

**NEGOTIATED TEXT**  
**June 2, 2003**

**CREDIT NUMBER \_\_\_\_\_-IND**

# **Development Credit Agreement**

**(Third Kecamatan Development Project)**

**between**

**REPUBLIC OF INDONESIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated \_\_\_\_\_, 2003**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated \_\_\_\_\_, 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 two hundred four million three hundred thousand Dollars (\$204,300,000) (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) “BAPPEDA” means the Borrower’s Regional and Local Development Planning Agency, and any successor thereto;

(b) “BAPPENAS” means the Borrower’s National Development Planning Agency, and any successor thereto;

(c) “BPD” means *Badan Perwakilan Desa*, a village representative forum established under the Borrower’s Law No. 22/01;

(d) “BPKP” means *Badan Pengawas Keuangan dan Pembangunan*, the Borrower’s Financial and Development Supervisory Agency, and any successor thereto;

(e) “Bupati” means the Head of a Kabupaten;

(f) “Camat” means the Kabupaten official at the Kecamatan;

(g) “Desa” means a village;

(h) “Displaced Person” means a person who, on account of the execution of Part A.1 through A.5 of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) lost of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and “Displaced Persons” means, collectively, all such Displaced Persons;

(i) “Environmental Screening Criteria” means the criteria adopted by the Borrower on May 1, 2003, setting forth the measures to be taken during the implementation of Part A.1 through A.5 of the Project 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, as such Criteria may be amended from time to time with the prior agreement of the Association;

(j) “Eligible Categories” means Categories (1) through (4) set forth in paragraph 1 of the table in Part A of Schedule 1 to this Agreement;

(k) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(l) “Facilitator” means a technical or social specialist assigned to work with villages to facilitate their participation in the Project;

(m) “Financial Monitoring Report” and the acronym “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement;

(n) “Fiscal Year” and “FY” mean the Borrower’s fiscal year commencing January 1 and ending December 31;

(o) “Grant” means a grant made available by the Borrower out of the proceeds of the Credit to a LKMD to finance in part the cost of a Sub-project pursuant to the provisions of the Annex to Schedule 4 to this Agreement;

(p) “Grantee” means an individual or an entity carrying out a Sub-project;

(q) “Isolated Vulnerable People” means those social groups in Indonesia that have a distinct social and cultural identity, and that are susceptible to being disadvantaged in the development process induced by the Project or any part thereof;

(r) “Isolated Vulnerable People Development Framework” means the framework, acceptable to the Bank, which was adopted by the Borrower on January 1, 2003, providing procedures, rules, and guidelines for: (i) the informed involvement of

Indigenous Peoples, through a process of informed consultation, in the design and implementation of Sub-projects in locations in which such people reside or which they use for their livelihood, and (ii) designing and implementing measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts of Sub-projects, as such Framework may be amended from time to time with the prior agreement of the Association;

(s) “Kabupaten” means a district;

(t) “Kecamatan” means an administrative sub-district of a Kabupaten;

(u) “Kecamatan Planning Grant” means a grant made available by the Borrower out of the proceeds of the Credit to a Project Kecamatan to finance the preparation of Village-level Development Plans in Project Kecamatans pursuant to paragraph 17 of Schedule 4 to this Agreement;

(v) “Kepala Desa” means the Head of a village;

(w) “Land Acquisition and Resettlement Guidelines” means the Guidelines adopted by the Borrower on January 1, 2003, acceptable to the Association, for the provision of compensation, rehabilitation and resettlement assistance to Displaced Persons, as such Guidelines may be amended from time to time in agreement with the Association;

(x) “LKMD” means *Lembaga Ketahanan Masyarakat Desa*, a village community forum, or other village institution established under Keppres 49/2001;

(y) “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;

(z) “PJOK” means a Project manager at the Kecamatan level;

(aa) “PMD” means *Pemberdayaan Masyarakat dan Desa*, the Directorate General for Community Empowerment in the Borrower’s Ministry of Home Affairs, and any successor thereto;

(bb) “PMD Secretariat” means the Project management unit to be established within the Borrower’s Directorate General for Community Empowerment in the Ministry of Home Affairs, pursuant to Section 5.01 (c) of this Agreement;

(cc) “Project Kecamatan” means a Kecamatan selected by the Borrower for participation in Part A of the Project in accordance with the criteria set forth in paragraph 7 of Schedule 4 to this Agreement;



