

CONFORMED COPY

CREDIT NUMBER 3189 IND

Development Credit Agreement

(Sumatera Basic Education Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 16, 1999

CREDIT NUMBER 3189 IND

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 16, 1999, between the 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 agreeing to provide such assistance in an aggregate principal amount equivalent to fifty four million five hundred thousand dollars (\$54,500,000) (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 December 2, 1997) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement.

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. "Participating Country" means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Association, adopted on June 26, 1996; and "Participating Countries" means, collectively, all such countries."

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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, wherever used in this Agreement, have the following meanings:

(a) "BAPPEDA" means the Development Planning Agency established and operating within the Province and within each District;

(b) "BAPPENAS" means the National Development Planning Agency of the Borrower and includes any successor thereto;

(c) "Bupati" means the head of a Kabupaten;

(d) "CPCU" means the Central Project Coordination Unit in MOEC;

(e) "CSC" means the Central Steering Committee chaired by BAPPENAS;

(f) "DCC" means the District Coordination Committee;

(g) "DINAS P dan K" means DINAS Pendidikan dan Kebudayaan, the provincial and District office for education and culture;

(h) "District" means a Kabupaten or a Kotamadya;

(i) "DPIU" means the District Project Implementation Unit;

(j) "First Group of Districts" means the following Districts: Kotamadya Bengkulu, Kabupaten Bengkulu Utara, Kabupaten Rejang Lebong, and Kabupaten Bengkulu Selatan in the Province of Bengkulu; Kotamadya Medan, Kabupaten Simalungun, Kabupaten Labuhan Batu, Kabupaten Tapanuli Utara, Kabupaten Tapanuli Tengah, Kabupaten Tapanuli Selatan, Kabupaten Nias, and Kabupaten Langkat in the Province of Sumatera Utara; and Kabupaten Kepulauan Riau, Kabupaten Bengkalis, Kabupaten Kampar; and Kabupaten Inderagiri Hilir in the Province of Riau;

(k) "Fiscal Year" means the fiscal year of the Borrower commencing April 1 and ending March 31;

(l) "Grants" means grants made available by the Borrower out of the proceeds of the Credit and the Loan to primary and junior secondary schools under Part A of the Project;

(m) "Guru Pemandu" means subject matter teaching facilitators;

(n) "Implementation Guidelines" means the Borrower's Guidelines of Basic Education Project Implementation set out in the Joint Decree of the Director General of Primary and Secondary Education, MOEC, the Director General of Islamic Institutions Development, MORA, and the Director General of Regional Development, MOHA, No. 426/C/Kep/PR/98, No. E/349/98, and No. 050-258/SK-Bangda/98, respectively, dated October 27, 1998, as amended from time to time in agreement with the Association;

(o) "Junior secondary schools" means the Borrower's public and private Sekolah Lanjutan Tingkat Pertama and Madrasah Tsanawiyah;

(p) "KC" means a Kecamatan Committee;

(q) "Kecamatan" means a sub-District;

(r) "KKG" means teacher training groups;

(s) "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 December 2, 1997), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(t) "MOEC" means the Borrower's Ministry of Education and Culture and any successor thereto;

(u) "MOHA" means the Borrower's Ministry of Home Affairs and any successor thereto;

(v) "MORA" means the Borrower's Ministry of Religious Affairs and any successor thereto;

(w) "PCC" means the Provincial Coordination Committee;

(x) "Pimbagpro" means a Project sub-manager at the District level;

(y) "Pimpro" means a Project manager at the central and provincial level;

(z) "PPIU" means the Provincial Project Implementation Unit;

(aa) "Primary schools" means the Borrower's public and private Sekolah Dasar and Madrasah Ibtidaiyah;

(bb) "Private School Grants" means grants made available by the Borrower out of the proceeds of the Credit and the Loan to primary and junior secondary private schools under Part C. 6 of the Project;

(cc) "Project Provinces" means the Borrower's provinces of Bengkulu, Riau and Sumatera Utara;

(dd) "Rupiah" or "Rp" means the currency of the Borrower;

(ee) "Second Group of Districts" means the following Districts: Kabupaten Inderagiri Hulu, Kotamadya Pekanbaru and Kotamadya Batam in the Province of Riau;

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

(gg) "Third Group of Districts" means the following Districts: Kabupaten Asahan, Kabupaten Dairi, Kabupaten Karo, Kabupaten Deli Serdang, Kabupaten Mandailing Natal, Kabupaten Toba Samosir, Kotamadya Sibolga, Kotamadya Tanjung Balai, Kotamadya

Pematang Siantar, Kotamadya Tebing Tinggi and Kotamadya Binjai in the Province of Sumatera Utara; and

(hh) "Walikota" means the head of a Kotamadya.

