

CONFORMED COPY

LOAN NUMBER 3464 IND

(Tree Crop Smallholder Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 5, 1992

LOAN NUMBER 3464 IND

LOAN AGREEMENT

AGREEMENT, dated June 5, 1992 between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 Bank to assist in the financing of the Project;

(B) pursuant to a letter agreement dated July 30, 1990, between Japan and the Bank, Japan has requested the Bank, and the Bank has agreed, to administer grant funds to be made available by Japan for the financing of certain programs and projects supported by the Bank in accordance with the provisions of such letter agreement;

(C) Japan has made available to the Borrower a grant (the Japanese Grant) in an amount of 607,500,000, out of said funds to assist the Borrower in carrying out a portion of the technical assistance under the Project in accordance with the terms and conditions of the agreement entered into between the Borrower and the Bank as Administrator of Grant Funds provided by the Government

of Japan dated December 18, 1990, (hereinafter the "Japanese Grant Agreement"); 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) "FY" means the Borrower's fiscal year commencing on April 1 and ending on March 31;

(b) "Project Area" means the Borrower's provinces of Aceh, West Sumatra, Riau, Jambi, South Sumatra, Lampung, West Kalimantan, North Sulawesi, Central Sulawesi, South Sulawesi, South-East Sulawesi and Maluku;

(c) "Prior Credits and Loans" means Credit 984-IND for the Smallholder Rubber Development Project, dated April 3, 1980, Loan 1898-IND for the Smallholder Coconut Development Project, dated April 6, 1981, and Loan 2494-IND for the Second Smallholder Rubber Development Project, dated March 28, 1985;

(d) "PMUs" means the Project Management Units within the Borrower's Directorate General of Estates in the Borrower's Ministry of Agriculture, as established and maintained for purposes of the Project, including the head office, provincial offices and site sub-units;

(e) "Smallholder" means a farmer and his or her spouse, participating under the Project, under Prior Credits and Loans, and under the Borrower's tree crop smallholders program in the Project Area during FY 1988/1989 to FY 1991/1992;

(f) "Smallholder Cost Recovery Agreement" means an agreement entered into between the Borrower and a Smallholder for the recovery of credit granted to such Smallholder for the establishment and maintenance of plantings; and

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

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 eighty-seven million six hundred thousand dollars (\$87,600,000), 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 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 7 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 1998, 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 outstanding from time to time, at a rate for each Quarter equal to

the Cost of Qualified Borrowings determined in respect of the preceding 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 January 1 and July 1 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 through the Borrower's Directorate General of Estates in the Borrower's Ministry of Agriculture, with due diligence and efficiency and in conformity with appropriate administrative, agricultural, 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 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

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

- (a) Subject to paragraph (b) of this Section:
 - (i) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or
 - (ii) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Bank that:
 - (i) such suspension, cancellation, termination or premature ending is not caused by the failure of the Borrower to perform any of its obligations under such agreement, and
 - (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) (ii) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b)

of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. 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 139
Jakarta, Indonesia

Cable address:

Telex:

FINMINISTRY
Jakarta

44319 DEPKEU-IA
45799 DJMLN-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/ Abdul Rachman Ramly
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	5,400,000	91%
(2) Fertilizers for:		91%
(a) Part D.2 of the Project	4,000,000	
(b) Other Parts of the Project	13,800,000	
(3) Agricultural equipment (excluding vehicles), agricultural inputs (excluding fertili- zers), and related transport services for:		100% of foreign expenditures and 91% of local expenditures
(a) Part D.2 of the Project	8,000,000	
(b) Other Parts of the Project	26,100,000	
(4) Services for land titling	2,200,000	91%
(5) Office equipment	1,200,000	91%
Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(6) Training for:		100%
(a) Farm families	350,000	
(b) Staff under Parts G.2, H.1 and H.2 of the Project	250,000	
(7) Consultants' services and studies	2,800,000	100%
(8) PMU incremental operating costs under Parts A, B, D, G.1 and G.3 of the Project	7,500,000	70% in FY 1992/93 and FY 1993/94; 50% in FY 1994/95 and FY 1995/96; and 20% in FY 1996/97
(9) Unallocated	16,000,000	
TOTAL	87,600,000 =====	

2. For the purposes of this Schedule:

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

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

(c) the term "services for land titling" means surveying and titling costs, including related travel expenses and accommodations; and

(d) the term "incremental operating costs" means travel expenses and allowances of PMU staff assigned to the Project, office supplies, maintenance and operating costs of vehicles, and other sundry office costs.

