

Legal Department
CONFIDENTIAL DRAFT
(Subject to Change)
KNordlander
March 22, 2004

GEF TRUST FUND GRANT NUMBER TF-_____ -IND

Global Environment Facility Trust Fund Grant Agreement

(Coral Reef Rehabilitation and Management Project – Phase II)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

Dated

, 2004

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated _____, 2004, between the REPUBLIC OF INDONESIA (the Recipient) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991, of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution No. 94-2);

(C) the third replenishment of the GEF Trust Fund was approved on the basis set forth in Resolution No. 2002-0005 of December 19, 2002, of the Executive Directors of the Bank (Resolution No. 2002-0005);

(D) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2, and to be funded from contributions to the GEF Trust Fund under Resolution No. 98-2, which may include funds carried over from the first replenishment of the GEF Trust Fund under Resolution No. 94-2;

(E) the Bank has received a letter from the Borrower, dated November 11, 1997, and January 21, 1998, describing a program designed to protect, rehabilitate and achieve sustainable use of coral reefs and associated ecosystems (COREMAP) and declaring the Borrower's commitment to the execution of such Program;

(F) the Recipient has requested that the GEF support the Recipient's execution of COREMAP through a series of grants over a period of approximately ____¹ years to be utilized by the Recipient in the implementation of COREMAP;

(G) the Recipient has also requested the International Development Association (the Association) to provide additional financing towards the financing of the Project and, by an agreement of even date herewith between the Recipient and the Association, the Association is agreeing to provide such assistance in an aggregate principal amount equivalent to _____ Special Drawing Rights (SDR_____) (the Credit); and

(H) the Recipient has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional financing towards the financing of the Project and, by an agreement of even date herewith between the Recipient and the Bank, the Bank is agreeing to provide such assistance in an amount of thirty three million two hundred thousand Dollars (\$33,200,000) (the Loan); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the parties hereto hereby agree as follows:

¹ Years have to be less than in the DCA since GEF will not be financing Phase III.

ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank, dated September 1, 1999, with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
 - (ii) Sections 2.01 (1), (2), (3), (4), (5), (6), (15), (16), (19), (34), (35), and (45), 2.02 and 2.03;
 - (iii) Sections 3.01, 3.08, and 3.11;
 - (iv) Article V;
 - (v) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i), (k), (m), (n), (o), and (p), 6.03, 6.04 and 6.05;
 - (vi) Section 8.01 (b);
 - (vii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
 - (viii) the second sentence of Section 10.01 and Sections 10.03 and 10.04;
 - (ix) Article XI; and
 - (x) Sections 12.01 (c), 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) Section 2.01 (1) is modified to read as follows: “Currency” includes the currency of a country, the Special Drawing Right of the International Monetary Fund, and any unit of account which represents a debt service obligation of the Bank to the extent of such obligation. “Currency of a country” means the coin or currency which is legal tender for the payment of public and private debts in that country”;

- (ii) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (1) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
- (iii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
- (iv) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
- (v) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
- (vi) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
- (vii) a new subparagraph (q) is added to Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”; and
- (viii) Section 10.04 is modified to read as follows: “Any dispute arising out of or relating to this Agreement which is not settled by agreement of the parties shall be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules in force on the date of this Agreement. The place of arbitration shall be Washington, D.C. In the event of a conflict between UNCITRAL Arbitration Rules and the terms of this Agreement, the terms of this Agreement shall govern.”.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this Agreement have the respective meanings therein set forth; and the following additional terms have the following meanings:

- (a) “BMT” means *Balai usaha Mandiri Terpadu*, an Islamic faith-based credit and savings system in Indonesia;

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

(c) “Coastal Community Empowerment Board” means a Board established in accordance with paragraph 6 of Schedule 4 to this Agreement;

(d) “COREMAP” means the Borrower’s national coral reef rehabilitation and management program as set out in the letter from the Borrower referred to in the Preamble to this Agreement;

(e) “Development Credit Agreement” means the agreement of even date herewith between the Recipient and the Association for the Project, as such agreement may be amended from time to time; and such term includes the “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Development Credit Agreement;

(f) “Dinas KP” means the District office of the Borrower’s Ministry of Marine Affairs and Fisheries;

(g) “Directorate General of Forest Protection and Nature Conservation” means the Directorate General within the Borrower’s Ministry of Forestry, and any successor thereto;

(h) “District” means a subdivision of a Province;

