

CONFORMED COPY

LOAN NUMBER 4306 IND

Loan Agreement

(Maluku Regional Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated May 1, 1998

LOAN NUMBER 4306 IND

LOAN AGREEMENT

AGREEMENT, dated May 1, 1998, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997 (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Wherever used in this Agreement, 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) "Affected Person" means a person who, on account of the execution of Part B.1 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 land and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, work, or place of residence or habitat adversely affected;

(b) "BANGDA" means the Directorate General of Regional Development within the Ministry of Home Affairs of the Borrower;

(c) "BAPPEDA Tk. I" means the Provincial Development Planning Agency established and operating within the Borrower's Province of Maluku;

(d) "BAPPEDA Tk. II" means the Kabupaten Development Planning Agency established and operating within each Participating Kabupaten;

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

(f) "BIPP" means Balai Informasi dan Penyuluhan Pertanian, the Kabupaten agricultural information and extension center established and operating or to be established and operated within each Participating Kabupaten;

(g) "BPN" means Badan Pertanahan Nasional, the Borrower's National Land Agency, established and operating pursuant to Presidential Decree No. 26 of 1988, and any successor thereto;

(h) "BPP" means Balai Penyuluhan Pertanian, a rural agricultural extension center established and operating within a Participating Kecamatan;

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

(j) "CGC" means the Central Guidance Committee maintained in accordance with paragraph 1 of Section A.I of Schedule 5 to this Agreement;

(k) "DINAS" means a technical agency; "DINAS Tk I" means a technical agency established and operating at the provincial level; and "DINAS Tk. II" means a technical agency established and operating within a Participating Kabupaten;

(l) "Fiscal Year" means the fiscal year of the Borrower commencing April 1 and ending March 31;

(m) "Grant" means a grant to be made available by the Borrower to a Participating Village to finance a Sub-project under Part B of the Project, partly out of the proceeds of the Loan;

(n) "Guidelines for Compensation and Resettlement" means the guidelines prepared by the Borrower, in agreement with the Bank, for the provision of compensation to Affected Persons, as such Guidelines may be amended from time to time with the prior agreement of the Bank;

(o) "Guidelines for Credits and Revolving Funds" means the guidelines to be prepared by the Borrower, approved by the Bank, and thereafter issued in the form of a Petunjuk Pelaksanaan in accordance with paragraph 6 (a) of Section B of Schedule 5 to this Agreement;

(p) "Guidelines for Implementation of Tree Crop Development and Rehabilitation" means the guidelines for carrying out Part A of the Project, to be prepared by the Borrower, approved by the Bank, and thereafter issued in the form of a Petunjuk Pelaksanaan in accordance with paragraph 1 (b) of Section B of Schedule 5 to this Agreement, as such Guidelines may be amended from time to time with the prior agreement of the Bank;

(q) "Guidelines for Implementation of Village Grants" means the guidelines for Part B of the Project, to be prepared by the Borrower, approved by the Bank, and thereafter issued in the form of a Petunjuk Pelaksanaan in accordance with paragraph 4 of Section B of Schedule 5 to this Agreement, as such Guidelines may be amended from time to time with the prior agreement of the Bank;

(r) "AIAT" means the Assessment Institute for Agricultural Technology, established by Decree No. 798/Kpts/OT.210/12/94 of the Borrower's Ministry of Agriculture dated December 13, 1994;

(s) "Inputs Credit" means a credit to be made available by the Borrower to a farmer, in the form of a grant or a loan, to finance agricultural inputs under Part A of the Project, in part out of the proceeds of the Loan;

(t) "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;

(u) "Kabupaten" means a district, an administrative division within a province of the Borrower;

(v) "KANWIL" means the provincial office of a Ministry;

(w) "Kecamatan" means an administrative sub-district within a Kabupaten;

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

(y) "LKMD" means a village development council, headed by the Kepala Desa;

(z) "Participating Kabupatens" means Kabupaten Halmahera Tengah, Kabupaten Maluku Tengah and Kabupaten Maluku Utara in the Borrower's Province of Maluku;

(aa) "Participating Kecamatan" means the following Kecamatan in the Borrower's Province of Maluku for Part A of the Project: Galela, Jailolo, Kao, Maba, Makian/Malifut, Morotai Selatan, Oba, Seram Barat, Seram Utara, Tobelo, Wasile, and Weda; and the following Kecamatan in the Borrower's Province of Maluku for Parts B, C, D and E of the Project: Amahai, Buru Utara Timur, Galela, Jailolo, Kao, Maba, Makian/Malifut, Morotai Selatan, Oba, Seram Barat, Seram Utara, Tobelo, Tehoru, Wasile, and Weda;

(bb) "Participating Village" means a village that is legally recognized as such by the Borrower's Ministry of Home Affairs, and is in a Participating Kecamatan in which a Sub-project is carried out;

(cc) "Pimpro" means a Project manager at the central and relevant provincial and Kabupaten level;

(dd) "PMD Tk. I" means the Pembangunan Masyarakat Desa, the village community development agency, established and operating at the provincial level;

(ee) "POSKESWAN" means Pos Kesehatan Hewan, an animal health clinic;

(ff) "Project Performance Indicators" means those indicators designed to measure the Borrower's performance in achieving Project objectives as set forth in Schedule 6 to this Agreement;

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

(hh) "Sub-project" means a village infrastructure investment project to be carried out under Part B.1 of the Project, or a village investment project for income-generating activities to be carried out under Part B.2 of the Project; and

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to sixteen million three hundred thousand dollars (\$16,300,000).

