

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4076-IND

Development Credit Agreement

(Support for Poor and Disadvantaged Areas Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 4, 2005

CREDIT NUMBER 4076-IND

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 4, 2005, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is making a loan to the Borrower in the amount of sixty nine million Dollars (\$69,000,000) (the Loan); and

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modification set forth below (the General Conditions), constitute an integral part of this Agreement: Section 6.03(c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) "Bappenas" means the Borrower's National Development Planning Agency, and any successor thereto;

(b) "Block Grant" means a District Grant or a Sub-district Grant, as the case may be;

(c) “Displaced Person” means a person who, on account of the execution of Part A of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and “Displaced Persons” means, collectively, all such Displaced Persons;

(d) “District” means an administrative sub-division of a Province;

(e) “District Grant” means a grant made out of the proceeds of the Credit to a Participating District to finance a Sub-project under Part A.2 of the Project;

(f) “District Implementation Unit” means the District Implementation Unit referred to in paragraph 4 of Schedule 4 to this Agreement;

(g) “Eligible Categories” means Categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(h) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services, or on account of Grants, referred to in Section 2.02 of this Agreement;

(i) “Environmental Screening Criteria” means the criteria adopted by the Borrower on May 1, 2003, setting forth the measures to be taken during the implementation of Part A of the Project to eliminate or offset adverse environmental impacts or to reduce such impacts to acceptable levels, and setting forth the actions needed to implement such measures, as such Environmental Screening Criteria may be amended from time to time with the prior agreement of the Association;

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

(k) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(l) “Fiscal Year” and “FY” mean the Borrower’s fiscal year commencing January 1 and ending December 31;

(m) “Grant” means a Block Grant or a Planning Grant, as the case may be;

(n) “Isolated Vulnerable People” means those social groups in Indonesia that have a distinct social and cultural identity, and that are susceptible to being disadvantaged in the development process induced by the Project or any part thereof;

(o) “Isolated Vulnerable People Development Framework” means the framework, acceptable to the Association, which was adopted by the Borrower on May 1, 2004, providing procedures, rules, and guidelines for: (i) the informed involvement of Indigenous Peoples, through a process of informed consultation, in the design and implementation of Sub-projects in locations in which such people reside or

which they use for their livelihood; and (ii) designing and implementing measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts of Sub-projects, as such Isolated Vulnerable People Development Framework may be amended from time to time with the prior agreement of the Association;

(p) “Land Acquisition and Resettlement Guidelines” means the Guidelines adopted by the Borrower on May 1, 2004, acceptable to the Association, for the provision of compensation, rehabilitation and resettlement assistance to Displaced Persons, as such Land Acquisition and Resettlement Guidelines may be amended from time to time in agreement with the Association;

(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 May 1, 2004) as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(r) “MinDA” means the Borrower’s Ministry for Disadvantaged Areas, or any successor thereto;

(s) “Operational Manual” means the Operational Manual referred to in paragraph 5 of Schedule 4 to this Agreement, as such Operational Manual may be amended from time to time with the prior agreement of the Association;

(t) “Participating District” means any District of a Participating Province which is selected to participate in the Project in accordance with the provisions of the Operational Manual;

(u) “Participating Province” means any Province which is selected to participate in the Project in accordance with the provisions of the Operational Manual;

(v) “Participating Sub-district” means any Sub-district of a Participating District which is selected to participate in the Project in accordance with the provisions of the Operational Manual;

(w) “Planning Grant” means a grant made out of the proceeds of the Credit to a Participating Sub-district or Participating District, as the case may be, under Part B of the Project;

(x) “Procurement Plan” means the Borrower’s procurement plan, dated May 4, 2005, covering the initial eighteen (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 eighteen (18) month periods (or longer) of Project implementation;

(y) “Project Monitoring Unit” or “PMU” means the Project Monitoring Unit referred to in paragraph 2 of Schedule 4 to this Agreement;

(z) "Project Performance Indicators" means those indicators designed to measure the Borrower's performance in achieving Project objectives as set forth in Schedule 5 to this Agreement;

(aa) "Province" means an administrative sub-division of the Borrower's territory;