(i) “District Coral Reef Information and Training Center” means a Center established in accordance with paragraph 7 of Schedule 4 to this Agreement;

(j) “District Program Implementation Plan” means the Plan that sets out the design and implementation arrangements for the Project in such District;

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

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

(m) “Fiscal Year” means the fiscal year of the Borrower commencing January 1 and ending December 31;

(n) “LIPI” means *Lembaga Ilmu Pengetahuan Indonesia*, the Indonesian Institute of Sciences;

(o) “LKM” means *Lembaga Keuangan Micro*, a Christian faith-based credit and savings system in Indonesia;

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

(q) “Loan Agreement” means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(r) “National Coordination Unit” means the Unit established in accordance with paragraph 1 of Schedule 4 to this Agreement;

(s) “National Coral Reef Information and Training Center” means the Center established in accordance with paragraph 3 of Schedule 4 to this Agreement;

(t) “National Monitoring, Evaluation and Feedback Unit” means the Unit established in accordance with paragraph 4 of Schedule 4 to this Agreement;

(u) “National Program Implementation Unit” means the Unit established in accordance with paragraph 2 of Schedule 4 to this Agreement;

(v) “Participating Districts” means the following districts of the Borrower: Sikka in the Province of Nusa Tenggara Timur; Biak and Raja Ampat in the Province of Papua; Pangkajene Kepulauan and Selayar in the Province of Sulawesi Selatan; and Buton in the Province of Sulawesi Tenggara;

(w) “Participating Province” means the following provinces of the Borrower: Nusa Tenggara Timur, Papua, Sulawesi Selatan and Sulawesi Tenggara;

(x) "Participating Village" means a village selected in agreement between the Borrower and the Association for participation in the Project;

(y) "Procurement Plan" means the Borrower's procurement plan, dated _____² covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation

(z) "Project Management Manual" means the Manual to assist in the implementation of the Project and which includes: the financial management manual, the procurement manual, the operational manual, the community-based and collaborative management manual, and the Sea Partnership Program manual, as such Project Management Manual may be amended from time to time with the agreement of the Association;

(aa) "Program Management Unit" means the Unit established in accordance with paragraph 5 of Schedule 4 to this Agreement;

(bb) "Project Performance Indicators" means those indicators designed to measure the achievement of the Project objectives as set forth in Schedule 5 to this Agreement;

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

(dd) "Sea Partnership Program" means the program established to assist in linking the technical departments of Indonesian universities with Dinas KP and the Program Management Units for the provision of assistance during Project implementation;

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

(ff) "Third Phase of COREMAP" means such phase as described in the Borrower's letter referred to in the Preamble to this Agreement.

² Procurement plan should be agreed by negotiations and reflected in a dated document.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount in various currencies equivalent to seven million five hundred thousand dollars (\$7,500,000).

Section 2.02. (a) The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant 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 carrying out Parts B.1, B.2 (e), (f) and (g), B.4 (b), and B.5(a) and (c) of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

(b) The Recipient may, for the purposes of Parts B.1, B.2 (e), (f) and (g), B.4 (b), and B.5(a) and (c) of the Project, open and maintain in Dollars a special deposit account in Bank Indonesia or in a commercial bank, acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2009, or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient 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 _____,³ with due diligence and efficiency and in conformity with appropriate administrative, financial, marine and social practices and with due regard to ecological and environmental factors, all acceptable to the Bank, 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 Recipient and the Bank shall otherwise agree, the Recipient 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 Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

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

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

³ To be provided by the Borrower at negotiations.

ARTICLE IV

Financial Conditions

Section 4.01. (a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures in respect of Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project of the departments or agencies of the Recipient responsible for the carrying out of Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project.

(b) The Recipient shall:

- (i) commencing with the fiscal year in which the GEF Trust Fund Grant becomes effective to and including the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account is made, have the financial statements referred to in subparagraph (a) above for each such fiscal year or other period agreed to by the Bank, audited, in accordance with consistently applied auditing standards, acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year or such other period agreed to by the Bank, (A) certified copies of the financial statements referred to in subparagraph (a) above for such year or such other period agreed to by the Bank, as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank shall have reasonably requested.

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) retain, until at least one year after the Bank has received the audit report for or covering the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made, all records

(contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year, or other period agreed to by the Bank, referred to in subparagraph (b) above.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set forth in paragraph 14 of Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the GEF Trust Fund Grant and explains variances between the actual and planned uses of such funds;
- (ii) describes progress in implementation of Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project, both cumulatively and for the period covered by said report, and explains variances between the actual and planned implementation of Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project; and
- (iii) sets forth the status of procurement under Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project, as at the end of the period covered by said report.

