

CONFORMED COPY

LOAN NUMBER 3755 IND

Loan Agreement

(Integrated Swamps Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 25, 1994

LOAN NUMBER 3755 IND

LOAN AGREEMENT

AGREEMENT, dated July 25, 1994, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

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

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

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

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

(b) "Project Provinces" means the Borrower's provinces of Jambi, Riau and West Kalimantan;

(c) "Project Swamp Schemes" means selected swamp schemes in the Borrower's provinces of Jambi, Riau and West Kalimantan;

(d) "Rupiah" and "Rp" mean the Borrower's currency;

(e) "Smallholder" means a farmer and his or her spouse, participating under Part C.1 of the Project;

(f) "Smallholder Credit Agreement" means an agreement entered into between the Borrower and a Smallholder for the provision of credit 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 sixty five million dollars (\$65,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

(b) The Borrower shall, for the purposes of the Project, open and maintain in United States Dollars a special deposit account in Bank Indonesia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 8 to this Agreement.

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

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

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

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

(c) For the purposes of this Section:

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

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

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

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

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and 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 February 15 and August 15 in each year.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out (i) Parts A, D, F.1 and F.3 of the Project through the Directorate General of Water Resources Development in the Borrower's Ministry of Public Works, (ii) Part B.1 of the Project through the Agency for Agricultural Research and Development in the Borrower's Ministry of Agriculture, (iii) Parts B.2, B.3, B.4 and F.2 of the Project through the Directorate General of Food Crops and Horticulture in the Borrower's Ministry of Agriculture, (iv) Part C.1 and C.2 of the Project through the Directorate General of Estates in the Borrower's Ministry of Agriculture, (v) Parts C.3 and E.1(c)(ii) of the Project through the Borrower's National Land Agency, and (vi) Part E, except E.1(c)(ii), of the Project through the Directorate General of Forestry Protection and Nature

Conservation in the Borrower's Ministry of Forestry, all 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

Termination

Section 5.01. 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 VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P. O. Box 2458
Jakarta 10710, Indonesia

Cable address:

Telex:

FINMINISTRY
Jakarta

45799 DJMLN-IA
44319 DEPKEU-IA

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

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

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

REPUBLIC OF INDONESIA

By /s/ Arifin M. Siregar

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marianne Haug

Acting 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 for: | | 60% |
| (a) Parts A and D of the Project | 25,650,000 | |
| (b) Part B.2 of the Project | 150,000 | |
| (c) Part C.1 of the Project | 200,000 | |
| (d) Part E of the Project | 100,000 | |
| (2) Equipment and materials (except vehicles) for: | | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally |
| (a) Parts A and D of the Project | 300,000 | |
| (b) Part B.1 of the Project | 230,000 | |
| (c) Part B.2, B.3, and B.4 of the Project | 340,000 | |
| (d) Part C.1 and C.2 of the Project | 210,000 | |
| (e) Part C.3 of the Project | 100,000 | |
| (f) Part E of the Project | 20,000 | |
| (3) Agricultural labor for Part C.1 of the Project | 3,700,000 | 50% |
| (4) Agricultural inputs (except fertilizers) for: | | 91% |
| (a) Part B.1 of the Project | 1,450,000 | |
| (b) Part B.2, B.3 and B.4 of the Project | 3,650,000 | |
| (c) Part C.1 of the Project | 3,600,000 | |
| (5) Services for land titling for Parts C.3 and E.1(c)(ii) of the Project | 900,000 | 100% |
| (6) Studies for: | | 100% |
| (a) Part F.1 of the | 700,000 | |

| | | | |
|------|---|-------------------|------|
| | Project | | |
| | (b) Part F.2 of the Project | 900,000 | |
| | (c) Part E of the Project | 50,000 | |
| (7) | Training for: | | 100% |
| | (a) Parts A and D of the Project | 550,000 | |
| | (b) Part B.1 of the Project | 75,000 | |
| | (c) Part B.2, B.3 and B.4 of the Project | 1,750,000 | |
| | (d) Part C.2 of the Project | 75,000 | |
| (8) | Engineering services for surveys, design and supervision of construction for Parts A and D of the Project | 5,500,000 | 100% |
| (9) | Consultants' services for: | | 100% |
| | (a) Parts A, D and F.3 of the Project | 4,000,000 | |
| | (b) Part B.1 of the Project | 600,000 | |
| | (c) Part B.2, B.3 and B.4 of the Project | 2,000,000 | |
| | (d) Part E of the Project, except E.1(c)(ii) | 1,800,000 | |
| (10) | Unallocated | 6,400,000 | |
| | TOTAL | <u>65,000,000</u> | |