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

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

(b) Categories 2(a) and 3(a), until the Borrower has established procedures, acceptable to the Bank, for the recovery of credit from Smallholders who have obtained credit under Loan 2494-IND, Second Smallholder Rubber Development Project, and who will obtain additional credit under Part D.2 of the Project.

SCHEDULE 2

Description of the Project

The objectives of the Project are to promote income growth and employment opportunities in the Borrower's Outer Islands.

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 objectives:

Part A: New Plantings of Rubber

1. Land clearing and establishment of about 65,000 ha of rubber for about 62,000 Smallholders in the provinces of West Sumatra, Riau, Jambi, South Sumatra, Lampung, West Kalimantan, and Maluku, including, for the planting year, provision of cover crop seed, rubber planting material, fertilizer, agrochemicals, and labor payments; and, thereafter, provision of credit to such Smallholders for maintenance costs, including fertilizer, agrochemicals and labor payments.

2. Establishment and maintenance of about 110 ha of budwood gardens of the recommended clones.

3. Establishment of about 715 ha of rootstock nurseries to supply budded stumps for the planting program.

Part B: New Plantings of Coconut

1. Land clearing and establishment of about 35,000 ha of coconut for about 31,000 Smallholders in the provinces of Riau, Lampung, West Kalimantan, Central Sulawesi, South Sulawesi, South-East Sulawesi, and Maluku, including, for the planting year, provision of cover crop seed, coconut planting material, fertilizer, agrochemicals, and labor payments; and, thereafter, provision of credit to such Smallholders for maintenance costs, including fertilizer, agrochemicals, on-farm harvesting and processing equipment, and

labor payments.

2. Establishment of about 350 ha of nurseries to provide planting material.

Part C: Self-help Planting Scheme

1. Provision of rubber seed for rootstock and budwood of the recommended clones for the establishment of group nurseries to help about 4,000 Smallholders plant about 4,000 ha of rubber in the provinces of Jambi, Riau, South Sumatra and West Kalimantan.

2. Provision of seednuts of the recommended varieties for the establishment of group nurseries to help about 3,000 Smallholders plant about 3,000 ha of coconut in the provinces of Maluku, Riau, North Sulawesi and Central Sulawesi.

3. Provision of extension advice and training by PMU staff to about 7,000 Smallholders for the establishment and maintenance of nurseries, field development, and organization of input supplies.

Part D: Maintenance of Existing Plantings

1. Provision of credit to about 8,000 Smallholders for maintenance costs, including fertilizer, agrochemicals and labor payments, until commencement of tapping, and on-farm harvesting and processing equipment, for about 9,000 ha of rubber in the provinces of West Sumatra, Jambi, South Sumatra, and Lampung.

2. Provision of credit to about 40,000 Smallholders for maintenance costs, including fertilizer, agrochemicals and labor payments, until commencement of tapping, and on-farm harvesting and processing equipment, for about 52,500 ha of rubber in the provinces of Riau, Jambi, South Sumatra, and West Kalimantan.

3. Provision of credit to about 13,000 Smallholders for maintenance costs, including fertilizer, agrochemicals and labor payments, until maturity, and on-farm harvesting and processing equipment, for about 13,000 ha of hybrid coconut plantings in the provinces of Aceh, Riau, Lampung, West Kalimantan, North Sulawesi, Central Sulawesi, South Sulawesi, South-East Sulawesi, and Maluku.

Part E: Farm Access Roads

Construction of about 1,250 kilometers of light farm roads or tracks, 250 meters of small concrete bridges, 250 meters of small wooden bridges, and 2,000 meters of culverts, to improve access to and within the Project sites.