(b) The first financial monitoring report shall be furnished to the Bank not later than sixty (60) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project through the end of such first calendar quarter; thereafter, each financial monitoring report shall be furnished to the Bank not later than sixty (60) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Recipient shall make publicly available, and agrees that the Association may also make publicly available, each final audit report referred to in Section 4.01 of this Agreement, promptly after its issuance by the independent auditors referred to therein.

ARTICLE V

Effectiveness, Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the GEF Trust Fund Grant Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness, except only the effectiveness of this Agreement, have been fulfilled; and

(b) that the Development Credit Agreement has been executed and delivered and all conditions precedent to its effectiveness, except only the effectiveness of this Agreement, have been fulfilled.

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.

Section 5.03. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P. O. Box 1139
Jakarta 10710
Indonesia

Cable address:	Telex:	Facsimile:
FINMINISTRY Jakarta	45799 DJMLN-IA 44319 DEPKEU-IA	(21) 381 2859

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) 64145 (MCI)	(202) 477-6391

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

REPUBLIC OF INDONESIA

By

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as an implementing agency of the Global Environment Facility

By

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

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

<u>Category</u>	<u>Amount of the GEF Trust Fund Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods:		25%
(a) Surveillance equipment under Part B.2 (g) and B.5 (c) of the Project		
(b) Other goods under Part B.1 (e) and (f), B.4 (b) and B.5 (a) and (c) of the Project		
(2) Training and workshops under Part B.1 (a), (b) and (c) of the Project		25%
(3) Studies under Part B.2 (e) of the Project		100%
(4) Incremental operating costs under Part B.5 (a) and (c) of the Project		20%

<u>Category</u>	<u>Amount of the GEF Trust Fund Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Community Support Services under Part B.1 (d) of the Project		33%
(6) Consultants' services under Part B.4 (b) of the Project		12%
(7) Unallocated		
TOTAL	<u>7,500,000</u>	

2. 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.

3. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) goods costing less than \$100,000 equivalent per contract; (b) services of individual consultants costing less than \$100,000 equivalent per contract; (c) services of consulting firms under contracts costing less than \$50,000 equivalent per contract; (d) training and workshops; (g) studies and surveys; and (e) incremental operating costs; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

4. If the Bank shall have determined at any time that any payment made from the GEF Trust Fund Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Bank, refund to the Bank for deposit into the GEF Trust Fund Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Bank.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in implementing the second phase of the COREMAP, in particular, enhancing the welfare of coastal communities through the establishment of viable coral reef management systems consisting of a program aimed at empowering and supporting coastal communities to co-manage in a sustainable manner the use of coral reefs and associated ecosystem resources.

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

PART A: Institutional Strengthening

1. Program Coordination, Monitoring and Evaluation, and Training

Strengthening of the institutional structures for the Recipient's national coordination and the decentralized management of COREMAP, including:

- (a) strengthening the National Coordination Unit and the National Monitoring, Evaluation and Feedback Unit within such National Coordination Unit, including provision of equipment, technical assistance and training;
- (b) strengthening the National Coordination Unit's training team, including provision of technical assistance;
- (c) carrying out of workshops for staff of Program Management Units for capacity building in COREMAP management; and
- (d) carrying out of a national level workshop to assist in the identification of additional Districts interested in participating in the third phase of COREMAP.

2. Coral Reef Research and Monitoring

(a) Strengthening the National Coral Reef Information and Training Center, including:

- (i) establishment of an office in charge of the international outreach program;
- (ii) production and distribution of coral reef ecosystem materials created by the Center;
- (iii) development of a coral reef management information system;
- (iv) establishment of a satellite communication system for the Center with connections in District Coral Reef Information and Training Centers;
- (v) carrying out of baseline and initial rapid resource inventory surveys in the Participating Districts, including assisting District monitoring teams in carrying out annual rapid resource inventory surveys and line-intersect transect monitoring;
- (vi) carrying out of marine conservation areas monitoring;
- (vii) carrying out of research on the benefits of marine conservation areas for reef fisheries production and management;
- (viii) carrying out of training for the staff of District Coral Reef Information and Training Centers;
- (ix) provision of training to the National Coral Reef Information and Training Center staff through attendance at relevant international conferences, workshops and overseas training centers; and
- (x) carrying out of scientific research on applied topics related to co-management of coral reefs; and

(xi) provision of technical assistance.