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 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 acceptable to the Bank, on terms and conditions satisfactory to the Bank, including, in the case of a state commercial bank, appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2005, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable in arrears on April 15 and October 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of 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, agriculture, 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 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 (6) 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 Project's objectives; 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 nine months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

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

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

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

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account 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 DEPKEU-IA

For the Bank:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
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/ Dorodjatun Kuntjoro-Jakti, Ambassador
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Javad Khalilzadeh-Shirazi
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) Civil works under:		90%
(a) Part C.2 of the Project	100,000	

	(b) Part C.4 (b) of the Project	300,000	
	(c) Part D of the Project	1,300,000	
	(d) Other	200,000	
(2)	Goods, excluding vehicles, under:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 60% of local expenditures for other items procured locally
	(a) Part A of the Project	2,100,000	
	(b) Parts C, D and E of the Project	400,000	
(3)	Goods, works and services under Part B of the Project for Sub-projects	7,600,000	100%
(4)	Service delivery contracts under Parts A, C.1 (a) and C.5 of the Project	500,000	80%
(5)	Training under Parts A, B, C and E of the Project	400,000	90%
(6)	Research, surveys and studies	500,000	100%
(7)	Travel	300,000	90%
(8)	Consultants' services	1,400,000	100%
(9)	Unallocated	1,200,000	
	TOTAL	<u>16,300,000</u>	

2. For the purposes of this Schedule:

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

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

(c) the term "travel" means expenditures for transportation and travel allowances for Project staff.

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

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

(b) payments made for expenditures in respect of Category (1) (a) until the management and staffing plans referred to in paragraph 10 of Section B of Schedule 5 to this Agreement have been issued;

(c) payments made for expenditures in respect of Category (1) (b) until the Bank has approved the results of the marine resource profiles and the fisheries infrastructure recommendations furnished pursuant to the provisions of paragraph 11 of Section B of Schedule 5 to this Agreement;

(d) payments made for expenditures in respect of Category (2) (a) until the Guidelines for Implementation of Tree Crop Development and Rehabilitation have been issued pursuant to the provisions of paragraph 1 (b) of Section B of Schedule 5 to this Agreement; and

(e) payments made for expenditures in respect of Category (3) until the Guidelines for Implementation of Village Grants have been issued pursuant to the provisions of paragraph 4 of Section B of Schedule 5 to 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) civil works and goods under contracts costing less than \$100,000 equivalent each; (ii) service delivery contracts; (iii) goods, works and services under Sub-projects; (iv) training; (v) research and studies; (vi) travel; and (vii) 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: (i) alleviating poverty in its Province of Maluku through rural development; and (ii) generating economic growth in rural and coastal areas of its Province of Maluku where growth potential is high.

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: Tree Crop Development and Rehabilitation

Carrying out of tree crop development and rehabilitation in the Participating Kecamatans through the provision of Inputs Credits and training for farmers and relevant Project staff.

Part B: Village Grants for Infrastructure and Income-Generation Activities

1. Carrying out of village infrastructure investment projects in Participating Villages, through the provision of Grants and training for beneficiaries and relevant Project staff.

2. Carrying out of income-generating investment projects in Participating Villages, through the provision of Grants and training for beneficiaries and relevant Project staff.

Part C: Support Services for Agriculture and Fisheries

1. Enhancing agricultural and fisheries processing and marketing activities through:

(a) the carrying out of demonstration activities in Participating Kecamatans for the testing of processing initiatives, and provision of assistance to villages in formulating proposals for income-generating activities relating to such initiatives, including provision of advisory services; and

(b) the establishment of a marketing advisory service in Ambon, in Kabupaten Maluku Tengah to assist in the identification of buyers for processed commodities and to facilitate market linkages, including provision of advisory services.

2. Strengthening animal health and extension services through:

(a) the establishment of BIPPs in Masohi in Kabupaten Maluku Tengah, Ternate in Kabupaten Maluku Utara, and Soa Siu in Kabupaten Halmahera Tengah, including provision of civil works, equipment and materials;

(b) the establishment of POSKESWAN in Kecamatan Maba, Makian/Malifut, Morotai Selatan and Weda, and upgrading of POSKESWAN in Kecamatan Tobelo and Seram Utara, including provision of civil works, equipment and materials;

(c) the strengthening of the animal health and the extension capabilities of DINAS Tk. II for Livestock in Kecamatan Buru Utara Timur, Maba, Makian/Malifut, Morotai Selatan, Oba, Wasile, and Weda, through the provision of training to staff and farmers, and provision of equipment and materials; and

(d) upgrading of ten BPPs in the Participating Kabupatens, including provision of civil works, equipment and materials.