(dd) "Project Manual" means the manual to assist PMD and LKMDs in the implementation of the Project, as such Project Manual may be amended from time to time with the prior agreement of the Association;

(ee) "Project Performance Indicators" means those indicators designed to measure the Borrower's performance in achieving Project objectives as set forth in Schedule 5 to this Agreement;

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

(gg) "Rupiah" and "Rp" mean the currency of the Borrower;

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

(ii) "Sub-project" means a specific investment project carried out by a Grantee under Part A.1 through A.5 of the Project and financed in part out of the proceeds of a Grant;

(jj) "Sub-project Agreement" means the agreement entered into between an UPK and a Grantee for purposes of implementing and financing a Sub-project;

(kk) “SUSENAS” means the Borrower’s National Household Expenditure Survey;

(ll) “UPK” means a Kecamatan Financial Management Unit established and operating in a Kecamatan; and

(mm) “Village-level Development Plan” means a plan setting forth village activities eligible for financing under the Project.

## **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 thirty two million one hundred sixty thousands Special Drawing Rights (SDR32,160,000).

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: (i) a Grant to meet the reasonable cost of goods, works and services required for a Sub-project and in respect of which the withdrawal from the Credit Account is requested; (ii) a Kecamatan Planning Grant to meet the reasonable cost of services required for the preparation of a village development plan and in respect of which the withdrawal from the Credit Account is requested; and (iii) 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 Parts B through E 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 March 1 and September 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 semi-annual installments payable on each March 1 and September 1 commencing September 1, 2013 and ending March 1, 2038. Each installment to and including the installment payable on March 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 through the Directorate General of Community Empowerment of its Ministry of Home Affairs with due diligence and efficiency and in conformity with appropriate administrative, agriculture, engineering, and financial practices and sound 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 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 objectives of the Project; 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 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 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 21 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 FMR 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 FMR 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, 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, except only the effectiveness of this Agreement, have been fulfilled;

(b) that the Project Manual, acceptable to the Association, has been adopted;  
and

(c) that the PMD Secretariat has been established in accordance with paragraph 2 of Schedule 4 to this Agreement. 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

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**

**Authorized Representative**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**By**

**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 and the Loan, the allocation of the amounts of the Credit and the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<b>Category</b>	<b>Amount of the Credit Allocated (Expressed in <u>SDR Equivalent</u>)</b>	<b>Amount of the Loan Allocated (Expressed in <u>Dollars</u>)</b>	<b>% of Expenditures to be Financed</b>
(1) (a) Grants for Sub-projects	20,130,000	126,615,000	30% of Grant amount disbursed for Sub-projects in Kabupatens with above average financial capacity, 60% of Grant amount disbursed for Sub-projects in Kabupatens with average financial capacity, and 80% of Grant amount disbursed for Sub-projects in Kabupatens with below average financial capacity
(b) Kecamatan Planning Grants	3,360,000	21,135,000	100% of Grant amount disbursed



Category	<b>Amount of the Credit Allocated (Expressed in <u>SDR Equivalent</u>)</b>	<b>Amount of the Loan Allocated (Expressed in <u>dollars</u>)</b>	<b>% of Expenditures to be Financed</b>
(2) Training under Parts B through E of the Project, facilitation support under Parts B through E of the Project, and workshops	4,940,000	31,065,000	100%
(3) Consultants' services under:			100%
(a) Part C of the Project	3,080,000	19,375,000	
(b) Part D and E of the Project	400,000	2,495,000	
(4) Incremental operating costs	250,000	1,572,000	80%
(5) Fee	n.a.	2,043,000	Amount due under Section 2.04 of the Loan Agreement
<b>TOTAL</b>	<b>32,160,000</b>	<b>204,300,000</b>	

2. For the purposes of this Schedule:

(a) the terms “Kabupatens with above average financial capability”, “Kabupatens with average financial capability” and “Kabupatens with below average

financial capability” mean Kabupatens so classified by the Borrower pursuant to the provisions of the Borrower’s Decree MOF-No. 35/KMK.072/2002; and

(b) the term “Incremental operating costs” means the reasonable and documented expenditures incurred by the PMD Secretariat for staff travel and consumables for purposes of implementing the Project and 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.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under: (i) Grants for Sub-projects; (ii) Kecamatan Planning Grants; (iii) training, facilitation support and workshops; (iv) contracts for the employment of consulting firms costing less than \$50,000 equivalent; and (v) contracts for the employment of individuals costing less than \$30,000 equivalent; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. 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 FMR 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.

