

CONFORMED COPY

LOAN NUMBER 4100 IND

Loan Agreement

(Second Village Infrastructure Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated January 15, 1997

LOAN NUMBER 4100 IND

LOAN AGREEMENT

AGREEMENT, dated January 15, 1997, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Affected Person" means a person who, on account of the execution of Part A of the Project, has or would have his or her:

(i) standard of living adversely affected; (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently, adversely affected; or (iii) business, occupation, work or place of residence or habitat adversely affected;

(b) "BAPPEDAs I" and "BAPPEDAs II" mean the development planning agencies of the Borrower at the provincial and Kabupaten levels, respectively;

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

(d) "Bupati" means the Head of a Kabupaten;

(e) "Camat" means the Head of a Kecamatan;

(f) "DPUK" and "DPUKs" mean singularly the Office of Public Works of a Kabupaten and collectively the Offices of Public Works of Kabupatens;

(g) "Fiscal Year" means the Borrower's fiscal year commencing April 1 and ending March 31;

(h) "Grant" and "Grants" mean singularly a grant and collectively grants to be made available by the Borrower to the Project Villages out of its own resources and the proceeds of the Loan in accordance with Section 3.01 (b) (ii) of this Agreement;

(i) "Guidelines for Compensation and Resettlement" means the framework prepared by the Borrower, in agreement with the Bank, for the provision of compensation to Affected Persons as set forth in Part C of Schedule 5 to this Agreement and in the Project Manual, and as such Guidelines may be amended from time to time in agreement with the Bank;

(j) "IDT Program" means Inpres Desa Tertinggal Program, a program of the Borrower for poverty reduction programs;

(k) "Kabupaten" means a district, an administrative division of the Borrower;

(l) "Kecamatan" means an administrative sub-district of a Kabupaten;

(m) "Kepala Desa" means the Head of a village;

(n) "Kerinci-Seblat Integrated Conservation and Development Project" means the project described in Schedule 2 to the Loan Agreement No. 4008-IND (Kerinci-Seblat Integrated Conservation and Development Project) between the Borrower and the Bank, dated June 17, 1996;

(o) "LKMD" means a Project Village community resilience council headed by the Kepala Desa;

(p) "Non-IDT Village" means a village which is listed in the provincial bottom fifty percent of the Borrower's Potensi Desa classification;

(q) "OECF" means the Overseas Economic Cooperation Fund of Japan;

(r) "P3DT" means the Pembangunan Prasarana Pendukung Desa Tertinggal, the Project Management Unit established and operating within BAPPENAS pursuant to Ministerial Decree (Kepmen) No. 008/KET/2/1995, dated February 20, 1995, comprising representatives of, inter alia, the Borrower's Ministry of Finance, Ministry of Home Affairs and Ministry of Public Works;

(s) "Pimpro" means a Project manager in a Kabupaten;

(t) "Project Manual" means the manual prepared by the Borrower, in consultation with the Bank, dated September 1996, to assist the

Project Villages in the implementation of the Project through the description of, inter alia, procurement procedures and standard documentation, reporting requirements, the Project Performance Indicators, Guidelines for Compensation and Resettlement, environmental criteria applicable to Sub-project design, maintenance provisions for works to be carried out under the Project and criteria for the selection of Sub-projects, as such Project Manual may be amended from time to time with the agreement of the Bank;

(u) "Project Performance Indicators" means those indicators agreed with the Bank and designed to measure the Borrower's performance in achieving Project objectives;

(v) "Project Provinces" means the Borrower's provinces of Jawa Barat, Jawa Tengah, Jawa Timur, Lampung, Bengkulu, Sumatera Selatan, Jambi, Riau, Sumatera Barat, Sumatera Utara, and D. I. Aceh;

(w) "Project Village" and "Project Villages" mean singularly a village, and collectively the villages selected by the Borrower for participation in the Project in accordance with Part A.1 of Schedule 5 to this Agreement;