(bb) "Recipient" means the recipient of a Grant and party to Sub-project Agreement;

(cc) "Report-based Disbursements" means the Borrower's option for withdrawal of funds from the Credit Account referred to in Part A.4 of Schedule 1 to this Agreement;

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

(ee) "Sub-district" means an administrative sub-division of a District;

(ff) "Sub-district Grant" means a grant made out of the proceeds of the Credit to a Participating Sub-district to finance a Sub-project under Part A.1 of the Project;

(gg) "Sub-project" means a specific investment activity referred to under Part A of the Project, and to be financed in whole or in part out of the proceeds of a Grant; and

(hh) "Sub-project Agreement" means the agreement referred to in paragraph 7 of the Annex to Schedule 4 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty three million one hundred fifty thousand Special Drawing Rights (SDR 23,150,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement: (a) for expenditures made (or, if the Association shall so agree, to be made) by the Borrower on account of a Grant to meet the reasonable cost of goods, works and services required for a Sub-project, and in respect of which the withdrawal from the Credit Account is requested; and (b) for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts C and D of the Project, and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be December 31, 2011, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2015, and ending May 15, 2040. Each installment to and including the installment payable on May 15, 2025, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

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

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

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the objectives of the Project; and

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one (1) year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 13 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) 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 the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower 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

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the PMU and the PIU have been established, and the Project Manager, the head of the PIU and the Monitoring Advisor referred to in paragraph 2 of Schedule 4 to this Agreement have been duly appointed;

(b) the Operational Manual, including an audit manual acceptable to the Association, has been adopted in accordance with paragraph 5 of Schedule 4 to this Agreement;

(c) Project launch workshops have been held in each of the Participating Provinces in accordance with paragraph 6 of Schedule 4 to this Agreement; and

(d) the decree, *Surat Edaran*, required for the release of Credit and Loan proceeds to Bappenas and to the Participating Provinces has been issued by the Borrower's Ministry of Finance.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
c/o Directorate General of Treasury

Jalan Lapangan Banteng Timur 2-4
P. O. Box 1139
Jakarta 10710
Indonesia

Cable address:
FINMINISTRY
Jakarta

Telex:
45799 DJMLN-IA
44319 DEPKEU-IA

Facsimile:
(21) 381 2859

For the Association:

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

Cable address:
INDEVAS
Washington, D.C.

Telex:
248423 (MCI) or
64145 (MCI)

Facsimile:
(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: /s/ Jusuf Anwar

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Kundihavi Kadiresan

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

	<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1)	Block Grants	13,480,000	40,000,000	100% of Grant amount disbursed
(2)	Planning Grants	2,990,000	8,880,000	100% of Grant amount disbursed
(3)	Goods and consultants' services for implementation support	6,270,000	18,575,000	100%
(4)	Goods and consultants' services for monitoring and evaluation	410,000	1,200,000	100%
(5)	Fee	-	345,000	Amount due under Section 2.04 of the Loan Agreement
	TOTAL	<u>23,150,000</u>	<u>69,000,000</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 Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures on account of: (a) goods under contracts costing less than \$100,000 equivalent per contract; (b) consultants' services under contracts costing less than \$100,000 equivalent per contract, in the case of consultants' firms, and \$25,000 equivalent per contract, in the case of individual consultants; (c) Grants; and (d) training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

4. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in Bank Indonesia or in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including, in the case of a commercial bank, appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$10,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one (1) or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to strengthen governance, promote growth and improve service delivery in some of the poorest districts of Indonesia: through (a) strengthening of local participation in development planning; (b) promotion of private investment and job creation; and (c) an increase in the utilization of effective education, health and dispute resolution services.

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

Part A: Block Grants

1. Provision of grants for the benefit of Participating Sub-districts to finance investment activities having a productive purpose and which are of benefit to Participating Sub-districts.
2. Provision of grants for the benefit of Participating Districts to finance investment activities conducive to reconstruction, cooperation and development and which are of benefit to Participating Districts.

Part B: Planning Grants

Provision of grants for the benefit of both Participating Districts and Participating Sub-districts to provide operational support for the identification, preparation and review of Sub-project proposals.