**Part B. Special Account**

1. The Borrower may, for the purposes of the Project open and maintain in Dollars a special deposit account in Bank Indonesia or in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including, in the case of a commercial bank, 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 paragraph 2 of Part B 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 paragraph 4 of Part A of this Schedule 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 paragraph 2 of Part B 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 \$24,000,000 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 paragraph 3 of Part B 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. 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 Loan 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 Loan 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 this Schedule. 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 Loan, 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 paragraph 4 of Part A of this Schedule 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 reducing poverty and improving local level governance in rural villages, including (i) institutionalization of participatory processes in local government, (ii) cost-effective provision of basic social and economic infrastructure, and (iii) strengthening of the capacity of micro-finance institutions to manage and monitor funds in a sustainable manner.

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: Kecamatan Grants Program**

1. Carrying out of infrastructure investment projects in Kecamatans, through the provision of Grants to LKMDs.
2. Carrying out of small construction and rehabilitation projects in villages, through the provision of Grants to LKMDs.
3. Carrying out of social services projects in villages through the provision of Grants to LKMDs.

4. Carrying out of economic activities in villages, through the provision of Grants to selected poor women.
5. Carrying out of poverty reduction pilot projects in villages, through the provision of Grants to LKMDs.
6. Preparation of village-level development plans in Project Kecamatans, through the provision of Kecamatan Planning Grants to inter-village forums.

**Part B: Community and Local Government Development**

1. Strengthening the capacity of Kecamatan and village community forums to carry out technical and social facilitation under the Project, through the provision of technical assistance.
2. Provision of training to District, Kecamatan and village governments in legislative drafting, fiduciary management and participatory Sub-project appraisal.

**Part C: Support to Village Micro-Finance Institutions**

1. Strengthening the capacity of UPKs to carry out supervisory oversight and review of micro-finance activities, through the provision of technical assistance.
2. Provision of on-site training to UPKs in basic principles of sound micro-finance.

**Part D: Project Implementation Support**

1. Strengthening the capacity of national, provincial and Kabupaten governments to carry out technical and social facilitation, through the provision of technical assistance.
2. Provision of training in legislative drafting and field monitoring to provincial and Kabupaten governments.
3. Strengthening the capacity of PMD to carry out Project evaluation, through the provision of technical assistance.

**Part E: Studies, Evaluation and Special Programs**

1. Carrying out of poverty impact assessments.
2. Increasing villagers' awareness of available dispute resolution mechanisms, including: (i) the preparation and publication of a booklet on villagers' rights relating to activities under the Project; (ii) the establishment and maintenance of a data base and a filing system for disputes and their resolution, accessible to villagers; and (iii) the provision of related technical assistance.
3. Carrying out of pilot programs on: (i) legal assistance to villagers on dispute resolution, (ii) provision of training support to women engineers on Sub-project supervision, (iii) development of pilot community radio programming on activities under Part A of the Project, (iv) education and health service delivery in poor villages; and (v)

information dissemination in villages participating in the Project on the implementation of Part A of the Project in such villages; including provision of technical assistance.

4. Carrying out of studies on: (i) Project infrastructure technical quality, (ii) operation and maintenance of village infrastructure, (iii) labor wages remittances to villages participating in the Project by overseas workers from such villages, and (iv) impact of decentralization on poverty and governance.

5. Strengthening the capacity of BAPPENAS, the Ministry of Finance and PMD in the carrying out of Project monitoring, through the provision of technical assistance.

6. Strengthening the capacity of BAPPENAS in the carrying out of policy research on poverty, through the provision of technical assistance.

\* \* \*

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) and the following provisions of the following provisions of Section I of this Schedule.

Part B:        Procurement Procedures

Community Participation

Goods and works required for Sub-projects shall be procured in accordance with procedures acceptable to the Association.

Part C: 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

With respect to each contract for goods and works estimated to cost the equivalent of \$100,000 or more, 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 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: the short list of consultants for services for management of the payroll for facilitators under Part A.1 through A.5 of the Project, estimated to cost less than \$200,000 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. Selection Based on Consultants' Qualifications

Services for the UPKs under Part C of the Project estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services for studies under Part E.1 and E.4 of the Project, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for technical and social facilitation under Parts B.1 and D.1 of the Project, training under Parts B.2 and D.2 of the Project, and technical facilitation under Parts D.3, E.2 and E.3 of the Project, may be procured under contracts awarded 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

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, 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) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$30,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. 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, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

### **ANNEX TO SCHEDULE 3**

Without limitation on the provisions of Schedule 3 to this Agreement 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 Manual (provided, however, that in the event of any inconsistency between the Project 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 to this Agreement, 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 to this Agreement 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 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.

