

CONFORMED COPY

LOAN NUMBER 3658 IND

(National Watershed Management and Conservation Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 10, 1993

LOAN NUMBER 3658 IND

LOAN AGREEMENT

AGREEMENT, dated December 10, 1993, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

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

(b) "Indigenous 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;

(c) "NGO" means a non-governmental organization, a private not for profit enterprise the objectives of which are to promote humanitarian assistance and socio-cultural cooperation and development;

(d) "POLA RLKT DAS" means Pola Rehabilitasi Lahan dan Konservasi Tanah Daerah Aliran Sungai, the Borrower's 25 year watershed plan;

(e) "RTL RLKT SUB-DAS" means Rencana Teknik Lapangan RLKT Sub-DAS, the Borrower's five year watershed plan;

(f) "RTT" means Rencana Teknik Tahunan, the Borrower's annual watershed plan;

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

(h) "Tim Pengendali" means the Borrower's inter-ministerial central guidance team, coordinating the implementation of the Borrower's Regreening and Reforestation Program; and

(i) "Regreening and Reforestation Program" means the Borrower's national land and forest rehabilitation program for water-shed quality improvement, implemented under the Borrower's Presidential Instruction.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, various currencies that shall have an aggregate value equivalent to the amount of fifty six million five hundred thousand dollars (\$56,500,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in United States dollars a special deposit account in Bank Indonesia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2000 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and out-standing from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the pre-ceding Quarter, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this

Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on April 15 and October 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, agricultural, engineering, environmental, financial and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such year, the report of such audit by

said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Borrower has reviewed and revised, as necessary, the terms of reference of the chairs of the Tim Pengendali Secretariat, the four Tim Pengendali Working Groups and its leaders, and the PIMPRO (Project Manager) of the PUOPR (General Planning and Operation of the Regreening and Reforestation Projects), and has furnished to the Bank such terms of reference.

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 2458
Jakarta 10710, Indonesia

Cable address:

Telex:

FINMINISTRY
Jakarta

45799 DJMLN-IA
44319 DEPKEU-IA

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (RCA),
82987 (FTCC),
64145 (WUI), or
197688 (TRT)

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

REPUBLIC OF INDONESIA

By /s/ Arifin M. Siregar (Ambassador)
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gautam Kaji
Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works:		
(a) Part B.2 (a) of the Project	2,400,000	60%
(b) Part B.2 (b) of the Project, including related vegetative and	1,800,000	60%

	other materials		
	(c) Other Parts of the Project	200,000	60%
(2)	Equipment, furniture and materials (excluding computer equipment and vehicles)	3,600,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(3)	Agricultural inputs under Part B.1 of the Project (excluding fertilizers)	2,900,000	80%
(4)	Village grants under Part B.3 (d) of the Project	200,000	60%
		Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(5)	Training:		
	(a) Part A of the Project	5,700,000	100%
	(b) Part B.3 (a) of the Project	1,200,000	70%
(6)	Per diem, travel costs, and honoraria for seconded Project staff, extension workers and local government staff under Parts A and B of the Project	1,000,000	60%
(7)	Research activities, studies and consultants' services:		
	(a) Part A of the Project	7,500,000	100%
	(b) Part B.3 (b) and B.4 of the Project	4,200,000	100%
(8)	Planting materials under Part C of the Project	7,100,000	100%
(9)	Nursery establishment and maintenance inputs under Part C of the Project (excluding fertilizers)	15,900,000	20%
(10)	Unallocated	2,800,000	
	TOTAL	56,500,000	

2. For the purposes of this Schedule:

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

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

(c) the term "agricultural inputs" means planting materials (including tree seedlings and grasses), pesticides and livestock for Part B.1 (a) of the Project; planting materials (including tree seedlings and grasses), pesticides and labor for Part B.1 (b) and (c) of the Project; and farm tools, small farm equipment and materials for Part B.1 (b) of the Project;

(d) the term "planting materials" means seeds, seedlings, manure and other organic planting materials for soil conservation demonstration units (UPSA), and sedentary farming demonstration units (UPM), financed under the regreening portion of the Borrower's Regreening and Reforestation Program; and

(e) the term "nursery establishment and maintenance inputs" means planting materials, pesticides, small tools, small equipment, materials and labor for village nurseries, financed under the regreening portion of the Borrower's Regreening and Reforestation Program.