2. For the purposes of this Schedule:

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

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

(c) the term "agricultural inputs" means seed, planting material, hand tools, and agro-chemicals (except fertilizers).

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

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

(b) payments made for expenditures in respect of Category (1) until the Bank has received evidence, satisfactory to the Bank, that the Borrower has provided the vehicles referred to in paragraph 7 of Schedule 5 to this Agreement for FY 1994/1995;

(c) payments made for expenditures in respect of Category (3) where withdrawal requests are received by the Bank:

- (i) after April 1, 1995, until the Bank has received evidence, satisfactory to the Bank, that the Borrower has completed the cadastral surveys relating to the coconut plantings to take place in FY 1995/1996;
 - (ii) after April 1, 1996, until the Bank has received evidence, satisfactory to the Bank, that the Borrower has: (A) completed the cadastral surveys relating to the coconut plantings to take place in FY 1996/1997; and (B) issued land titles to participating coconut growers in areas where coconut plantings were established in FY 1995/1996;
 - (iii) after April 1, 1997, until the Bank has received evidence, satisfactory to the Bank, that the Borrower has: (A) completed the cadastral surveys relating to the coconut plantings to take place in FY 1997/1998; and (B) issued land titles to participating coconut growers in areas where coconut plantings were established in FY 1996/1997; and
 - (iv) after April 1, 1998, until the Bank has received evidence, satisfactory to the Bank, that the Borrower has: (A) completed the cadastral surveys relating to the coconut plantings to take place in FY 1998/1999; and (B) issued land titles to participating coconut growers in areas where coconut plantings were established in FY 1997/1998; and
- (d) payments made for expenditures in respect of Category (4) until the Bank has received evidence, satisfactory to the Bank, that the Borrower has supplied farmers with the required fertilizers, as agreed with the Bank, under Parts B.3 and C.1 of the Project for the 1994/1995 planting season.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods below \$200,000 equivalent, contracts for works below \$1,000,000 equivalent, contracts for the employment of consulting firms not exceeding \$100,000 equivalent, and contracts for the employment of individual consultants not exceeding 50,000, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are (i) to alleviate poverty in selected swamp schemes in the Borrower's provinces of Jambi, Riau and West Kalimantan through further development of the agricultural potential of such swamp schemes, and (ii) to assist the Borrower in managing part of the coastal zones and in ensuring sound environmental practices in swamp development.

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: Water Control Infrastructure

1. Rehabilitation of existing, and construction of new infrastructure in Project Swamp Schemes to provide adequate flood protection, drainage relief, and water level control capability; provision of rainfall recording and automatic water level recording equipment and stations in such areas; and provision of technical assistance.

2. Strengthening the operation and maintenance of existing, rehabilitated, and new water control infrastructure in the Project Swamp Schemes, including: provision of equipment and transportation; establishment of water user associations in the Project Swamp Schemes; training of the members of the water user associations and of the staff of the Provincial Water Resources Services of the Borrower in the Project Provinces in the preparation and implementation of water management plans; and provision of technical assistance.

PART B: Food Crop Production

1. Strengthening the swamps research program at Karang Agung research station in the Province of South Sumatra, and about ten field research sites within the Project Swamp Schemes, through, inter alia, provision of equipment, materials, transportation and technical assistance.

2. Strengthening of agricultural extension services in the Project Swamp Schemes through, inter alia, rehabilitation of about ten rural extension centers with associated staff accommodations, establishment of about thirty tertiary hydraulic management units for demonstration purposes, provision of training and technical assistance to extension workers and farmers, and provision of equipment, materials, transportation and financing for operational costs.