## **SCHEDULE 4**

### **Implementation Program**

1. The Borrower shall adopt and, thereafter apply in the implementation of the Project, the Project Manual, acceptable to the Association, which shall include the description of: (i) implementation arrangements, (ii) the procurement procedures set forth in Schedule 3 to this Agreement and standard procurement documentation, (iii) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of this Agreement, (iv) the Project Performance Indicators set forth in Schedule 5 to this Agreement, (v) the Land Acquisition and Resettlement Guidelines referred to in Section 1.02 (v) of this Agreement, (vi) the Isolated Vulnerable People Development Framework referred to in Section 1.02 (q) of this Agreement, (vii) the Environmental Screening Criteria applicable to Sub-project design including environmental impact mitigation, (viii) maintenance provisions for works to be carried out under a Sub-project, (ix) the criteria for the selection of Sub-projects and conditions of Grants set forth in the Annex to Schedule 4 to this Agreement, and (x) the conditions of Kecamatan Planning Grants set forth in paragraph 17 of Schedule 4 to this Agreement; and shall not amend, suspend, abrogate, repeal or waive any provisions of the Project Manual without the prior agreement of the Asssocation.

2. The Borrower shall establish and, thereafter, maintain until the completion of the Project the PMD Secretariat with term of reference, facilities and staff, including a Project Manager, at all times acceptable to the Association.



3. The Borrower shall:

(a) ensure that auditing activities under the Project, including the audits referred to in Section 4.01 of this Agreement, are carried out in accordance with (i) BPKP's audit manual dated April 13, 1999, as such Manual may be amended from time to time with the prior agreement of the Association, and (ii) in accordance with terms of reference agreed with the Association; and

(b) by October 31 in each year, commencing October 31, 2003, and until completion of the Project inform each Kabupaten participating in the Project, and each provincial government in which such Kabupaten is located, that all auditing activities with respect to Sub-projects are to be carried out exclusively by independent auditors appointed by PMD in accordance with Section 4.01 (b) of this Agreement and in accordance with the manual and terms of reference referred to in sub-paragraph (a) of this paragraph 3.

4. The Borrower shall cause each Kabupaten participating in the Project to appoint a PJOK for purposes of the Project by not later than November 30 in each year, commencing November 30, 2003, and until completion of the Project.

5. The Borrower shall cause each Kabupaten participating in the Project to appoint a Kabupaten Coordination Team by not later than December 31 in each year, commencing December 31, 2003, such Team to include representatives from the

Kabupaten BAPPEDA, PMD and the relevant Kabupaten technical agencies responsible for service delivery within a Kabupaten.

6. The Borrower shall select, in accordance with criteria acceptable to the Association, the services of a banking institution, acceptable to the Association, to provide banking services required in the carrying out of activities under Parts A and B of the Project.

7. The Borrower shall select, based on SUSENAS data, Project Kecamatans from among the Borrower's 35% poorest Kecamatans.

8. The Borrower shall provide the Association, by October 31, 2003, with a list ranking the financial capability of each Kabupaten participating in the Project, and, thereafter, provide the Association with a revised list promptly after any revision to such list by the Borrower.

9. The Borrower shall ensure that:

(a) each provincial BAPPEDA shall, in consultation with the relevant Bupati, annually select proposed Project Kecamatans from a list, provided by PMD, of Kecamatans meeting the criteria set forth in paragraph 1 of this Schedule;

(b) each provincial BAPPEDA shall furnish the annual consolidated list of proposed Project Kecamatans to the PMD Secretariat and the Association for approval,

by not later than November 30 of each year for the following Fiscal Year, commencing November 30, 2004, and until completion of the Project; and

(c) not later than December 31 of each year for the following Fiscal Year, commencing December 31, 2004, and until completion of the Project, the PMD Secretariat shall make the approved annual consolidated list of Project Kecamatan available to the public free of charge.