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 fourteen million eight hundred thousand Special Drawing Rights (SDR 14,800,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement: (i) for amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of a Grant made under Parts A.2 and C.6 of the Project to meet the reasonable cost of goods and services required by schools and in respect of which the withdrawal from the Credit Account is requested; and (ii) for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project (other than Parts A.2 and C.6 of the Project) and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank Indonesia or in a state commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including, in the case of a state commercial bank, appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 7 to this Agreement.

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

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) 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 semi-annually on June 15 and December 15 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 June 15 and December 15 commencing June 15, 2009, and ending December 15, 2033. Each installment to and including the installment payable on December 15, 2018, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment

thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

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

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

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

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

ARTICLE III

Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

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

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

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

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

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of 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.

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 all conditions precedent to the effectiveness of the Loan Agreement, except only the effectiveness of the Development Credit Agreement, have been fulfilled;

(b) that a PPIU has been established in each of the Project Provinces in

accordance with paragraph 2 (b) of Schedule 4 to this Agreement; and

(c) that a DPIU has been established in each of the First Group of Districts in accordance with paragraph 3 (a) 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:

FINMINISTRY
Jakarta

Telex:

45799 DJMLN-IA
44319 DEPKEU-IA

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF INDONESIA

By /s/ Mr. Darsjah, Director

General of Budget
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mark Baird,

Country Director for Indonesia
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit
and the Loan

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Civil works under Part C.2 of the Project	1,100,000	5,300,000	80%
(2) Goods of (ex-80% expenditures procured	400,000	6,500,000	100% of foreign expenditures, 100% local expenditures (factory cost) and of local for other items locally
(3) Training and fellowship	3,500,000	12,100,000	80%
(4) Scholarships under Part A.1 of the Project	4,500,000	8,000,000	100%
(5) Grants:			100%
(a) Primary schools	1,600,000	5,200,000	
(b) Junior secondary schools	800,000	2,600,000	
(6) Private School Grants	400,000	1,700,000	100%
(7) Services of contract Teachers under Part C.5 of the Project	200,000	1,900,000	100%
(8) Project management	1,500,000	4,500,000	80%
(9) Consultants' services	800,000	4,200,000	100%
(10) Fee	--	545,000	Amount due under Section 2.04 of the Loan Agreement
(11) Unallocated	--	1,955,000	

TOTAL 14,800,000 54,500,000

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; and

(c) the term "Project management" means expenditures for travel, per diem, honoraria, office equipment and materials, and office support required for the CPCU, DCC, DPIU, PCC and PPIU in the management of 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 and Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) civil works and goods under contracts costing less than \$100,000 equivalent each, except for the first procurement of goods in each Fiscal Year in each District under contracts costing the equivalent of \$50,000 or more; (ii) training and fellowships; (iii) scholarships; (iv) Grants; (v) Private School Grants; (vi) services of contract teachers; (vii) Project management; and (viii) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each and contracts for the employment of individuals valued at less than \$50,000 equivalent each; all under such terms and conditions as the Association and the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in: (i) mitigating the effects of the economic crisis in the Project Provinces by maintaining primary and junior secondary school enrollments and transition rates from primary to junior secondary schools for the poor, preventing quality from deteriorating by ensuring that schools can meet essential operational and maintenance costs, and realizing efficiency gains wherever possible; and (ii) the continued implementation of the Borrower's medium-term education strategy of improving the quality of basic education and decentralizing educational planning, management and implementation to the District level and below in the Project Provinces.

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: Crisis Relief

Maintaining primary and junior secondary school enrollments, quality and efficiency in the Project Provinces through:

1. the carrying out of a program to provide scholarships, based on poverty criteria and student school attendance, to junior secondary students;

2. the carrying out of a program to provide Grants to selected primary and junior secondary schools for acquisition of instructional materials and consumable materials, carrying out of minor repairs and maintenance, provision of public transportation to teachers attending KKG training, and school fees; and

3. the carrying out of a training program for provincial, District, Kecamatan and school committee members relating to selection criteria for scholarships and Grants.