3. Provision of a one-time in-kind grant to about 600 farmer groups for about 27,500 farmers in the Project Swamp Schemes for agricultural inputs for one hectare of agricultural land.

4. Provision of equipment and financing of the operation of seed production and distribution programs and pest control programs.

PART C: Tree Crop Development

1. Planting of about 12,500 ha of hybrid coconut trees within the Project Swamp Schemes and in land adjoining such schemes, including, for the planting year, provision of cover crop and inter-crop seed and planting material, coconut planting material, fertilizer, agro-chemicals, hand tools, and labor payments; and, thereafter, provision of credit to Smallholders for maintenance costs, including fertilizer, agro-chemicals, and labor payments.

2. Provision of training for Smallholders, staff of Project management units, and staff of Directorate General of Estates in the Borrower's Ministry of Agriculture and staff of the Provincial Estate Crops Services involved in the carrying out of Part C.1 of the Project.

3. Carrying out of land titling activities in the Project Swamp Schemes and adjacent areas, including cadastral and land use surveys and certification.

PART D: Rural Infrastructure

1. Rehabilitation and asphaltting of about 25 km of existing roads in Jambi and Riau; construction of about 126 km of roads in Riau and West Kalimantan; rehabilitation and reconstruction of bridges; clearing of navigation canals; repair, reconstruction, construction, and extension of jetties in Jambi, Riau and West Kalimantan; all in and around the Project Swamp Schemes; and provision of technical assistance.

2. Provision of potable water supply systems for individual households, village centers, health clinics, and schools, in the Project Swamp Schemes; provision of training to local technicians and non-governmental organizations in the construction and maintenance of such water supply systems; and provision of technical assistance.

PART E: Coastal Zone Land Use

1. Jambi Province

(a) Establishment of a natural resource database to identify ecologically important areas for protection and restoration and generate a spatial plan based on developmental potential, and provision of technical assistance.

(b) Improvement of the Berbak National Park, through survey and marking of park boundaries, upgrading of office and transport facilities of the Jambi Provincial National Park Service, staff training, establishment of a management plan for such park, and technical assistance.

(c) Promotion of socio-economic development in areas adjacent to Berbak National Park, through (i) the carrying out of agricultural development activities, (ii) the carrying out of land titling, and (iii) the provision of technical assistance.

2. West Kalimantan Province

Preparation of environmental profiles covering all coastal wetlands, provision of training programs on integrated environmental planning for provincial staff, and provision of technical assistance.

PART F: Studies and Technical Audits

1. Carrying out of studies for the introduction of drainage fees and for the preparation of the Borrower's proposed future projects in swamp development.

2. Carrying out of monitoring and evaluation studies of the Project.

3. Provision of technical assistance for the carrying out of technical audits of the activities under Parts A through D of the Project.

* * *

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

SCHEDULE 3

Amortization Schedule

| Date Payment Due | Payment of Principal (expressed in dollars)* |
|-------------------|---|
| February 15, 2000 | 1,230,000 |
| August 15, 2000 | 1,275,000 |
| February 15, 2001 | 1,325,000 |
| August 15, 2001 | 1,370,000 |
| February 15, 2002 | 1,420,000 |
| August 15, 2002 | 1,470,000 |
| February 15, 2003 | 1,525,000 |
| August 15, 2003 | 1,580,000 |
| February 15, 2004 | 1,640,000 |
| August 15, 2004 | 1,700,000 |
| February 15, 2005 | 1,760,000 |
| August 15, 2005 | 1,825,000 |
| February 15, 2006 | 1,890,000 |
| August 15, 2006 | 1,960,000 |
| February 15, 2007 | 2,030,000 |
| August 15, 2007 | 2,105,000 |
| February 15, 2008 | 2,180,000 |
| August 15, 2008 | 2,260,000 |
| February 15, 2009 | 2,340,000 |
| August 15, 2009 | 2,425,000 |
| February 15, 2010 | 2,515,000 |
| August 15, 2010 | 2,605,000 |
| February 15, 2011 | 2,700,000 |
| August 15, 2011 | 2,800,000 |
| February 15, 2012 | 2,900,000 |
| August 15, 2012 | 3,005,000 |
| February 15, 2013 | 3,115,000 |
| August 15, 2013 | 3,230,000 |
| February 15, 2014 | 3,345,000 |
| August 15, 2014 | 3,475,000 |