(b) Establishment of a Coral Reef Information and Training Center in each of the Participating Districts, including provision of related equipment, technical assistance, training and study tours, for the carrying out of reef health monitoring in Participating Districts and dissemination of information to stakeholders.

(c) Carrying out of community-based reef fisheries monitoring, including provision of relevant training to Dinas KP staff, extension and training officers, community facilitators, village motivators and volunteer village fishers.

(d) Collection, analyses and dissemination of socio-economic data in Participating Districts, including survey of the impact of COREMAP on community welfare and public awareness of coral reef ecosystem conservation needs.

(e) Carrying out of applied research through the District Coral Reef Information and Training Centers relevant to sustainable co-management of coral reef ecosystems, including piloting of alternative income generation projects.

(f) Development of new technology and techniques for sustainable fishing livelihood opportunities as alternatives to coral reef exploitation, through the carrying out of relevant research and studies.

3. Legal, Policy and Strategy Assistance

(a) Establishment of the legal structures for the co-management of coral reef ecosystems in the Participating Districts, including establishment of Coastal Community Empowerment Boards, committees for coastal management, and Participating Districts reef health monitoring teams, including provision of technical assistance.

(b) Carrying out of workshops by the National Coordination Unit on national policies for coral reef fisheries management, including provision of technical assistance.

(c) (i) Preparation of District-level legislation to enable communities to collaborate with local governments in the management of reef resources, including preparation of legislation on live reef species trade and use of cyanide in reef fisheries, and provision

of relevant technical assistance to Coastal Community Empowerment Boards and Program Management Units.

- (ii) Preparation of village-level legislation to formalize community management plans and related measures, including village marine conservation areas, and provision of relevant technical assistance to coastal communities in Participating Districts.

(d) Carrying out of workshops on, and dissemination of, the enhanced national coral reef management strategy, and preparation of policies and strategies for regional coral reef management and sustainable reef fisheries, including provision of relevant technical assistance to the Ministry of Marine Affairs and Fisheries.

- (e)
 - (i) Preparation of a strategy for live reef fish as part of the reef fish management strategy.
 - (ii) Carrying out of a study to change the incentive structure of live reef food fish.
 - (iii) Carrying out of a study on the dangers of consuming fish caught through cyanide poisoning.

PART B: Community-Based and Collaborative Management

1. Community Empowerment

(a) Carrying out of training and workshops by District Program Management Units for District Project staff in sustainable coral reef fisheries management.

(b) Carrying out of: (i) workshops to develop locally appropriate approaches for sustainable coral reef management; (ii) awareness raising activities on sustainable reef fisheries management, and (iii) rapid rural appraisals by the District Program Management Units and field teams.

(c) Provision of study tours and cross visits for stakeholders in Participating Villages to sites implementing appropriate coral reef management, and preparation of documentation of such study tours for dissemination in the Participating Villages.

(d) Provision of facilitation, training and technical assistance in coral reef ecosystem community-based management to Participating Villages.

(e) Rehabilitation of appropriate community buildings in Participating Villages for the housing of the village information center for coral reef management activities, including provision of Village Grants to Village Grantees.

(f) Strengthening the communication between adjacent Participating Villages, community facilitation teams and Program Management Units through the establishment of radio communication networks and facilities.

2. Community-Based Coral Reef Management

(a) Provision of training to Participating Villages in underwater mapping and land-based participatory resource assessments.

(b) Preparation of scientifically-supported village coral reef management plans and inter-village plans for the establishment of local marine conservation areas that maximize fisheries benefits and fishery management requirements, and contribute to critical biodiversity conservation, including provision of technical assistance to Participating Villages.

(c) Establishment of village marine conservation areas that support District sustainable reef management, including installation of marker buoys, mooring buoys and dissemination of the coordinates of marine conservation areas.

(d) Strengthening the capacity of Dinas KP in Participating Districts to support sustainable co-management of coral reef ecosystems and to register and license small-scale fishing vessels, including provision of technical assistance and training.

(e) Carrying out of a study on decommissioning of destructive fishing gear and carrying out of a pilot program of decommissioning destructive fishing gears in selected Participating Villages.

(f) Establishment and training of teams of volunteers in Participating Villages for the monitoring of reefs and associated ecosystems.

(g) Strengthening village surveillance of reefs through the establishment of a village and District communication network and rapid response service in Participating Villages with marine conservation areas, including provision of related equipment.