10. The Borrower shall ensure that the relevant Bupatis and Camatans shall:

(a) issue to the Project Kecamatan, by not later than October 31 of each year for the following Fiscal Year, commencing October 31, 2004, and until completion of the Project, public information aimed at disclosing to villagers and their representatives, all administrative, financial, environmental, social, procedural and technical aspects pertaining to the selection, design, preparation and implementation of Sub-projects; and

(b) make such information, including the Project Manual, available free of charge for consultation at the Kecamatan office.

11. In carrying out Part A.1 through A.5 of the Project the Borrower shall, through the relevant PJOK, ensure that, prior to the carrying out of works under a Sub-project, the Kabupaten engineer shall have completed a technical review of such Sub-project and shall have confirmed the following:

(a) the criteria described in the Annex to this Schedule have been complied with;

(b) necessary funding to fully finance the proposed Sub-project has been obtained, including a Grant and any voluntary contributions to be made by villagers;

(c) appropriate engineering and environmental standards and practices that would minimize any acquisition of land and avoid involuntary resettlement of Displaced Persons have been considered in the design of the Sub-project in accordance with the Project Manual;

(d) the provisions of the Environmental Screening Criteria have been complied with;

(e) the Land Acquisition and Resettlement Guidelines have been complied with, and, if applicable, appropriate compensation arrangements have been completed and are satisfactory to the Displaced Persons as set forth under the Land Acquisition and Resettlement Guidelines and paragraph 16 of this Schedule;

(f) the provisions of the Isolated Vulnerable People Development Framework, if applicable, has been complied with;

(g) a Sub-project Agreement has been entered into and an implementation plan for the Sub-project has been prepared in accordance with the provisions of the Project Manual; and

(h) a maintenance program for the works to be carried out under the Sub-project and related goods has been prepared in accordance with terms acceptable to the Association and has been included in the Sub-project Agreement, which shall include assignment of maintenance responsibilities in the respective village, the preparation of training programs to strengthen the maintenance capabilities of the village, and the identification of available sources of financing to carry out such programs.

12. In carrying out Part A.1 through A.5 of the Project, the Borrower shall:

(a) ensure that, until completion of the Project, the Project Manual is made available to the Kecamatan Facilitators and the Kabupaten engineers and applied in the carrying out of Sub-projects; and

(b) periodically update the Project Manual, if needed, with the prior agreement of the Association.

13. In carrying out Part A.1 through A.5 of the Project, the Borrower shall ensure that:

(a) each infrastructure Sub-project under Part A.1 through A.5 of the Project is reviewed by the Kabupaten engineer upon completion and that a certificate of Sub-project completion shall be issued by the Kabupaten engineer upon a finding of satisfactory Sub-project completion in accordance with the Project Manual and approved designs; and

(b) if there is a finding of unsatisfactory completion of a Sub-project, except for cases of force majeure, the UPK shall recover the amounts disbursed under the respective Grant in accordance with community procedures acceptable to the Association.

14. In carrying out Part A.1 through A.5 of the Project, the Borrower shall:

(a) take measures to avoid or minimize the acquisition of land or assets of villagers and to avoid the displacement of said villagers;

(b) where the acquisition of land or assets or the displacement of villagers is unavoidable under a proposed Sub-project, ensure that the village shall, before carrying out the works which would result in such acquisition or displacement, make available to such villagers, compensation, resettlement and other rehabilitation measures in accordance with the Land Acquisition and Resettlement Guidelines; and

(c) where affected people are physically displaced or more than 10% of their productive assets are lost or more than 200 people are displaced by a Sub-project:

- (i) prepare a resettlement plan in accordance with the Land Acquisition and Resettlement Guidelines and furnish such plan to the Association for approval; and
- (ii) prior to the carrying out of the Sub-project, ensure that all Displaced Persons shall have been compensated and provided with resettlement and rehabilitation measures in accordance with the provisions of said plan.

15. In carrying out Part A.1 through A.5 of the Project, the Borrower shall:

(a) avoid, and, if not possible, minimize cultural, social and economic adverse effects on Isolated Vulnerable People caused or likely to be caused by the Project by taking appropriate mitigating measures; and

(b) through a process of informed participation, involve concerned Isolated Vulnerable People in the design and implementation of Sub-projects so as to ensure that the benefits received by the Isolated Vulnerable People under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights.

16. In carrying out Part A.6 of the Project the Borrower shall provide a Project Kecamatan with one Kecamatan Planning Grant in an amount which shall be calculated on the basis of the number of villages in such Kecamatan and the degree of difficulty of

preparation of the proposed Village-level Development Plan, as set forth in the annual programming assessment prepared by PMD, provided, however, that such Kecamatan Planning Grant may not exceed Rp 150,000,000 per Project Kecamatan.