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

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

(z) "Sub-projects" means the specific public infrastructure investment projects to be carried out under Part A of the Project, and "Sub-project" means any one of the Sub-projects; and

(aa) "Village Infrastructure Project for Java" means the project described in Schedule 2 to the Loan Agreement No. 3888-IND (Village Infrastructure Project for Java), between the Borrower and the Bank dated June 29, 1995.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to one hundred forty million one hundred thousand dollars (\$140,100,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank Indonesia or in a state commercial bank on terms and conditions satisfactory to the Bank, including, in the case of a state commercial bank, 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 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1999, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period:  
(A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable on June 15 and December 15 in each year.

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

### ARTICLE III

#### Execution of the Project

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

(b) Without limitation on the provisions of paragraph (a) of this Section, the Borrower shall take all necessary measures to:

- (i) ensure that the financing of the Project from its own

resources is maintained during the implementation of the Project at such levels as agreed between the Borrower and the Bank, such level to be at least equal to twenty million Rupiah (Rp. 20,000,000) per Project Village to be made available to each Project Village as an initial advance not later than April 30, 1997 and April 30, 1998; and

- (ii) make available an amount up to one hundred and twenty million Rupiah (Rp. 120,000,000) to each Project Village on a grant basis for the financing of Sub-projects.

(c) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower 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 Borrower 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 Borrower on said plan.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

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

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

For the Borrower:

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

Cable address:

FINMINISTRY  
 Jakarta

Telex:

45799 DJMLN-IA  
 44319 DEPKU-IA

For the Bank:

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

Cable address:

INTBAFRAD  
 Washington, D.C.

Telex:

248423 (MCI)  
 64145 (MCI)

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

REPUBLIC OF INDONESIA

By /s/ Arifin M. Siregar

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marianne Haug

Acting Regional Vice President  
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods, works and services under Grants	117,000,000	90%
(2) Consultants' services	20,800,000	100%
(3) Unallocated	2,300,000	
TOTAL	140,100,000 =====	

2. For the purposes of this Schedule, the term "goods, works and services under Grants" means expenditures incurred by the Project Villages in the carrying out of approved Sub-projects.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods, works and services under Grants, except for the first contract in each Kabupaten for civil works and goods valued at \$10,000 or more; and (ii) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each and contracts for the employment of individuals valued at less than \$50,000 equivalent each; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in the implementation in the Project Provinces of a program aimed at improving the access to public infrastructure in selected Project Villages.

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

Part A: Construction of Public Works

Carrying out of public infrastructure investment projects in about 2600 Project Villages in the Project Provinces.

Part B: Strengthening Project Implementation Capabilities

1. Strengthening the implementation and administration capabilities of the Project Villages to design, procure and construct public works and ensure the quality and sustainability of such works, through the provision of technical assistance.
2. Strengthening the management, supervision, and socio-economic monitoring and evaluation capabilities of the Project Management Unit through the provision of technical assistance.

\* \* \*

The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
June 15, 2002	2,985,000
December 15, 2002	3,070,000
June 15, 2003	3,160,000
December 15, 2003	3,250,000
June 15, 2004	3,345,000
December 15, 2004	3,445,000
June 15, 2005	3,545,000
December 15, 2005	3,650,000
June 15, 2006	3,755,000
December 15, 2006	3,865,000
June 15, 2007	3,980,000
December 15, 2007	4,095,000
June 15, 2008	4,215,000
December 15, 2008	4,335,000
June 15, 2009	4,465,000
December 15, 2009	4,595,000
June 15, 2010	4,730,000
December 15, 2010	4,865,000
June 15, 2011	5,010,000
December 15, 2011	5,155,000
June 15, 2012	5,305,000
December 15, 2012	5,460,000
June 15, 2013	5,620,000
December 15, 2013	5,785,000
June 15, 2014	5,950,000
December 15, 2014	6,125,000
June 15, 2015	6,305,000
December 15, 2015	6,490,000
June 15, 2016	6,680,000
December 15, 2016	6,865,000

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

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General



Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. National Shopping

Goods shall be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. Community Participation

Except as provided in paragraph 3 below, civil works shall be procured in accordance with procedures acceptable to the Bank, as set out in the Project Manual.