(h) Strengthening, and expansion of, existing community-based coral reef management areas in Participating Villages, including provision of technical assistance and equipment.

3. Community Development

(a) Strengthening of the Participating Villages' financial management systems, including provision of training to community financial managers and bookkeepers and other selected community members, such training to include training in micro-finance management systems.

(b) Strengthening the capacity of District level credit and savings institutions, including BMTs and LKMs, to establish village-level credit and savings facilities in Participating Villages, through the provision of technical assistance.

(c) Financing of income-generating Sub-projects through the provision of Sub-loans to selected micro-enterprises at the village level.

(d) Establishment of a partial credit guarantee program for purposes of guaranteeing loans by village-based credit and savings institutions to village-based micro-enterprises in Participating Villages, for the financing of income generating activities.

(e) Provision of technical assistance to Participating Villages in the preparation and implementation of income generating activities that are an alternative to fishing and extractive use of coral reef ecosystems.

(f) Carrying out of Sub-projects in Participating Villages through the provision of Village Grants to Village Grantees.

(g) Carrying out of a pilot program of visits by employment agents from Participating Districts and Provincial capitals to Participating Villages in remote areas to evaluate work opportunities for fishers and reef gleaners outside the Participating Village.

(h) Carrying out of pilot alternative income generating Sub-projects that reduce the pressure on coral reefs and associated ecosystems in Participating Districts through the provision of Sub-loans to small- and medium-sized enterprises.

4. District Marine Conservation Area Management

(a) Establishment of a Coastal Community Empowerment Board in each Participating District, including provision of technical assistance.

(b) Establishment of a Program Management Unit in each Participating District, including provision of equipment and technical assistance.

(c) Development of a District marine resources strategic plan in each Participating District as a guide to Participating Villages in the selection of marine conservation areas.

(d) (i) Carrying out of an in-depth assessment of the live reef food fish trade in the Districts of Buton and Pangkajene Kepulauan, as part of the development of a program to change the incentive structure of the live reef food fish trade.

(ii) Creation of an enabling environment in the Districts of Buton and Pangkajene Kepulauan for fishers and collectors to produce certified live aquarium products for premium prices, including: printing and distribution of certification education materials; training of fishers and collectors in sustainable harvesting, handling and transport methods; and carrying out a cyanide detection methodology survey.

5. Marine Park Support

(a) Strengthening the capacity of the Directorate General of Forest Protection and Nature Conservation to support the implementation of a national policy for co-management of marine protected areas, including provision of related equipment and technical assistance.

(b) Provision to managers of national marine parks and marine protected areas in the Participating Districts of study tours to national marine parks that have

successfully implemented co-management systems for the coral reef ecosystems within the park.

(c) Strengthening the capacity of park management authorities of national marine parks and of marine protected areas in the Participating Districts, to manage, in a sustainable manner, coral reef ecosystems within such park or area in collaboration with local communities and stakeholders, including: establishment of advisory boards, provision of training, provision of technology and collaborative enforcement, and review and dissemination to local communities of park management plans.

PART C: Public Awareness, Education and Sea Partnership

1. Public Awareness Campaigns

(a) Reproduction and distribution of existing public awareness materials on coral reef health and sustainable fisheries production to Participating Provinces, Participating Districts and Participating Villages.

(b) Preparation and dissemination of awareness materials on co-management of coral reef ecosystems and its reef fisheries benefits to targeted groups, including fishers, resource users and decision makers in Participating Districts and Participating Villages.

(c) Design and implementation of awareness and advocacy programs and national campaigns on coral reef conservation and sustainable use in Participating Provinces, Participating Districts and Participating Villages.

(d) Production of news and general interest stories relating to sustainable management of coral reefs and related ecosystems for the local media.

2. Education Programs

(a) Development and production of coral reef education materials for inclusion in the formal primary and secondary education curriculum in the Participating Districts.

(b) Carrying out of training and workshops for District teachers in the use of the coral reef education materials and its methodology.

- (c) Carrying out of national reef education events for children and youth.

3. Sea Partnership Program

- (a) Establishment of a Sea Partnership Office in the Ministry of Marine Affairs and Fisheries and provision of technical assistance for the dissemination of information to Participating Districts on the programs and services available under the Sea Partnership Program.

- (b) Preparation of detailed design and an operational manual for the execution of the Sea Partnership Program, through the provision of technical assistance to the National Coordination Unit and the Ministry for Marine Affairs and Fisheries.

