(i) determined, on the basis of a technical assessment provided by the TRT for the relevant Project Province and pursuant to the procedures and the criteria set out in, and the requirements of, the District Funding Allocation Manual and of paragraph 6 of this Schedule 4, which District health services plan proposals submitted in accordance with the provisions of sub-paragraph (a) of this paragraph 5 and as may have been revised in accordance with the procedures of the District Funding Allocation Manual, are appropriate for financing with the proceeds of a District Health Funding Allocation ("selected plans"); and

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

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

6. Without limitation upon the requirements of the District Funding Allocation Manual or the provisions of paragraph 5 of this Schedule 4, a District health services plan

proposal shall only be eligible for financing out of the proceeds of a District Health Funding Allocation:

- (i) where such plan 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 plan 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 each case in accordance with the Environmental Management Plan;
- (iii) for which plan proposal the Borrower has confirmed that the Pesticide Management and Monitoring Plan will be applied with respect to the handling and disposal of any chemical insecticides to be acquired under such plan proposal;
- (iv) for which plan proposal the Borrower has confirmed that the Isolated Vulnerable Peoples Strategy has been, and will continue to be, applied with respect to Isolated Vulnerable People, if any, so as to ensure that the benefits to be received under such plan proposal are in harmony with their economic, social and cultural preferences;
- (v) for which plan proposal the Borrower has confirmed that no acquisition of land or assets, and no displacement of any person, are contemplated under such plan proposal, or will occur during the carrying out thereof; and
- (vi) where such plan proposal has been reviewed and approved by the Association.

7. The Borrower shall (a) by no later than October 31, 2003, prepare and review with the Association a time-bound action plan and terms of reference for all study tours, training and workshops to take place under Part B of the Project, and (b) promptly after said review, take all measures required to carry out said action plan as such may have been modified as a consequence of said review; provided, however, that only expenditures for such study tours, training programs and workshops the terms of reference for which have been approved by the Association shall be deemed Eligible Expenditures.

8. The Borrower shall (a) by no later than October 31, 2003, prepare and review with the Association a time-bound action plan and terms of reference for all studies, training and workshops to take place under Part C of the Project, and (b) promptly after said review, take all measures required to carry out said action plan as such may have been modified as a consequence of said review; provided, however, that only expenditures for such studies, training programs and workshops the terms of reference for which have been approved by the Association shall be deemed Eligible Expenditures.

9. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement and 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 31 and September 30 of each year, commencing March 31, 2004, and until completion of the Project, a semi-annual report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 9, 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 30 and October 31 of each year, commencing 2004, or such later date as the Association shall request, the report referred to in sub-paragraph (b) of this paragraph 9, 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, 2006, prepare under terms of reference satisfactory to the Association and furnish to the Association, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 9, 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;

(e) review with the Association, on or about September 30, 2006, or such later date as the Association shall request, the report referred to in sub-paragraph (d) of this paragraph 9, 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; and

(f) make publicly available the report referred to in sub-paragraph (d) of this paragraph 9 at the same time as it is furnished to the Association pursuant to said sub-paragraph.

10. The Borrower shall:

(a) cause to be prepared, on the basis of terms of reference acceptable to the Association, and furnish to the Association by not later than the Closing Date, an external evaluation report of the Project; and

(b) for purposes of preparing the external evaluation report referred in sub-paragraph (a) above, by no later than three months prior to the Closing Date, cause to be carried out an external evaluation survey of the impacts of the Project, under terms of reference acceptable to the Association.

SCHEDULE 5

Performance Indicators

1. By June 30, 2008, in each of the Project Provinces:
 - (a) Under-five mortality rate to decrease to 35 per 1,000 live births to stay on course with the Millennium Development Goal target of 2/3 reduction by 2015.
 - (b) The proportion of births attended by a skilled health personnel to increase to 90 percent.
 - (c) The proportion of pregnant women receiving at least four ante-natal visits to increase to 90 percent.
 - (d) The segment of the population belonging to the lowest income quintile to have increased their service utilization by 50%, measured as the number of out-patient visits per capita and relative to baseline data.
 - (e) The share of local government health spending to reach 15 percent of the total local government spending, except in East Kalimantan where it is to reach 8 percent, or at least Rp. 51,000 per capita in 2002 prices.
2. By June 30, 2008, at the National Level:
 - (a) IMA to have established an institutional structure and instruments for a national medical examination and certification, for formal, graduate and continuing medical education.
 - (b) The proportion of medical students in Mulawarman and Andalas Universities surveyed as satisfied with the curriculum and education provided is at least 80%.