3. Procurement of Small Works

Civil works may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to the first contract in each Kabupaten for civil works and goods estimated to cost the equivalent of \$10,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract referred to in Part B above, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or

approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individuals raising the contract value to \$50,000 equivalent or above.

#### SCHEDULE 5

##### Implementation Program

###### Part A: Implementation Actions

Except as the Borrower and the Bank shall otherwise agree, the Borrower shall select Project Villages and Sub-projects in accordance with the following provisions.

###### 1. Selection of Project Villages

The Borrower shall select a Project Village on the basis of the following criteria and procedures:

###### (a) Criteria:

- (i) the village is located in a Project Province;
- (ii) the village has been included in the Borrower's IDT Program, or the village is a Non-IDT Village in a cluster of IDT villages and requires village infrastructure;
- (iii) the village has at least 700 inhabitants or, in areas having only smaller villages, two or three close-by villages with a total number of inhabitants of at least 700 to be considered as one Project Village;
- (iv) the village has not been selected to participate under the Village Infrastructure Project for Java, the Kerinci-Seblat Integrated Conservation and Development Project, or a similar infrastructure project financed by OECF;
- (v) priority shall be given to non-transmigration villages; and
- (vi) selected villages shall be located in clusters.

###### (b) Procedures:

- (i) Camats, in consultation with the Bupatis, shall select the Project Villages taking into account the criteria described under paragraph (a) above;
- (ii) BAPPEDAs II shall consolidate the lists of proposed Project Villages to be included in Fiscal Year 1998/1999 prepared by the Camats, and BAPPEDAs I shall consolidate the BAPPEDAs II lists and, thereafter, furnish the consolidated list to P3DT and the Bank for approval, by not later than September 1, 1997; and
- (iii) Bupatis and Camats shall issue to the Project Villages, by not later than December 31, 1996, for Fiscal Year 1997/1989 and December 31, 1997, for Fiscal Year 1998/1999, public information aimed at disclosing to villagers and their representatives, all administrative, financial, environmental, procedural and technical aspects pertain-

ing to the selection, design, preparation and implementation of Sub-projects.

## 2. Selection and Implementation of Sub-projects

(a) A Sub-project selected by a Project Village shall qualify as eligible for financing out of the proceeds of the Loan only if:

- (i) the Sub-project is a public infrastructure investment project and is technically and environmentally viable, and economically justified by the number of beneficiaries;
- (ii) the Sub-project proposal has been publicly discussed among, and agreed to by, the villagers in the Project Village under the coordination of the Kepala Desa and LKMD; and
- (iii) the Sub-project proposal has been furnished to the respective Camat for review and comments.

(b) The Borrower shall, through the relevant Pimpro, ensure that, prior to the carrying out of works under a Sub-project, the field engineer shall have completed a technical review of such Sub-project and shall have confirmed the following:

- (i) all selection criteria described under paragraph 2 (a) above have been complied with;
- (ii) all necessary measures have been taken to avoid or minimize land acquisition and displacement of Affected Persons under the proposed Sub-project in accordance with the provisions of the Project Manual;
- (iii) necessary funding to fully finance the proposed Sub-project has been obtained, including a Grant and any voluntary contributions to be made by the respective Project Village;
- (iv) appropriate engineering and environmental standards and practices that would minimize any acquisition of land and avoid involuntary resettlement of Affected Persons have been considered to design the Sub-project;
- (v) the Guidelines for Compensation and Resettlement have been complied with, and, if applicable, appropriate compensation arrangements have been completed and are satisfactory to the Affected Persons as set forth under such Guidelines for Compensation and Resettlement and Part C of this Schedule;
- (vi) contracts for the procurement of civil works and goods, in accordance with the provisions of Part B of Section I of Schedule 4 to this Agreement have been entered into in accordance with the provisions of the Project Manual;
- (vii) an implementation plan for the Sub-project has been prepared in accordance with the provisions of the Project Manual; and
- (viii) a maintenance program for the works to be carried out under the Sub-project has been prepared in accordance with terms acceptable to the Bank, which shall include assignment of maintenance responsibilities in the respective Project Village, the preparation of training programs to strengthen the maintenance capabilities of the Project Village, and the identification of available sources of financing to carry out such programs.