- (c) Strengthening government agencies in Participating Districts in coral reef ecosystems management, including provision of technical assistance by university faculty through the Sea Partnership Program.

- (d) Provision of scholarships on specialization in coral reef and related ecosystems management and related topics to secondary school students, university students and graduate students and provision of placement opportunities in Participating Villages, Participating Districts and central government agencies.

- (e) Development at about five universities or research centers in eastern Indonesia of the capability of carrying out responsive marine related research programs.

- (f) Expansion of the Borrower's university-based practical field training program to include practical field training in support of sustainable coral reef management in Participating Villages, including provision of fellowships to university students assigned to Participating Villages.

4. Program Support Communication

- (a) Development of communication methodologies, protocols, and systems, including information kits and press releases, relating to the second phase of COREMAP.

- (b) Provision of media training related to the second phase of COREMAP to District and national level managers responsible for COREMAP.

(c) Preparation of communication protocols and materials, including information kits and press releases relating to the second phase of COREMAP, for the National Coordination Unit, the Program Implementation Unit and the Program Management Units to generate a common understanding of the second phase of COREMAP.

(d) Production and dissemination of information sheets and newsletters relating to COREMAP.

(e) Preparation of a public relations program to targeted audiences to generate a common understanding of the second phase of COREMAP.

* * *

The Project is expected to be completed by June 30, 2009.

SCHEDULE 3⁴

Procurement

Section I. General

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated [May] 2004 (the Procurement Guidelines), the provisions of this Schedule and the provisions of Annex A to this Schedule. If the Borrower employs any procurement or inspection agent, it shall ensure that the requirements of paragraphs 3.10 and 3.11 of the Procurement Guidelines are met.

B. All consultants' services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated [May] 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding

Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of international competitive bidding in accordance with the provisions of Section II and paragraphs 3.14 and 3.15 of the Procurement Guidelines, and the following additional procedures:

1. Domestic Preference

The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

⁴ This Schedule needs to be revised to reflect only the activities carried out through the GEF Grant.

B. Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded on the basis of national competitive bidding in accordance with the provisions of paragraphs 3.1, 3.3, 3.4, 3.14 and 3.15 of the Procurement Guidelines and in accordance with the provisions of Annex B to this Schedule.

2. Shopping

Goods estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection

Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of quality and cost in accordance with the provisions of Section II of the Consultant Guidelines and the following provision: for purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection

Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection

Services estimated to cost less than \$200,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis in accordance with the provisions of paragraph 5.4 of the Consultant Guidelines, subject to prior approval of the Bank.

Section IV. Review by the Bank of Procurement Decisions

A. Prior Review

Except as the Bank shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods, Works and Services (other than Consultants' Services)

The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Procurement Guidelines shall apply to: (i) each contract for goods and services (other than consultants' services) estimated to cost the equivalent of \$100,000 or more, and (ii) the first contract for goods and services (other than consultants' services) estimated to cost the equivalent of \$50,000 or more and to be awarded in accordance with Section II. B. 1 of this Schedule by each of the Ministry for Marine Affairs and Fisheries, the National Coordination Unit, the Indonesian Institute of Sciences, the National Marine Parks, and the Participating Districts.

2. Consultants' Services Provided by Firms

The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more.

3. Consultants' Services Provided by Individual Consultants

(a) The following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

(b) The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

B. Post Review

1. With respect to each contract for goods, works or services (other than consultants' services) not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants' services not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Annex A to SCHEDULE 3

Without limitation on the provisions of Schedule 3 to this Agreement and of the Procurement Guidelines and the Consultant Guidelines (as such terms are defined in said Schedule and referred to hereafter as “the Guidelines”), the following provisions shall apply in respect of goods, works and consultants’ services to be procured under the Project:

1. To ensure end-user participation in the procurement of goods, works and consultants’ services under the Project, the requestor/user of such goods, works or consultants’ services (as the case may be) to be acquired, shall be represented on the relevant procurement/selection committee. The criteria for the selection of procurement committee/selection members shall in all cases be consistent with the provisions of the Guidelines and the Project Management Manual (provided, however, that in the event of any inconsistency between the Project Management Manual and the Guidelines, the provisions of the Guidelines shall apply).
2. The Procurement Plan, including all updates thereof; shall be made publicly available promptly after their finalization.
3. All bidding documents and requests for proposal documents issued in accordance with Schedule 3 of this Agreement, shall be made available to any member of the public promptly upon request, subject only to payment of a reasonable fee to cover the cost of printing and delivery. In the case of requests for proposals, the relevant documents will only be made available after notification of award to the successful firm. Each such document will continue to be made publicly available until a year after completion of the contract entered into for the goods, works or consultants’ services in question.
4. All short lists of consultants and, in cases of pre-qualification, lists of pre-qualified contractors and suppliers shall be made available to any member of the public promptly upon request.
5. A summary of the evaluation of all bids and proposals for specific contracts shall be disclosed to all bidders and parties submitting proposals therefor, promptly after the notification of award to the successful bidder/consultant. Information in such summaries will be limited to a list of bidders/consultants, all bid prices and financial proposals as read out at public openings for bids and financial proposals, all bids and proposals declared non responsive (together with reasons for such an assessment), the name of winning bidder/consultant and the contract price. Such summaries will be made available to any member of the public promptly upon request.

6. Contract award information for all contracts for goods, works and services (other than consultants' services) of \$100,000 equivalent or more and all contracts for consultants of \$50,000 equivalent or more shall be made publicly available and published widely, and be made available to any member of the public upon request, promptly after such award.

7. A list of all contracts awarded in the three months preceding the date of such request, including, with respect to each such contract, the name of the contractor/consultant selected, the contract amount, the number of bidders/makers of proposals in respect thereof, the procurement method followed and the purpose of such contract shall be made available, promptly upon request by member of the public.

8. Representatives of the end-users of goods or works being procured shall be permitted to attend public bid openings in respect thereof.

Annex B to SCHEDULE 3

1. General

Subject to the provisions of Part B.1 of Section II of Schedule 3 to this Agreement, the procedures to be followed for national competitive bidding shall be those set forth in Presidential Decree No. 80/2003 of the Republic of Indonesia with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the "Guidelines").

2. Registration

(a) Bidding shall not be restricted to pre-registered firms and shall not be a condition for participation in the bidding process.

(b) Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the registration process, and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

3. Pre-qualification

Pre-qualification shall not be used for simple goods and works. Normally, post-qualification shall be used. Pre-qualification shall be required only for large or complex works with the prior 'no objection' of the Association. When pre-qualification shall be required:

(a) eligible bidders (both national and foreign) shall not be denied pre-qualification, and

(b) invitations to pre-qualify for bidding shall be advertised in at least one widely circulated national daily newspaper a minimum of 30 days prior to the deadline for the submission of pre-qualification applications.

4. Joint Ventures

A bidder declared the lowest evaluated responsive bidder shall not be required to form a joint venture or to sub-contract part of work or part of the supply of goods as a condition of award of the contract.

5. Preferences

(a) No preference of any kind shall be given to national bidders.

(b) Regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers shall not be applicable to procurement procedures under the Development Credit Agreement.

6. Advertising

(a) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper allowing a minimum of 30 days for the preparation and submission of bids and allowing potential bidders to purchase bidding documents up to 24 hours prior the deadline for the submission of bids.

(b) Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee.

(c) Bidders domiciled outside the area/district/province of the unit responsible for procurement shall be allowed to participate regardless of the estimated value of the contract.

(d) Foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign firm declared the lowest evaluated bidder shall be given a reasonable opportunity for registering.

7. Bid Security

Bid security, at the bidder's option, shall be in the form of a letter of credit or bank guarantee from a reputable bank.

8. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids, and if bids are invited in two envelopes, both envelopes (technical and price) shall be opened at the same time.

(b) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated bidder.

(c) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.

(d) No bidder shall be rejected merely on the basis of a comparison with the owner's estimate and budget ceiling without the Association's prior concurrence.

9. Rejection of Bids

(a) All bids shall not be rejected and new bids solicited without the Association's prior concurrence.

(b) When the number of responsive bids is less than three, re-bidding shall not be carried out without the Association's prior concurrence.