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

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

(b) payments made for expenditures in respect of Category (1) (a), until the Borrower has prepared a manual, satisfactory to the Bank, on roads and drainage design and maintenance, suitable to the environmental conditions of the watershed;

(c) payments made for expenditures in respect of Category (1) (a), where withdrawal requests are received by the Bank:

(i) after April 1, 1997, until the Bank has received evidence, satisfactory to the Bank, that the roads upgraded under Part B.2 (a) of the Project are being maintained in accordance with the criteria set forth in the manual referred to in paragraph (b) above; and

(ii) after April 1, 1998, until the Bank has received evidence, satisfactory to the Bank, that the roads upgraded under Part B.2 (a) of the Project are being maintained in accordance with the criteria set forth in the manual referred to in paragraph (b) above;

(d) payments made for expenditures in respect of Categories (5) (a) and (7) (a), until the Borrower has furnished to the Bank evidence, satisfactory to the Bank, that qualified full-time seconded staff have been appointed to head the following working groups: Information Support System and Land Use Planning Working Group under Part A.1 of the Project; Upland Research and Nursery Development Working Group under Part A.2 of the Project; and Training and Extension Working Group under Part A.3 of the Project; and

(e) payments made for expenditures in respect of Categories (8) and (9), until the Borrower has furnished to the Bank, evidence satisfactory to the Bank, that: (i) guidelines outlining the revised treatments for UPSAs and UPMs included in the Regreening and

Reforestation Program have been prepared in a form satisfactory to the Bank and that such guidelines have been distributed to the relevant implementing agencies; (ii) the required research, training, planning, and information support systems activities under Part A of the Project have been initiated, and a review of such activities has been carried out by the Borrower in consultation with the Bank; and (iii) the Borrower has established a distribution system by which planting materials of the required standard quality are available and are distributed to the relevant farmers in a timely manner.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for works, contracts for goods below \$200,000 equivalent, and contracts for services below \$100,000 equivalent under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve watershed environmental quality, to protect downstream watershed resources, and to improve the living standards of poor upland farmers by improving and restoring the productive potential of the resource base.

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

PART A: National Institutional Strengthening

1. Information Support System and Land Use Planning

(a) Information Support System

Provision of training, workshops, data collection equipment, computer equipment, system software and data base development, and technical assistance for the development and implementation of an information support system to strengthen the Borrower's capacity, at the national, provincial and district levels, to plan and manage its Regreening and Reforestation Program, comprising two sub-systems, namely: (i) a resource information system to deal with geographical and physical information concerning the status and condition of resources, including economic and cultural landscapes; and (ii) a management information system to deal with information concerning planning, budgeting, monitoring and evaluation activities.

(b) Land Use Planning

Provision of training, workshops, data collection equipment, computer equipment, system software and data base development, and technical assistance for the strengthening of the Borrower's land use planning procedures under the Regreening and Reforestation Program, including fuller integration of watershed plans into regional development plans.

2. Upland Research and Development

Improvement of the technical aspects of field activities of the Borrower's Regreening and Reforestation Program through:

(a) establishment of a decentralized multi-disciplinary program of upland research and development of improved planting materials, including: (i) carrying out of a review of current technology employed in the major agro-ecological zones of the critical watersheds; and (ii) dissemination of farming systems that integrate perennial cash crops and annual food crops, and use grasses and other vegetative hedges to stabilize lands;

(b) improvement of seed source harvesting and handling,

plant propagation, and nursery practices and development, including development of quality standards for planting materials, to ensure that quality fruit and timber tree species with strong local demand are available to support the Regreening and Reforestation Program; and

(c) provision of study tours and dissemination of publications on new technical approaches to soil conservation; provision of technical assistance to the Borrower's Agency for Forestry Research and Development within the Borrower's Ministry of Forestry, for the development of a strategic plan for soil conservation research; and provision of technical assistance to the Watershed Management Technology Centers.