(c) The Borrower shall cause the Project Villages to carry out the Sub-projects confirmed in accordance with paragraph (b) above for the respective Fiscal Year, in accordance with a timetable and guidelines

agreed between the Borrower and the Bank and described in the Project Manual.

3. Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower shall cause P3DT to prepare, and furnish to the Bank for review, the following reports concerning Part A of the Project:

(a) starting March 31, 1997, and until the completion of the Project, quarterly progress reports; and

(b) annual progress reports by March 31, 1998 and March 31, 1999.

4. 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 agreed with the Bank, 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 January 31, 1998, 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 February 28, 1998, 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.

5. The Borrower shall:

(a) carry out by September 30 in each year, commencing September 30, 1998, and until completion of the Project, annual technical audits for Project quality assurance, in a manner acceptable to the Bank, including quality of civil works, performance of consultants, procurement of goods, and completion of Sub-projects; and

(b) promptly upon completion of said audits, furnish to the Bank the recommendations of said audits.

Part B: Agencies and Institutions Responsible for Project Implementation

1. BAPPENAS, through P3DT, shall be responsible for the overall coordination of the Project.

2. P3DT shall be maintained throughout Project implementation with competent staff in adequate numbers, as agreed between the Borrower and the Bank.

3. BAPPEDAs (Level I) shall appoint, and, thereafter, maintain until completion of the Project, qualified counterpart staff to work closely with the senior engineering staff employed under the Project.

4. BAPPEDAs (Level II) shall be responsible in each Kabupaten for the coordination of all Project related activities with other relevant agencies and departments of the Borrower.

5. DPUK shall be the implementing agency at the Kabupaten level.

6. The Borrower shall, by not later than April 1 in each Fiscal Year, cause the DPUKs overseeing Project Villages to select and employ, and, thereafter, maintain until the completion of the Project, qualified and experienced Pimpros, in adequate numbers. The Pimpros shall be responsible for assisting the DPUK in the record keeping of expenditures

incurred by the Borrower during the implementation of the Project.

7. The LKMD in each Project Village shall be responsible for the implementation of Sub-projects approved for such Project Village.

8. The Borrower shall ensure, throughout Project implementation:

(a) that the Project Manual is made available to Project Villages; and

(b) that such Project Manual is periodically updated, if needed, in consultation with the Bank.

Part C: Compensation for Affected Persons

In carrying out Part A of the Project:

(a) the Borrower shall take measures to avoid or minimize the acquisition of land or assets of villagers and to avoid the displacement of said villagers;

(b) where the acquisition of land or assets or the displacement of villagers is unavoidable under a proposed Sub-project, the Borrower shall, before carrying out the works which would result in such acquisition or displacement, make available to such villagers, compensation in accordance with the Guidelines for Compensation and Resettlement agreed between the Borrower and the Bank; and

(c) in the event that two hundred or more villagers are adversely affected by a Sub-Project, the Borrower shall:

(i) prepare a resettlement plan in accordance with the Guidelines for Compensation and Resettlement and furnish such plan to the Bank for approval; and

(ii) prior to the carrying out of the Sub-project, ensure that all Affected Persons shall have been compensated in accordance with the provisions of said plan.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$14,000,000 to be withdrawn from the Loan 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 \$7,000,000 until the aggregate amount of withdrawals from the Loan 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 \$28,000,000.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for 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 Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower 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 Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan 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 the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwith-drawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure

or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

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