17. In carrying out Part E of the Project, the Borrower shall:

(a) carry out the studies in accordance with terms of reference acceptable to the Association;

(b) not later than January 1 in each year, commencing January 1, 2004, furnish to the Association for comments the recommendations of the studies carried out in the preceding year;

(c) not later than July 31 in each year, commencing July 31, 2004, prepare action plans for the implementation of the recommendations of the studies carried out in the preceding year, taking into account the comments of the Association on such recommendations; and

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

18. In carrying out Part E.5 of the Project, the Borrower shall seek the participation of non-governmental organizations and independent journalists and shall employ at least one non-governmental organization in each province where Project activities are being



carried out, to monitor the carrying out of Project activities under Part A of the Project in such province.

19. 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, the carrying out of the Project and the achievement of the objectives thereof;

(b) cause PMD to prepare, under terms of reference acceptable to the Association, and furnish to the Association:

(i) reports on the implementation of Part A of the Project covering the preceding calendar quarter, not later than April 30, July 31, October 31 and January 31 in each year, starting January 31, 2004, and until the completion of the Project; and

(ii) annual reports, not later than March 31 in each year, commencing March 31, 2004, and until completion of the Project, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, including a

detailed evaluation of the monitoring and evaluation activities carried out to avoid adverse effects on Isolated Vulnerable People caused or likely to be caused by the Project, and any activities relating to Displaced Persons, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Association, by June 30 in each year, commencing June 30, 2004, or such later date as the Association shall request, and until completion of the Project, the reports referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter; and

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

## **ANNEX TO SCHEDULE 4**

### **Sub-project Selection Criteria**

The Borrower shall cause Sub-projects to be selected in Project Kecamatan in accordance with the following criteria.

1. No Sub-project shall: (a) include expenditures intended for a military or paramilitary purpose; (b) include civil works for government administration or religious purposes; (c) relate to the manufacture or use of environmentally hazardous goods (including asbestos, pesticides and herbicides), arms or drugs; (d) relate to the manufacture or use of fishing boats of 10 or more tons, tackle or dynamite; (e) include the financing of government salaries; (f) relate to the production, processing, handling, storage or sale of tobacco or products containing tobacco; (g) relate to activities within a nature reserve or any other area designated by the Borrower for the management and/or the protection of biodiversity, except with the prior written approval of the Borrower's agency responsible for the management and/or protection of such area; (h) relate to mining or excavation of live coral; (i) relate to water resources development on rivers which flow into or out of another country; (j) relate to alterations to river courses; (k) relate to land reclamation larger than 50 hectares; (l) relate to new irrigation larger than 50 hectares; and (m) relate to the construction of water retaining or storage structures of a capacity greater than 10,000 cubic meters.
  
2. Sub-projects under Part A.1 of the Project:

(a) each proposed Sub-project shall be a public infrastructure investment project which is technically, financially, environmentally and socially viable, and economically justified by the number of people benefiting from it;

(b) the estimated cost of a proposed Sub-project shall not be more than Rp.350,000,000;

(c) the estimated cost of the proposed Sub-project when added to the cost of the Sub-projects approved in the relevant Project Kecamatan does not exceed in the aggregate:

(i) Rp. 500,000,000 in Project Kecamatan with fewer than 15,000 inhabitants in all of the Borrower's provinces;

(ii) Rp. 750,000,000: (A) in Project Kecamatan with 15,000 or more inhabitants but less than 25,000 inhabitants in all of the Borrower's provinces except Banten, Central Java, DKI Jakarta, East Java, West Java and Yogyakarta, and (B) in Project Kecamatan with 25,000 or more inhabitants but less than 50,000 inhabitants in the Borrower's provinces of Banten, Central Java, East Java, West Java and Yogyakarta; and

(iii) Rp. 1,000,000,000: (A) in Project Kecamatan with 25,000 or more inhabitants in all of the Borrower's provinces except

Banten, Central Java, DKI Jakarta, East Java, West Java and Yogyakarta, and (B) in Project Kecamatans with 50,000 inhabitants or more in the Borrower's provinces of Banten, Central Java, East Java, West Java and Yogyakarta; and

(d) a Sub-project Agreement shall be entered into between the UPK and the Grantee, on terms and conditions set forth in the Project Manual.