Part F: Extension Services, Farmer Training, and Demonstration

1. Provision of extension services to Smallholders in the Project Area.

2. Provision of extension aids (including audio-visual equipment), operating expenditures, and training to extension staff of PMUs in the Project Area.

3. Training, on farmers' fields, of about 10,000 farmer leaders on field practices, tapping and harvesting, processing, and marketing of rubber and coconut, including, where required, separate courses for female family members.

4. Establishment of demonstration plots on farmers' fields by extension staff, with the advice of technical PMU staff, to show the effects of improved practices for rubber and coconut.

5. Establishment of observation plots on farmers' fields, Project nursery areas, and land under the control of the Provincial Estate Office (Dinas Perkebunan), to monitor the performance of clones and the effect of different fertilizer regimes for specific locations.

Part G: Project Management and Staff Development

1. Administration of Smallholder Cost Recovery Agreements for credits granted in the Project Area by the Borrower during FY 1988/1989 to FY 1991/1992 and for credits granted in the Project Area under Prior Credits and Loans.
2. Provision of training courses and on-the-job training for about 950 extension workers and about 2,800 managerial and administrative staff of the Borrower, assisting in the carrying out of the Project.
3. Upgrading of 16 Project Management Sub-Units to Units, including construction of small offices, warehouses and houses for staff.
4. Acquisition of vehicles, radio communication equipment, micro-computers, generators, office equipment, and training and extension equipment for the PMUs.

Part H: Tree Crop Program Support

1. Provision of courses for the staff of the Borrower's National Land Agency (Badan Pertanahan Nasional, BPN) to train them in the technical and procedural aspects of land titling activities under the Project; and provision of courses to familiarize PMU staff with the requirements of BPN.
2. Provision of courses for the staff of the Borrower's Financial and Development Supervisory Board (Badan Pengawasan Keuangan dan Pembangunan, BPKP) to familiarize staff with the technical aspects of the Project as they relate to audit duties of BPKP; and provision of courses for PMU staff to familiarize them with the requirements for preparation of accounts for audit.
3. Provision of technical assistance to Units within the Borrower's Directorate General of Estates, to assist in the management of the Borrower's smallholder tree crop program.
4. Provision of technical assistance for the carrying out of annual inspections of the Borrower's tree crop program activities, including the activities under the Project.
5. Carrying out of a study concerning a strategy for sustainable financing and cost recovery for smallholder rubber and coconut development.
6. Carrying out of preparation activities, nursery development and staff training for future smallholder projects.
7. Carrying out of a study of existing coconut seed gardens to ensure future availability of hybrid seed nuts.
8. Carrying out of studies on tree crop agriculture, poverty-related agriculture, the role of women in rural areas, environmental aspects of agricultural and agro-industry activities, tree crop financing and cost recovery, and related matters, as may be agreed upon between the Borrower and the Bank.

* * *

The Project is expected to be completed by March 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
January 1, 1998	1,595,000
July 1, 1998	1,660,000

January 1, 1999	1,725,000
July 1, 1999	1,790,000
January 1, 2000	1,860,000
July 1, 2000	1,930,000
January 1, 2001	2,005,000
July 1, 2001	2,085,000
January 1, 2002	2,165,000
July 1, 2002	2,245,000
January 1, 2003	2,335,000
July 1, 2003	2,425,000
January 1, 2004	2,520,000
July 1, 2004	2,615,000
January 1, 2005	2,715,000
July 1, 2005	2,820,000
January 1, 2006	2,930,000
July 1, 2006	3,045,000
January 1, 2007	3,160,000
July 1, 2007	3,285,000
January 1, 2008	3,410,000
July 1, 2008	3,540,000
January 1, 2009	3,680,000
July 1, 2009	3,820,000
January 1, 2010	3,970,000
July 1, 2010	4,125,000
January 1, 2011	4,280,000
July 1, 2011	4,445,000
January 1, 2012	4,620,000
July 1, 2012	4,800,000

* 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	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 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 1985 (the Guidelines).