Part B: Institutional Reform

1. Strengthening education management at the Kecamatan, District and provincial levels in the Project Provinces through:

(a) the preparation of location maps of primary and junior secondary schools in each Kecamatan, including staffing of schools and consolidation plans for public primary schools, for purposes of consolidating public primary schools and improving staffing ratios of schools;

(b) the preparation of a five-year plan and annual technical and budgetary plans integrating and coordinating the activities of MOEC, MORA, BAPPEDA and DINAS P dan K in the field of basic education, covering: (i) school location, consolidation, rehabilitation and maintenance; (ii) teacher training, support and supervision; (iii) provision of books for supplementary reading, teacher reference books, teaching aids and kits, equipment and materials; and (iv) promotion of community participation in school affairs; including provision of technical assistance;

(c) the carrying out of organizational, staffing, and other assessments of the capability and capacity of MOEC, MORA, BAPPEDA, DINAS P dan K and other relevant provincial, District and Kecamatan level agencies to plan, budget and implement basic education programs; and

(d) the strengthening of the institutional capacity to carry out basic education programs of the provincial, District and Kecamatan agencies of MOEC, MORA, BAPPEDA, DINAS P dan K, and other relevant provincial, District and Kecamatan level agencies through: (i) the development and carrying out of training programs for staff; (ii) carrying out of student assessments and Project impact evaluation; and (iii) provision of office equipment.

2. Strengthening the capacity of the CPCU, PCC, PPIU, DCC, DPIU, KC and school committees for Project management through:

(a) the preparation and carrying out of a program for the periodic reporting, monitoring and evaluation of the five-year and annual technical and budgetary plans;

(b) the carrying out of technical audits;

(c) the carrying out of Project management training; and

(d) the provision of office equipment, furniture and materials to the CPCU, PPIU and DPIU.

3. Carrying out of preparation activities for teacher policy reforms.

Part C: Quality Improvement

Improving the quality of primary and junior secondary schools in the Project Provinces through:

1. the carrying out of primary school consolidation in accordance with the school mapping under Part B.1 (a) of the Project, including redeployment of teachers and school principals;

2. the rehabilitation of, and the strengthening of maintenance at, primary schools;

3. the provision to schools of books for supplementary reading, teacher reference books, teaching aids and kits and equipment for demonstration activities;

4. the carrying out of a program of training, including: (i) training for trainers (including tutors and Guru Pemandu) in the support, coaching, supervision and evaluation of teachers and library managers; (ii) practical training in improved teaching approaches and methodologies for teachers and library managers; (iii) administrative training for school principals and supervisors; and (iv) training of community leaders, including heads of private school foundations;

5. the carrying out of a program of employment of about 1500 contract teachers for junior secondary schools in remote rural areas of the Project Provinces; and

6. the carrying out of a program to provide Private School Grants to selected schools for rehabilitation of school buildings, equipment and furniture.

* * *

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

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) 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, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines), and (b) the following provisions of Section I of this Schedule.

2. For the purposes of the procurement of goods or works to be financed in whole or in part out of the proceeds of the Credit, the references in paragraphs 1.6 and 1.9 of the Guidelines to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Procurement Procedures

1. National Competitive Bidding

Except as provided in paragraphs 2, 3 and 4 of this Part, goods shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$19,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Educational materials which are of a proprietary nature may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small

Works Except as provided in paragraph 5 below, works shall be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

5. Community Participation

Works required for Part C of the Project may 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

(a) With respect to the first contract for goods in each Fiscal Year in each District, estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for educational materials to be procured in accordance with the procedures referred to in paragraph 3 above, the following procedures shall apply: (i) prior to the execution of any contract procured under direct contracting procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and (ii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with the provisions of the Introduction and Section 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 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

2. For the purposes of the procurement of consultants' services to be financed in whole or in part out of the proceeds of the Credit, the references in paragraph 1.10 of the Consultant Guidelines to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for field engineer estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

Service Delivery Contractors

Services to be provided by contract teachers shall be procured in accordance with procedures acceptable to the Association.

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

1. Selection Planning

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

2. Prior Review

(a) With respect to each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 4

Implementation Program

1. The Borrower shall maintain at the central level until completion of the Project, a CSC and a CPCU, with qualified and experienced members, and terms of reference acceptable to the Association, responsible for policy making and overall monitoring and coordination of Project implementation.