3. Sub-projects under Part A.2 of the Project:

(a) each proposed Sub-project shall be a public rehabilitation project which is technically, financially, environmentally and socially viable, and economically justified by the number of people benefiting from it;

(b) the estimated cost of a proposed Sub-project shall not be more than Rp.50,000,000;

(c) the estimated cost of the proposed Sub-project when added to the cost of the Sub-projects approved in the relevant Project Kecamatan does not exceed in the aggregate:

(i) Rp. 500,000,000 in Project Kecamatans with fewer than 15,000 inhabitants in all of the Borrower's provinces;

(ii) Rp. 750,000,000: (A) in Project Kecamatan with 15,000 or more inhabitants but less than 25,000 inhabitants in all of the Borrower's provinces except Banten, Central Java, DKI Jakarta, East Java, West Java and Yogyakarta, and (B) in Project Kecamatan with 25,000 or more inhabitants but less than 50,000 inhabitants in the Borrower's provinces of Banten, Central Java, East Java, West Java and Yogyakarta; and

(iii) Rp. 1,000,000,000: (A) in Project Kecamatan with 25,000 or more inhabitants in all of the Borrower's provinces except Banten, Central Java, DKI Jakarta, East Java, West Java and Yogyakarta, and (B) in Project Kecamatan with 50,000 inhabitants or more in the Borrower's provinces of Banten, Central Java, East Java, West Java and Yogyakarta; and

(d) a Sub-project Agreement shall be entered into between the UPK and the Grantee, on terms and conditions set forth in the Project Manual.

4. Sub-projects under Part A.3 of the Project:

(a) each proposed Sub-project shall be a social service investment project which is technically, financially, environmentally and socially viable, and economically justified by the number of people benefiting from it;

(b) the estimated cost of a proposed Sub-project shall not be more than Rp.25,000,000;

(c) each Sub-project proposed under Part A.3 of the Project in the education sector shall be compatible with the applicable Kabupaten education master plan;

(d) each Sub-project proposed under Part A.3 of the Project in the health sector shall be compatible with the applicable Kabupaten health master plan; and

(e) a Sub-project Agreement shall be entered into between the UPK and the Grantee, on terms and conditions set forth in the Project Manual.

5. Sub-projects under Part A.4 of the Project:

(a) each proposed Sub-project shall be an income-generating investment project which is technically, financially, environmentally and socially viable, and economically justified; and

(b) a Sub-project Agreement shall be entered into between the UPK and the Grantee, on terms and conditions set forth in the Project Manual.

6. Sub-projects under Part A.5 of the Project:

(a) each proposed Sub-project shall be an investment project which is innovative, focused on the poor or the marginal groups, and contributes to the overall objectives of the Project;

(b) the estimated cost of a proposed Sub-project shall not be more than Rp.150,000,000; and

(c) a Sub-project Agreement shall be entered into between the UPK and the Grantee, on terms and conditions set forth in the Project Manual.



**SCHEDULE 5**

**Performance Indicators**

	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>INPUTS</b>			
No. of project Kecamatan	800	700	600
No. of villages with Sub-projects	8,000	7,000	6,000
% of women in village meetings	40	40	40
% of Grants disbursed	80	80	80
% of villages with O&M committees formed	75	75	75
% of villages with 5 Perdas issued	50	65	85
% of UPKs receiving training	25	50	75
<b>OUTPUTS</b>			
IRR on investments	>30%	>30%	>30%
% of agreed work completed (by type, value, etc)	85	85	85
% of Kecamatan visited by project staff	35	35	35
% of national database complaints resolved	40	60	75
% of villages with BPDs formed Perda	30	50	75
% inter-village forums by Perda	30	50	75
<b>IMPACTS</b>			
<b>1. Poverty</b>			
No. of beneficiaries (000.000)	15	10	9
% beneficiaries who are women	35	40	40
% beneficiaries who are poor	65	65	65
No. of primary school rehabilitated	150	150	150
SUSENAS findings on poverty impacts		Pos. impact	
<b>2. Governance</b>			
Panel survey findings on participation and governance			Pos. impact
No. of provincial and national complaints databases published	50	75	100
<b>3. Sustainability</b>			
% of proposed matching grant Kabupatens providing funds	50	75	90
% infrastructure reviewed as "Good" to	70	80	90

“Excellent”			
No. UPKs retaining >Rps. 100 million	100	100	100
Studies on matching grants		X	X