3. Training and Extension Development

Provision of training programs in information support systems, land use and participatory planning, improved site-specific farm production, marketing and conservation technology, to local government staff, extension workers, technical field staff involved in the implementation of the Regreening and Reforestation Program, farmers and women groups.

PART B: Upper Cimanuk Watershed Conservation and Development

Implementation of the following in the districts of Garut and Sumedang in the Upper Cimanuk watershed of the Province of West Java:

1. Upland Conservation Management

(a) Provision of in-kind grants, in the form of agricultural inputs, to farmers for the development of model micro-watersheds and surrounding expansion areas.

(b) Establishment of about 75 village-based nurseries for the supply of high quality seedlings for on-farm treatments.

(c) Establishment of a model village nursery in Garut and in Sumedang for testing the suitability of more advanced nursery technology.

2. Roads and Upland Erosion Control

(a) Upgrading and maintenance of about 126 km of village access roads, including road bank stabilization, and construction of about 190 km of roadside drainage control.

(b) Carrying out vegetative and structural land stabilization treatments.

3. Upland Support Services

Provision of long-term support to upland conservation and upland erosion control treatments through:

(a) Improvement of planning procedures, provision of extension services, dissemination of information on credit and marketing, and provision of training to farmers, village groups, extension workers, and local government officials.

(b) Carrying out of farming system research through establishment of three research plots in representative agro-ecological zones and establishment of small on-farm technology displays in the model micro-watersheds.

(c) Provision of land titles (sertifikat tanah hak milik) to farmers investing in more sustainable farming practices and adopting successful soil and moisture technologies.

(d) Provision of grants, to selected communities having

demonstrated initiative in undertaking soil conservation activities, for the financing of small village projects including, inter alia, clean water supplies and agricultural processing facilities.

4. Project Management and Institutional Strengthening

(a) Provision of technical assistance to district governments in the carrying out of Project activities under Part B of the Project.

(b) Establishment of a resource information system and a management information system linked to the requirements of the Regreening and Reforestation Program.

(c) Carrying out of studies, including the following: base-line information survey, role of women in upland farming systems, and land utilization survey.

PART C: Investment Support for Regreening and Reforestation

Carrying out of the Borrower's Regreening and Reforestation Program in the Borrower's critical watersheds.

* * * *

The Project is expected to be completed by March 31, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
April 15, 1999	1,055,000
October 15, 1999	1,095,000
April 15, 2000	1,135,000
October 15, 2000	1,180,000
April 15, 2001	1,220,000
October 15, 2001	1,270,000
April 15, 2002	1,315,000
October 15, 2002	1,365,000
April 15, 2003	1,415,000
October 15, 2003	1,465,000
April 15, 2004	1,520,000
October 15, 2004	1,580,000
April 15, 2005	1,635,000
October 15, 2005	1,695,000
April 15, 2006	1,760,000
October 15, 2006	1,825,000
April 15, 2007	1,895,000
October 15, 2007	1,965,000
April 15, 2008	2,035,000
October 15, 2008	2,110,000
April 15, 2009	2,190,000
October 15, 2009	2,270,000
April 15, 2010	2,355,000
October 15, 2010	2,445,000
April 15, 2011	2,535,000
October 15, 2011	2,630,000
April 15, 2012	2,725,000
October 15, 2012	2,830,000
April 15, 2013	2,935,000
October 15, 2013	3,050,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Indonesia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Except as provided in paragraph 2 below, civil works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Civil works for road upgrading and maintenance, and related drainage works and land stabilization treatments, may be carried out by force account, using local villagers for labor wherever possible, in accordance with procedures satisfactory to the Bank.