2. The Borrower shall:

(a) maintain at the provincial level until completion of the Project a PCC, with qualified and experienced members, and terms of reference acceptable to the Association, responsible for the coordination and monitoring of Project implementation at the provincial level; and

(b) establish and, thereafter, maintain at the provincial level until completion of the Project, a PPIU, with terms of reference acceptable to the Association and with competent staff in adequate numbers, including a Pimpro, responsible for Project implementation at the provincial level.

3. The Borrower shall establish and, thereafter, maintain at the District level until completion of the Project:

(a) DPIUs in the First Groups of Districts;

(b) by May 1, 2000, DPIUs in the Second Group of Districts; and

(c) by May 1, 2001, DPIUs in the Third Group of Districts; with terms of reference acceptable to the Association and with competent staff in adequate numbers, including Pimbagpros, responsible for Project implementation at the District level, such staff to be appointed by the relevant Bupati or Walikota.

4. The Borrower shall maintain at the District level until completion of the Project, DCCs with membership and terms of reference acceptable to the Association.

5. The Borrower shall carry out the Project in accordance with the Implementation Guidelines, as such Guidelines may be amended from time to time in agreement with the Association.

6. In carrying out Part B of the Project, the Borrower shall:

(a) not later than December 31, 2000, for the First Group of Districts, June 1, 2001, for the Second Group of Districts, and June 1, 2002, for the Third Group of Districts, carry out a review of the terms of reference of DINAS P dan K Tk. II staff, taking into account the skills and number of staff required for Project implementation, and, thereafter, revise such terms of reference as necessary, in consultation with the Association, to ensure satisfactory implementation of the Project; and

(b) thereafter, maintain DINAS P dan K Tk. II with competent staff in adequate numbers.

7. In carrying out Part A of the Project, the Borrower undertakes that, unless the Association shall otherwise agree, Grants and scholarships will be provided in accordance with the procedures and on the conditions set forth or referred to in Part I of Schedule 5 to this Agreement.

8. In carrying out Part B.1 (a) of the Project, the Borrower shall:

(a) prepare the consolidation plan for primary schools: (i) not later than June 1, 2000, in the First Group of Districts; (ii) not later than June 1, 2001, in the Second Group of Districts; and (iii) not later than June 1, 2002, in the Third Group of Districts;

(b) furnish such plans to the Association for comment; and

(c) thereafter, carry out such plans taking into account the Association's comments thereon.

9. In carrying out Part B.1 (a) of the Project, the Borrower shall:

(a) by not later than August 1, 2000, for the First Group of Districts, August 1, 2001, for the Second Group of Districts and August 1, 2002, for the Third Group of Districts, prepare plans, under terms of reference acceptable to the Association, for the training and deployment, as teachers or administrators, of school principals declared redundant due to school consolidation under paragraph 8 of this Schedule, and provide such plans to the Association for comments; and

(b) thereafter, carry out such plans taking into account the Association's comments thereon;

10. The Borrower shall:

(a) by October 1 in each year, commencing October 1, 1999, and until completion of the Project, furnish to the Association for approval the annual budgetary and technical plans for the carrying out of Part B. 1 (b) of the Project; and

(b) thereafter, carry out such plans in a manner acceptable to the Association.

11. In carrying out Part C.1 of the Project, the Borrower shall, not later than December 1, 2002, prepare guidelines for the deployment of primary school teachers, acceptable to the Association, and, thereafter, deploy teachers in accordance with such guidelines.

12. In carrying out Part C.2 of the Project, the Borrower shall:

(a) by February 1, 2001, prepare a proposal for the funding of operation and maintenance at primary schools and furnish such proposal to the Association for comment; and, thereafter, prepare and carry out an action plan for operation and maintenance funding, acceptable to the Association; and

(b) until the action plan referred to in paragraph (a) above is finalized, ensure that each consolidated school is provided with an annual operation and maintenance budget at least equal to the aggregate amount of the prior year's annual

operation and maintenance budget of the individual schools consolidated into such school.

13. In carrying out Part C.5 of the Project, the Borrower shall employ contract teachers in accordance with criteria acceptable to the Association.

14. In carrying out Part C. 6 of the Project, the Borrower undertakes that, unless the Association shall otherwise agree, Private School Grants will be provided in accordance with the procedures and on the conditions set forth or referred to in Part II of Schedule 5 to this Agreement.