Part C: Implementation Support

1. Provision of technical advisory support and other assistance through a combination of training, practical exercises, professional technical support and development of learning networks to strengthen the administrative capacity of Participating Districts and Participating Sub-districts.
2. Strengthening the capacity of Participating Provinces for monitoring the progress in improving local investment climates, including the provision of technical assistance.
3. Carrying out of a training program for female-headed households in conflict areas, focusing primarily on very poor widows and with particular emphasis on rights awareness, group organizing, small business management, and reintegration into normal village life.
4. Carrying out of a program designed to promote the local level use of law and alternative dispute resolution mechanisms, including a program of facilitated mediation and court referrals for the peaceful resolution of disputes, and involving provincial and district working groups consisting of representatives of concerned agencies and organizations.

5. Carrying out of pilot programs pertaining to: (a) development of community-based reconciliation activities; (b) youth employment and other incentives to promote non-violent dialogue; (c) vouchers for internally displaced persons; and (d) community-based land mapping for dispute resolution.
6. Provision of technical assistance to Participating Provinces and Participating Districts in management, oversight and monitoring of Project activities.
7. Provision of specialized technical assistance services to carry out baseline inventories, investment climate surveys and needs assessments, and deliver educational and health services.
8. Provision of technical assistance and other implementation support to carry out a program of information dissemination, including radio and public awareness programs focusing on issues related to reconciliation.
9. Provision of technical advisory services to support the recovery of some of the districts devastated as a result of natural disasters in Aceh.

Part D: Monitoring, Evaluation and Studies

Provision of technical advisory services to carry out quantitative and qualitative baseline and intermediate surveys and case analyses to track the impacts of the Project, including related studies.

* * *

The Project is expected to be completed by June 30, 2011.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule and Annex A to this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

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.

B. Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract, and works estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding, and in accordance with the provisions of Annex B to this Schedule

2. Shopping

Goods and works estimated to cost less than \$25,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Community Participation

Goods, works and services (other than consultants' services) required under Sub-district Grants may be procured on the basis of community participation in accordance with procedures acceptable to the Association and set forth in the Operational Manual.

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-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$400,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection

Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection 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 \$200,000 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 for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 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, subject to prior approval of the Association.

Section IV. Review by the Bank of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$100,000 or more, and each contract for works estimated to cost the equivalent of \$200,000 or more; (b) the first

contract for goods and the first contract for works procured in each District on the basis of National Competitive Bidding; and (c) each contract for consultants' services provided by a firm selected on the basis of Single Source Selection or that is estimated to cost the equivalent of \$100,000 or more. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more shall be subject to Prior Review by the Association. All other contracts shall be subject to Post Review by the Association.

**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 consultant services under the Project, the requestor/user of such goods, works or consultant 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 Operational Manual (provided, however, that in the event of any inconsistency between the Operational Manual and the Guidelines, the provisions of the Guidelines shall apply).
2. The Procurement Plans, including all updates thereof, shall be made publicly available promptly after their finalization.
3. All bidding documents and requests for proposals issued in accordance with Schedule 3 to 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 and works 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 (3) 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 “Procurement 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 (1) widely circulated national daily newspaper a minimum of thirty (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 (1) widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids and allowing potential bidders to purchase bidding documents up to twenty-four (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 (2) 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) 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 (3), re-bidding shall not be carried out without the Association's prior concurrence.