SCHEDULE 4

Implementation Program

1. The Recipient shall maintain until completion of the Project the National Coordination Unit, in the Ministry of Marine Affairs and Fisheries, said Unit to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its objectives, such staff to include: a Director; an Executive Secretary; a Program Manager; from the Ministry of Marine Affairs and Fisheries an Assistant Director for Institutional Strengthening, an Assistant Director for the Sea Partnership Program, an Assistant Director for Community-based and Collaborative Management, and an Assistant Director for Public Awareness; from LIPI an Assistant Director for Research and Monitoring, and an Assistant Director for Education; and from the Directorate General of Forest Protection and Nature Conservation an Assistant Director for Marine Park Support.
2. The Recipient shall maintain until completion of the Project the National Program Implementation Unit in LIPI, said Unit to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its objectives, such staff to include a Director; from the National Coral Reef Information and Training Center an Assistant Director for Research and Monitoring, and an Assistant Director for Education; and a Program Manager.
3. The Recipient shall establish, and, thereafter maintain until completion of the Project, the National Coral Reef Information and Training Center, said Center to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its objectives.
4. The Recipient shall establish, and, thereafter maintain until completion of the Project, the National Monitoring, Evaluation and Feedback Unit, said Unit to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its objectives.
5. Each Participating District shall maintain until completion of the Project a Program Management Unit, said Unit to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers

as shall be necessary to accomplish its objectives, such staff to include a Director, an Executive Secretary, a Program Manager, a representative from the Dinas KP from such Participating District, and a representative from the National Marine Park or marine protected area in such Participating District.

6. Each Participating District shall establish, by June 30, 2005, in accordance with the provisions of the District Program Implementation Plan, a Coastal Community Empowerment Board, with representatives from the Recipient and from civil society and with terms of reference acceptable to the Bank.

7. Each Participating District shall establish, by June 30, 2005, and, thereafter, maintain until completion of the Project a District Coral Reef Information and Training Center, said Center to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its objectives.

8. The Recipient shall adopt and, thereafter apply in the implementation of the Project, the Project Management Manual, acceptable to the Bank, which shall include the description of: (i) implementation arrangements, (ii) the procurement procedures set forth in Schedule 3 to this Agreement and standard procurement documentation, (iii) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of this Agreement, (iv) the Project Performance Indicators set forth in Schedule 5 to this Agreement, (v) the environmental criteria applicable to Sub-project design including environmental impact mitigation, (vi) maintenance provisions for works to be carried out under a Sub-project, and (vii) the criteria for the selection of Sub-projects and terms and conditions of Sub-loans and Grants.

9. In carrying out the Project the Recipient shall:

(a) by June 1, 2008, establish an independent evaluation panel with terms of reference and members acceptable to the Bank;

(b) cause such independent panel to carry out an evaluation of the Project by not later than March 1, 2009; and

(c) furnish the results of the evaluation to the Bank for comments.

10. The Recipient shall take all measures necessary to ensure that any development project proposed to be carried out in, or in the vicinity of, national marine parks, regional

parks or District marine conservation areas in Participating Districts, shall only be carried out if a satisfactory environmental study of said proposed project shall have been completed and shall have established that any potential adverse effect on the Project site will be avoided or mitigated in compliance with the Recipient's applicable legislation.

11. In carrying out Part B.1 (e) of the Project, the Recipient shall: (a) make Grants available to Participating Villages up to an aggregate amount not to exceed Rp. 10,000,000; and (b) shall ensure that the works are carried out in accordance with the provisions of this Agreement and the provisions of the Village Grant Guidelines.

12. In carrying out the studies under the Project, the Recipient shall:

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

(b) not later than January 1 in each year, commencing January 1, 2005, furnish to the Bank for comments the recommendations of the studies carried out in the preceding year;

(c) not later than July 31 in each year, commencing July 31, 2005, prepare action plans for the implementation of the recommendations of the studies carried out in the preceding year, taking into account the comments of the Bank on such recommendations; and

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

13. The Recipient shall carry out Part B.1 (a), (b) and (c) of the Project in accordance with a training plan acceptable to the Bank.

14. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 30, 2007, a report integrating 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 setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 2007, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant 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 _____ to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to _____ until the aggregate amount of withdrawals from the GEF Trust Fund Grant Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of _____.

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 Recipient shall furnish to the Bank 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 Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

- (b) (i) For replenishment of the Special Account, the Recipient 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 Recipient 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 Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient 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 GEF Trust Fund Grant 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 Recipient out of the Special Account, the Recipient 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 Recipient directly from the GEF Trust Fund Grant 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 Recipient shall have failed to furnish to the Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the

GEF Trust Fund Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories for Parts B.1, B.2 (e), B.4 (b) and B.5 (a) and (c) of the Project shall follow such procedures as the Bank shall specify by notice to the Recipient. 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 Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Recipient 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 GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6⁵

Performance Indicators

⁵ To be agreed at negotiations.