15. The Borrower shall, prior to carrying out the activities under Parts B and C of the Project in the Third Group of Districts, finalize the consolidation plan referred to in paragraph 9 (a) (i) of this Schedule and complete the training of trainers under Part C.4 (i) of the Project for the First Group of Districts in the Province of Sumatera Utara.

16. 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 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) annually prepare two reports, under terms of reference satisfactory to the Association, and furnish such reports to the Association, on or about April 30 and October 31, respectively, each report to integrate the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and to set 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; and

(c) annually review with the Association, by June 30 and December 31 or such later date as the Association shall request, 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 reports and the Association's views on the matter.

17. The Borrower shall carry out the training under the Project in accordance with training programs acceptable to the Association.

SCHEDULE 5

Procedures and Conditions for Grants, Scholarships and Private School Grants

Part I. Procedures and Conditions for Grants and Scholarships
under Part A of the Project

1. Grants, as described in Part A.2 of Schedule 2 to this Agreement, shall be made on terms whereby the Borrower shall obtain, by written agreement with each of the schools or by other appropriate legal means, rights adequate to protect the interests of the Borrower and the Association, including the right to:

(a) require that the goods and works to be financed out of the proceeds of the Credit and the Loan shall be procured in accordance with the provisions of Schedule 3 to this Agreement;

(b) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods and the sites, works, and construction financed by the Grant, the operation thereof, and any relevant records and documents; and

(c) suspend or terminate the right of the school to the use of the proceeds of the Grant, upon failure by such school to perform its obligations under its

agreement with the Borrower.

2. The Borrower shall, for purposes of Part A.2 of the Project, select schools on the basis of criteria acceptable to the Association, including poverty rating of the community where the school is located.

3. Grants shall be used exclusively for expenditures by primary and junior secondary schools for: (i) instructional materials (including library books, reference books, atlases, charts and posters); (ii) consumable materials (including student's notebooks, chalk, pencils, and supplies for practical subjects); (iii) minor repairs and maintenance at schools (including painting and repair of windows, doors, classroom desks and chairs, roofs, toilets, water drainage and footpaths); (iv) examination fees; and (v) public transportation for teachers attending KKG training.

4. Except as the Association shall otherwise agree:

(a) the Grant per school shall not be more than Rp. 2,000,000 per year for primary schools and not more than Rp. 4,000,000 per year for junior secondary schools; and

(b) the scholarship for junior secondary school students shall not be more than Rp. 240,000 per student per year.

Part II. Procedures and Conditions for Private School Grants under Part C. 6 of the Project

1. Private School Grants, as described in Part C.6 of Schedule 2 to this Agreement, shall be made on terms whereby the Borrower shall obtain, by written agreement with each of the schools or by other appropriate legal means, rights adequate to protect the interests of the Borrower and the Association, including the right to:

(a) require that the goods and works to be financed out of the proceeds of the Credit and the Loan shall be procured in accordance with the provisions of Schedule 3 to this Agreement;

(b) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods and the sites, works, and construction financed by the Private School Grant, the operation thereof, and any relevant records and documents; and

(c) suspend or terminate the right of the school to the use of the proceeds of the Private School Grant, upon failure by such school to perform its obligations under its agreement with the Borrower.

2. The Borrower shall, for purposes of Part C.6 of the Project, select private schools on the basis of criteria acceptable to the Association, such criteria to include the exclusion of rehabilitation of school buildings for schools being rehabilitated under Part C.2 of the Project.

3. Private School Grants shall be used exclusively for expenditures by primary and junior secondary private schools for: (i) rehabilitation of school buildings; (ii) acquisition of school equipment; and (iii) acquisition of school furniture.

4. Except as the Association shall otherwise agree, the Private School Grant per school shall not be more than Rp. 30,000,000 equivalent.

5. Except as the Association shall otherwise agree, the Private Schools shall finance at least 25% of the expenditures referred to in paragraph 3 of Part II of this Schedule.

SCHEDULE 6

Project Performance Indicators

(PLEASE SEE ORIGINAL FOR PPI, TABLE IS TOO BIG)

SCHEDULE 7

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 Credit or 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 \$4,300,000 to be withdrawn from the Credit Account or the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$2,150,000 until the aggregate amount of withdrawals from the Credit Account and the Loan Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$8,600,000.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or 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 Association from the Credit Account or 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 Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account and 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;

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

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

(d) once the total unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the respective General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account and the Loan Account of the remaining unwithdrawn amount of the Credit and the Loan allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into 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 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 Association, refund to the Association such outstanding amount.

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

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