SCHEDULE 4

Implementation Program

1. The Borrower shall establish and thereafter maintain until completion of the Project, a National Steering Committee, whose mandate, composition and terms of reference shall be acceptable to the Association, to provide policy guidance, solve implementation bottlenecks and ensure that results are closely monitored and used to inform the policy-making process.
2. The Borrower shall:
 - (a) through Bappenas, establish and thereafter maintain, until the completion of the Project, a Project Management Unit to be responsible for the overall management of the Project at the central level and a Project Monitoring Unit to be responsible for overall monitoring of the Project at the central level, each of whose mandate, composition and terms of reference shall be acceptable to the Association; and
 - (b) through MinDA: (i) establish and thereafter maintain, until the completion of the Project, a Project Implementation Unit to be responsible for the day-to-day coordination and supervision of the Project; and (ii) appoint a suitably qualified and experienced person to be the Project Manager and head of the PIU and another suitably qualified and experienced person to be a Monitoring Advisor to assist and advise the Project Manager in the monitoring of the activities supported under the Project.
3. The Borrower, through Bappenas, shall cause to be established, and thereafter maintained in each Participating Province until the completion of the Project, a Provincial Coordination Committee, whose mandate, composition and terms of reference shall be acceptable to the Association, to be responsible for overall supervision, technical oversight and evaluation of the Project in the Participating Province, and, in cases where the administrative infrastructure of a Participating District has been severely damaged to the point of being non-existent or inoperative, to act on behalf of such Participating District.
4. The Borrower, through Bappenas, shall cause to be established and thereafter maintained in each Participating District until the completion of the Project: (a) a District Project Planning Secretariat to determine policy and act as the decision-making body for the Project; and (b) a District Implementation Unit, consisting of suitably qualified and experienced staff in adequate numbers, including social development specialists, health and education specialists, private sector development specialists, and financial management and procurement specialists, to be responsible for preparation, evaluation and implementation of Sub-projects.

5. The Borrower, through Bappenas, shall:

(a) adopt an Operational Manual, acceptable to the Association, giving details of the standard operating procedures agreed with the Association for the implementation, supervision, and monitoring and evaluation, of the Project, including: (i) implementation arrangements; (ii) procurement procedures as 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; (v) the Land Acquisition and Resettlement Guidelines; (vi) the Isolated Vulnerable People Development Framework; (vii) the Environmental Screening Criteria applicable to Sub-project design, including environmental impact mitigation measures; (viii) maintenance provisions for works to be carried out under a Sub-project; (ix) criteria for the selection of Sub-projects, as well as the terms and conditions governing Grants as set forth in the Annex to Schedule 4 to this Agreement; and (x) technical annexes provided by Participating Provinces and reflecting their respective administrative requirements in terms of implementation of Sub-projects;

(b) implement the Project in accordance with the Operational Manual and, except as the Association shall otherwise agree, shall not amend or waive any provision thereof if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project; and

(c) not later than September 30 of each year, commencing on September 30, 2006, undertake, in conjunction with the Association, a joint annual review of the Operational Manual, during which they shall exchange views generally on all matters relating to the operation and application of the Operational Manual, any issues or shortcomings noted in its application, and proposals for improvements or corrective measures deemed necessary or appropriate, and, on the basis thereof, proceed to introduce such additions or modifications to the Operational Manual as may have been agreed upon between the parties.

6. The Borrower shall ensure that Project launch workshops are held in each Participating Province, during which, amongst other things, the Operational Manual will be reviewed, and an addendum thereto discussed and agreed, to reflect the administrative requirements of the Participating Provinces whilst ensuring consistency with the overall objectives of the Project.

7. For purposes of Parts A and B of the Project, the Borrower shall apply the proceeds of the Credit allocated to finance Grants in accordance with the standard operating procedures set forth in the Operational Manual, as well as the additional terms and conditions set forth in the Annex to this Schedule.