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

Premiums on Prepayment

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

below:

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

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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

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

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

2. To the extent practicable, contracts for equipment shall be grouped into bid packages estimated to cost the equivalent of \$200,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described

in Part A.1 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. Bidders for civil works estimated to cost the equivalent of \$2,400,000 or more per contract, shall be prequalified as provided in paragraph 2.10 of the Guidelines.
3. Except as provided in paragraphs 4 and 5 below, goods estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount equivalent to \$8,900,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.
4. Except as provided in paragraph 5 below, goods estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate amount equivalent to \$500,000, 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.
5. Coconut seed nuts shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.
6. Labor for Part C.1 of the Project shall be awarded after direct negotiations with participating farmers, in accordance with procedures acceptable to the Bank.
7. 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 prequalification:

With respect to the prequalification of bidders as provided in Part C.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more, and each contract for civil works to cost \$1,000,000 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 8 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.

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

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall, not later than January 15, 1995, employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than 50,000 equivalent each. However, this exception to prior Bank review shall not apply to (i) the terms of reference for such contracts, (ii) single-source selection of consulting firms, (iii) assignments of a critical nature, as reasonably determined by the Bank, (iv) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (v) amendments to contracts for the employment of individual consultants raising the contract value to 50,000 equivalent or above.

SCHEDULE 5

Implementation Program

1. In carrying out Part A.1 of the Project, the Borrower shall select schemes in accordance with the criteria set forth in Schedule 6 to this Agreement.

2. In carrying out Part B.3 of the Project, the Borrower shall:

(a) make arrangements to ensure that farmer groups are formed in each of the Project Swamp Schemes; and

(b) make in-kind grants available to a farmer group for the members of such group after ascertaining that such farmer group has the ability to manage a revolving fund in which farmers deposit, after the harvest, funds in an amount equal to the value of the in-kind grant received by such farmer for further use by the members of the farmer group to purchase required agricultural inputs for the following crop season.

3. In carrying out Part C.1 of the Project, the Borrower shall:

(a) establish Project management units in the Project areas where required;

(b) select farm families in accordance with criteria agreed with the Bank, and shall keep records, acceptable to the Bank, of the screening process and of the selected families;

(c) provide credit to farm families and administer Smallholder Credit Agreements in accordance with the procedures set forth in Schedule 7 to this Agreement; and

(d) in consultation with the Bank, review from time to time the level of credit repayments to be made by Smallholders under Part C.1 of the Project, taking into account the cash flows of such Smallholders; and, thereafter, make any adjustments to such payments as agreed with the Bank.

4. In carrying out Part C.3 of the Project, the Borrower shall complete the respective cadastral and land use surveys in the year prior to the year in which coconut planting is to take place, and shall issue land titles to the participating coconut growers during the year in which coconut planting is undertaken.

5. In carrying out Part D.1 of the Project the Borrower shall:

(a) before starting the construction of the roads referred to thereunder, but not later than March 31, 1995, furnish to the Bank, for comments, draft guidelines for the construction of such roads, prepared by the Directorate General of Water Resources Development in the Borrower's Ministry of Public Works; and

(b) thereafter, issue such guidelines taking into account the comments of the Bank.

6. In carrying out Part D.2 of the Project, the Borrower shall cause each village to prepare work plans setting forth, inter alia, the following: (i) the list of households agreeing to pay at least 10 percent of the value of the individual potable water systems in the form of labor or other acceptable form of contribution; and (ii) the undertaking by the village to cover the cost of operation and maintenance of such systems.

7. The Borrower shall provide fertilizers and vehicles for the Project in accordance with a schedule agreed with the Bank.