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. 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. Goods (except vehicles) and transport services estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount equivalent to \$33,600,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.
3. Goods (except vehicles) and transport services estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount equivalent to \$600,000, 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 acceptable to the Bank.
4. Fertilizers may be procured by direct purchase from local distributors in accordance with procedures acceptable to the Bank.
5. Land titling services may be carried out by force account, in accordance with procedures acceptable 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 for goods and works 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 7 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 Part H of 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.

2. For the purposes of carrying out Part H.4 of the Project, the Borrower shall invite proposals from Consultants not later than September 30, 1992.

SCHEDULE 5

Implementation Program

1. In carrying out Parts A, B and C of the Project, the Borrower shall select farm families in accordance with the criteria, agreed with the Bank, for participation in Parts A, B and C of the Project, respectively, and shall keep acceptable records of the screening process and of the selected participants.

2. In carrying out Parts A.1, B.1, D, and G.1 of the Project, the Borrower shall:

(a) provide credit to farm families and administer Smallholder Cost Recovery Agreements in accordance with the procedures set forth in Schedule 6 to this Agreement; and

(b) not later than December 31, 1992, establish standardized amortization schedules for Smallholder Cost Recovery Agreements; procedures for a simplified system of accounting for interest on such credits; records of amounts outstanding and due under Smallholder Cost Recovery Agreements; and modified procedures for cost recovery under Prior Loans and Credits, acceptable to the Bank.

3. In carrying out Part H.4 of the Project, the Borrower shall furnish to the Bank a copy of the yearly inspection reports.

4. In carrying out Part H.5 of the Project, the Borrower shall, after consultation with the Bank and not later than March 31, 1993, revise, if necessary, its system for sustainable financing and cost recovery for future smallholder tree crop development, taking into account the recommendations of the study.

5. In carrying out the Project, the Borrower shall cause the Directorate General of Estates to employ, not later than September 30, 1992, an environmental specialist to assist in the implementation of the environmental management and monitoring of the Borrower's tree crop projects.

6. The Borrower shall ensure that appropriate and adequate numbers of vehicles will be made available in a timely manner for the purposes of carrying out the Project.

7. The Borrower shall, in consultation with the Bank, review from time to time the level of cost recovery payments to be made by Smallholders under the Project, taking into account the cash flows of such Smallholders; and, thereafter, make any adjustments to such payments as agreed with the Bank.

SCHEDULE 6

Credit Recovery Administration Arrangements

1. Credit shall be provided by the Borrower to the Smallholder through the relevant PMU.

2. Credit shall be used for maintenance costs during the immature period of the trees.

3. Credit shall consist of agro-inputs; payments for partial cost of labor provided by family members, where justified; and on-farm harvesting and processing equipment.

4. Smallholders shall be required to enter into Smallholder Cost Recovery Agreements with the Borrower, such Agreements to include the following:

(a) payments for cost recovery shall be payable over a maximum period of 12 years from the time the trees are mature;

(b) repayment obligations shall be established in a manner to yield an effective annual interest rate of 21%. Provided, however, that, if the Smallholder was a participant under Prior Credits or Loans, the effective annual interest applicable shall be the one established under such Prior Credits and Loans; and

(c) land titles shall be retained by the Borrower until the obligations of the Smallholder under the Smallholder Cost Recovery Agreement shall have been complied with.

5. The PMU shall coordinate with farmer groups concerning the collection of cost recovery payments from each Smallholder. The PMU collecting staff shall issue a collective provisional receipt per farmer group setting forth collections made from each Smallholder. The PMU shall deposit the collections with a depository bank in accordance with procedures specified by the Ministry of Finance.

6. The staff of the PMU shall record Smallholder cost recovery payments in the cost recovery accounts; and shall prepare a collection report for submission to the PMU provincial office, the PMU Jakarta Head Office, the Directorate General of Estates, and the Ministry of Finance.

7. Statistics of collection performance shall be maintained by the PMU and shall be related to amounts currently due and overdue, and shall include an analysis indicating the duration of defaults on amounts due.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (7) 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 \$5,000,000 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 in 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.