8. The Borrower shall ensure, in respect of every Sub-project, that:
 - (a) the Sub-project has been reviewed, prior to implementation, by a District or Sub-district Facilitator;
 - (b) the Beneficiaries have provided satisfactory evidence to show that any additional funding required to fully finance the proposed Sub-project, including voluntary contributions, if any, to be made by or on behalf of the Beneficiaries, will be forthcoming;
 - (c) evidence of full compliance with the Environmental Screening Criteria, Land Acquisition and Resettlement Guidelines and Isolated Vulnerable People Development Framework, where applicable, has been provided;
 - (d) evidence of the existence of an acceptable maintenance program, wherever applicable, for works to be carried out and goods to be acquired under the Sub-project, as well as demonstrated proof of availability of sufficient resources to meet any recurrent expenditures that may be involved, has been provided by or on behalf of the Beneficiaries; and
 - (e) upon a finding of satisfactory completion of the Sub-project in accordance with the Operational Manual and approved designs, a certificate of completion shall be issued by the District Facilitator.
9. For purposes of every Sub-project, the Borrower shall:
 - (a) take measures to avoid or minimize the acquisition of land or assets of individuals and to avoid the displacement of such individuals;
 - (b) where the acquisition of land or assets or the displacement of individuals is unavoidable under a proposed Sub-project, ensure that the Beneficiaries shall, before carrying out works which would result in such acquisition or displacement, make available to such individuals, adequate compensation, and other resettlement and rehabilitation measures in accordance with the Land Acquisition and Resettlement Guidelines; and
 - (c) in the case of the physical displacement of persons involving the loss of more than ten percent (10%) of their productive assets or the displacement of more than two hundred (200) people as a result of a Sub-project:
 - (i) prepare a resettlement plan in accordance with the Land Acquisition and Resettlement Guidelines and furnish such plan to the Association for approval; and
 - (ii) prior to the carrying out of the Sub-project, ensure that all Displaced Persons shall have been compensated and provided with resettlement and rehabilitation measures in accordance with the provisions of said plan.
10. For purposes of every Sub-project, the Borrower shall:

(a) avoid, and, if not possible, minimize cultural, social and economic adverse effects on Isolated Vulnerable People caused or likely to be caused by the Project by taking appropriate mitigating measures; and

(b) through a process of informed participation, involve concerned Isolated Vulnerable People in the design and implementation of Sub-projects so as to ensure that the benefits received by the Isolated Vulnerable People under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights.

11. In carrying out Part D of the Project, the Borrower shall:

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

(b) not later than January 1 in each year, commencing January 1, 2006, furnish to the Association 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, 2006, 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 Association on such recommendations; and

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

12. In carrying out Parts C and D of the Project, the Borrower shall seek the participation of non-governmental organizations and shall employ at least one (1) non-governmental organization in each Participating Province, to monitor the carrying out of Project activities under such Parts of the Project in such Participating Province.

13. The Borrower shall cause the PMU to prepare under terms of reference acceptable to the Association, and submit to the Association, quarterly reports on the progress of the Project, to be submitted not later than forty-five (45) days after the end of each calendar quarter, beginning not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and until completion of the Project.

14. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 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 Association, and furnish to the Association, on or about October 31, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, 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;

(c) review with the Association, by November 30, 2008, or such later date as the Association shall request, the report referred to in sub-paragraph (b) of this paragraph, 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 Association's views on the matter; and

(d) make publicly available the report referred to in sub-paragraph (c) of this paragraph, at the same time as it is furnished to the Association pursuant to said sub-paragraph.

**Annex
to
SCHEDULE 4**

Additional Terms and Conditions Governing Grants

1. No Grant shall be eligible for financing out of the proceeds of the Credit unless the preparation and review of the proposal for the Grant have been undertaken, and the Grant has been made, in strict accordance with the standard operating procedures and selection criteria set forth in the Operational Manual.
2. No Grant shall be made to finance expenditures pertaining to or involving: (a) a military or paramilitary purpose; (b) civil works for government administration or religious purposes; (c) the manufacture or use of environmentally hazardous goods (including asbestos, pesticides and herbicides), arms or drugs; (d) the manufacture or use dynamite; (e) the financing of government salaries; (f) the production, processing, handling, storage or sale of tobacco or products containing tobacco; (g) activities within a nature reserve or any other area designated by the Borrower for the management and/or the protection of biodiversity, except with the prior written approval of the Borrower's agency responsible for the management and/or protection of such area; (h) mining or excavation of live coral; (i) water resources development on rivers which flow into or out of another country; (j) alterations to river courses; (k) land reclamation covering an area in excess of 50 hectares; (l) new irrigation schemes covering an area in excess of 50 hectares; (m) the construction of water retaining or storage structures of a capacity greater than 10,000 cubic meters; or (n) the provision of goods, works or services, directly or through intermediaries, by suppliers or contractors, as the case may be, who have been declared ineligible to participate in the procurement of any Bank or Association-financed contract, whether indefinitely or for a stated period of time, as a result of a decision of the President of the Bank and the Association upon a recommendation of the Sanctions Committee, and in accordance with the terms of the decision.
3. (a) Sub-district Grants shall be made exclusively to finance Sub-projects which are technically, financially, environmentally and socially viable, and seek to achieve a productive purpose.
(b) No Sub-district Grant shall be made to support a Sub-project which has an estimated investment cost in excess of Rp.300,000,000.
(c) The aggregate amount of Sub-district Grants allocated to any Participating Sub-district shall not exceed the amount prescribed in the Operational Manual and determined according to the size of the population of the Sub-district.
4. (a) Not less than fifteen percent (15%) of the aggregate amount of Sub-district Grants allocated to each Sub-district shall be applied to finance proposals which are of benefit to women and youth groups, respectively.