8. In carrying out the Project, the Borrower shall prepare and furnish to the Bank for comments:

(a) by September 30 in each year, commencing December 31, 1994, until completion of the Project, the Project work program and cost estimate for each Project Province for the following Fiscal Year, including: design and total cost estimate for each scheme where construction is scheduled to start in the next fiscal year, provision of vehicles and fertilizers, and proposed budget allocations for operation and maintenance of existing water control works in the Project schemes; and

(b) by December 31 in each year, commencing December 31, 1994, until completion of the Project, the budget proposals for the Project work programs agreed with the Bank.

9. Without limitation to Section 9.08 of the General Conditions, the Borrower shall, not later than July 1 in each year, commencing July 1, 1995, until completion of the Project, furnish to the Bank evidence, satisfactory to the Bank, that the Borrower has substantially expended the budgetary allocations for operation and maintenance of existing water control works in the Project schemes for the prior Fiscal Year.

10. In carrying out Part F.1 of the Project, the Borrower shall, not later than June 30, 1998, furnish to the Bank for comments, the findings and recommendations of the study of options for the introduction of a drainage fee in swamp schemes.

11. The Borrower shall take all measures necessary to start, not later than April 1, 1996, the collection of land and property taxes (Pajak Bumi Dan Bangunan) in the Project Swamp Schemes.

12. In carrying out Part F.3 of the Project, the Borrower shall:

(a) not later than June 1, 1995, prepare and furnish to the Bank for comments, the terms of reference and proposed organizational arrangements for the carrying out of the technical audits of Parts A through D of the Project;

(b) cause technical audits to be carried out annually, in a manner acceptable to the Bank, during the implementation of the Project, commencing not later than April 1, 1996; and

(c) annually, commencing not later than October 1, 1996, furnish to the Bank, for comments, a copy of such audits.

SCHEDULE 6

Criteria for Selection of Swamp Schemes Under Part A.1 of the Project

1. The Borrower shall confine the schemes to be selected to existing settled schemes.
2. The Borrower shall carry out a review of the technical, environmental and economic aspects of the proposed works for each scheme, in particular hydro-topography and suitability of soils for cropping.
3. The Borrower shall ensure that the proposed improvement works are necessary and have been endorsed by the community of intended beneficiaries and the local authorities.
4. The average estimated cost (in 1993 prices) of civil works for drainage, irrigation and flood control works shall not exceed Rp 1.5 million (\$723 equivalent) per cultivable hectare for each individual scheme, unless the Borrower provides evidence, satisfactory to the Bank, that the economic rate of return of the direct investment for works for such individual scheme is estimated at 12 percent or more.
5. Beneficiaries shall undertake to organize themselves in water users associations to facilitate the operation and maintenance of tertiary canals and of field channels.

SCHEDULE 7

Credit Repayment Administration Arrangements for Part C.1 of the Project

1. Credit shall be provided by the Borrower to the Smallholder through the relevant Project management unit.
2. Credit shall be used for maintenance costs during the immature period of the trees.
3. Credit shall consist of agro-inputs and payments for partial cost of labor provided by family members.
4. Smallholders shall be required to enter into Smallholder Credit Agreements with the Borrower, such Agreements to include the following:
 - (a) repayment obligations shall be 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%; and
 - (c) land titles shall be retained by the Borrower until the obligations of the Smallholder under the Smallholder Credit Agreement shall have been complied with.
5. The Project management unit shall coordinate with farmer groups concerning the collection of credit repayments from each Smallholder. The Project management unit collecting staff shall issue a collective provisional receipt per farm group setting forth collections made from each Smallholder. The Project management unit shall deposit the collections with a depository bank in accordance with procedures specified by the Ministry of Finance.
6. The staff of the Project management unit shall record Smallholder credit repayments in the credit repayment accounts, and shall prepare a collection report for submission to the Project management unit provincial office, the Project management unit Jakarta Head Office, the Directorate General of Estates, and the Ministry of Finance.
7. Statistics of collection performance shall be maintained by the Project management unit and shall be related to amounts currently due and overdue,

and shall include an analysis indicating the duration of defaults on amounts due.

SCHEDULE 8

Special Account

1. For the purposes of this Schedule:

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

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

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 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.