3. Equipment, materials and furniture estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount equivalent to \$1,300,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

4. Equipment, materials and furniture estimated to cost the equivalent of \$20,000 or less per contract, up to an aggregate amount equivalent to \$50,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures satisfactory to the Bank.

5. Contracts for equipment for satellite imagery may be awarded after direct negotiations with suppliers, in accordance with procedures satisfactory to the Bank.

6. Planting materials and nursery establishment inputs may be procured under contracts awarded on the basis of comparing of price quotations obtained from at least three suppliers eligible under the Guidelines or after direct negotiations with suppliers, in accordance with procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts or to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank or to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. In carrying out Part A.2 of the Project, the Borrower shall carry out such activities first in one watershed in each of the following provinces: West Java (Upper Cimanuk), North Sumatra, Central Sulawesi, South Sulawesi, West Kalimantan, and East Nusa Tenggara.

2. In carrying out Part B.1 (b) and (c) of the Project, the Borrower shall, prior to the mid-term review of the Project but not later than January 1, 1996, review the POLA RLKT DAS, RTL RLKT SUB-DAS, and RTT plans and prepare recommendations and action plans for the improvement of the institutional and technical aspects of such plans, and furnish such recommendations and action plans to the Bank for comments.

3. In carrying out Part B.3 (d) of the Project, the Borrower shall furnish to the Bank village project proposals, satisfactory to the Bank, relating to the use of the village grants.

4. In order to assist the Borrower in carrying out Parts A and B of the Project, the Borrower shall, not later than August 31, 1994 and in accordance with Section II of Schedule 4 to this Agreement, employ the following consultants:

(a) for Part A of the Project: a watershed management adviser, an environmental adviser, a research and technology development adviser, a training and extension adviser, a watershed planning adviser, a management information systems adviser, and a resource information systems adviser; and

(b) for Part B of the Project: a project management specialist, an upland farming systems specialist, a nursery specialist, a land use planning specialist, a road engineer, a soil and water conservation engineer, and a socio-economist.

5. In order to assist the Borrower in carrying out Part B of the Project, the Borrower shall employ, not later than August 31, 1994

and in accordance with Section II of Schedule 4 to this Agreement, a qualified NGO to assist the district governments of Garut and Sumedang with the participatory planning procedures.

6. Without limitation upon the provisions of Section 9.01 (a) of the General Conditions, the Borrower shall furnish to the Bank:

(a) for comments, not later than August 15 in each year, commencing August 15, 1994, until completion of the Project, an annual Project work program for Parts A and B of the Project;

(b) not later than August 15 in each year, commencing August 15, 1995, until completion of the Project, a consolidated report of all activities to be funded under the Regreening and Reforestation Program; and

(c) not later than June 30 in each year, commencing June 30, 1994, until completion of the Project, an annual Project progress report incorporating information obtained from the management information system referred to in Part A.1 (a) of the Project.

7. The Borrower shall, not later than March 31, 1996, carry out a mid-term review of Project implementation, in consultation with the Bank, and shall, thereafter, carry out the recommendations agreed with the Bank in accordance with an action plan acceptable to the Bank.

8. In accordance with the Borrower's commitment to the protection of the interests of Indigenous People, the Borrower agrees to:

(a) ensure that the benefits the Indigenous People receive under the Project are in harmony with their economic, social, and cultural preferences;

(b) through a process of informed participation, involve concerned Indigenous People in the preparation and implementation of the activities to be carried out under Part C of the Project;

(c) mitigate or avoid adverse effects on Indigenous People caused or likely to be caused by the Project; and

(d) in watersheds where Indigenous People are present, carry out the research activities taking into account such Indigenous People's cultural practices.

9. The Borrower shall provide the computer equipment and vehicles required for the Project in accordance with a schedule agreed with the Bank.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (9) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$3,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively

for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

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

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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