(b) An agreed portion of the amount of Sub-district Grants allocated to each Sub-district and specified in the Operational Manual shall be applied to support activities that promote inter-village cooperation.

5. (a) District Grants be made exclusively to finance Sub-projects which are technically, financially, environmentally and socially viable, and economically justified, and contribute to reconstruction, cooperation and development.

(b) Except as provided in the Operational Manual, no District Grant shall, without the Association's prior approval, be made to support a Sub-project which has an estimated cost in excess of Rp.500,000,000.

(c) The aggregate amount of District Grants allocated to any Participating District shall not exceed an amount prescribed in the Operational Manual, and determined on the basis of criteria which shall include the actual physical and financial performance of the Participating District in the execution of previous Grants.

6. An agreed percentage of the aggregate amount of District Grants allocated to each District and specified in the Operational Manual shall be applied to finance quality improvements in health and education.

7. For purposes of every Grant, a grant agreement shall be concluded with the Recipient, setting forth the respective obligations of the parties thereunder, including: (a) details of the agreed disbursement schedule; (b) procurement procedures consistent with the provisions of Schedule 3 to this Agreement; (c) provisions for audits of the Grant; (d) the amount of any local counterpart contribution; and (e) an undertaking on the part of the Recipient to execute the Grant with due diligence and efficiency and, upon its completion, to provide for any required maintenance of the Sub-project and otherwise ensure the continued achievement of the objectives of the Grant.

SCHEDULE 5
Performance Indicators

INDICATOR	2006	2007	2008	2009
INPUTS				
No. project kecamatan (cumulative)	100	200	400	453
No. project kabupaten (cumulative)	10	20	30	40
% kecamatan grants disbursed	--	>80	>80	>80
No. kabupaten grants disbursed	--	>75	>75	>75
No. baseline impact surveys completed	1	2	-	-
No. health and education pilots completed	2	3	3	3
No. district health and education committees functioning	10	25	35	35
No. kecamatan health needs assessments completed	--	20	75	150
% increase in poor people completing 6 yrs	--	10	15	20
No. kabupaten adopting school based management (cumulative)	-	10	15	20
No. kecamatan business established	50	100	150	300
No. kabupaten business established	8	16	24	30
% community contributions to project	>10%	>10%	>12%	>12%
OUTPUTS				
IRR on kecamatan investments	>30%	>35%	>35%	
IRR on kabupaten investments	>30%	>35%	>35%	
% poor beneficiaries kecamatan	>60%	>60%	>60%	>60%
% poor beneficiaries kabupaten	>50%	>50%	>50%	>50%
No. primary schools rehabilitated	100	200	300	300
% villages with active participation in school management committees		50	40	40
No. poor village teachers that have received teacher training	50	150	300	500
No. health clinics rehabilitated	50	50	50	50
Perception of changes in education service delivery quality			Positive	Positive
Perception of change in education service delivery quality			Positive	Positive
Improvements in regulatory environments: # kabupaten	--	10	20	25

SUSTAINABILITY				
Kabupaten contributions %	10	15	15	15
% complaints resolved	--	50	60	75
% kabupaten infrastructure classed as “good” to excellent”	--	50	65	75
% kecamatan infrastructure classed as “good” to “excellent”	--	60	70	80
Studies on poor kabupaten growth rates		1	1	1