3. Improving farming system technology diffusion through:

(a) the carrying out of farm and site demonstrations by AIAT at Ambon; and

(b) the provision of training to BIPP, BPP, agricultural extension staff and farmers, and the provision of equipment, publications and materials.

4. Strengthening fisheries and marine support through:

(a) the carrying out of fisheries and coastal marine resource profiles for the Province of Maluku, including recommendations on development and management of fisheries resources and shore-based infrastructure; and

(b) the construction of fisheries infrastructure in the Participating Kabupatens based on the results of the fisheries and marine resource profiles and recommendations carried out under Part C.4 (a) of the Project.

5. Development of facilities for seed multiplication for irrigated agriculture through the strengthening of the capacity of the Food Crop Seed Multiplication Facility (BBI) in Kecamatan Kairatu to produce foundation seed, the establishment of a Seed Farm (BBU) in Kecamatan Seram Utara and in Kecamatan Wasile to produce extension seed, the provision of training to farmers, and the provision of inputs and equipment.

Part D: Sea Transportation and On-Shore Facilities

Strengthening maritime trade in the Province of Maluku, through the construction of (i) two docks and storage facilities in Participating Kecamatan, including at Buli in Kecamatan Maba; (ii) dock extensions in the town of Tobelo in Kecamatan Tobelo and the town of Amahai in Kecamatan Amahai; and (iii) storage facilities in the towns of Weda, Jailolo, Wahai, Namlea and Subiam in Kecamatan Weda, Jailolo, Seram Utara, Buru Utara Timur, and Wasile, respectively.

Part E: Capacity Building for Project Management, Coordination, and Monitoring and Evaluation

1. Strengthening Project implementation, monitoring and evaluation capacity of BAPPEDA Tk. I and BAPPEDA Tk. II through the provision of equipment, staff training and technical assistance.

2. Strengthening the capacity of the office of the Camat in the Participating Kecamatan and the LKMDs in the Participating Villages to identify and select Sub-projects and prepare action plans for proposed Sub-projects, and of the LKMDs to implement approved Sub-projects, through the provision of training and technical assistance.

3. Strengthening the capacity of the KANWIL for Industry and Trade and the provincial chamber of commerce (KADINDA) to conduct market surveys and promote investment opportunities, and strengthening the capacity of DINAS Tk. II for Industry and Trade to carry out demonstration activities for village processing, through the provision of training and technical assistance.

4. Carrying out of mapping of the Participating Kecamatans for purposes of spatial planning, directing development, and conserving important biological habitats, ecological systems and natural features, through acquisition of satellite imagery and provision of related equipment and technical assistance to BPN.

* * *

The Project is expected to be completed by December 31, 2004.

SCHEDULE 3

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "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.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

- (i) LIBOR Base Rate; plus
- (ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

- (i) Fixed Base Rate; plus
- (ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, 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 day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

(i) one half of one percent (1/2 of 1%);

(ii) 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 such Disbursed Amount for such Interest Period; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

(i) one-half of one percent (1/2 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, 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 to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount; as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, 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 this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The new 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.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each April 15 and October 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the twelfth (12th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-sixth (1/6) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after October 15, 2013, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

SCHEDULE 4

Procurement

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 and August 1996 and September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: Procurement Procedures

1. National Competitive Bidding

Except as otherwise provided in this Part, goods and works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,200,000 equivalent, may 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.

3. Community Participation

Goods and works required for Parts A and B of the Project may be procured in accordance with procedures acceptable to the Bank.

4. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three 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 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

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$100,000 or more the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts for works and goods under Sub-projects in FY 1998/1999 and FY 1999/2000 in each Participating Kabupaten costing \$5,000 equivalent or more each, the following procedures shall apply:

(i) for contracts costing \$50,000 equivalent but less than \$100,000

equivalent, the procedures set forth in paragraphs 2 and 3 of Appendix 1
to the Guidelines shall apply; and

(ii) for contracts costing \$5,000 equivalent but less than \$50,000
equivalent:

(A) prior to the selection of any supplier or execution of any
such contract under shopping procedures, the Borrower
shall provide to the Bank a report on the comparison and
evaluation of quotations received;

(B) prior to the execution of any such contract procured under
shopping procedures, the Borrower shall provide to the
Bank a copy of the specifications and the draft contract;
and

(C) the procedures set forth in paragraphs 2(f), 2(g) and 3 of
Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the
procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the
Introduction and Section IV of the "Guidelines: Selection and Employment of
Consultants by World Bank Borrowers" published by the Bank in January 1997 and
revised in September 1997 (the Consultant Guidelines) and the following provisions of
Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services
shall be procured under contracts awarded in accordance with the provisions of Section
II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2
thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to
quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured
under contracts awarded in accordance with the provisions of the preceding paragraph.
The short list of consultants for services under Parts B, C.1 (b) and C.3 of the
Project, estimated to cost less than \$200,000 equivalent per contract, may comprise
entirely national consultants in accordance with the provisions of paragraph 2.7 of
the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services under Part C.1 (a) and C.3 of the Project which are estimated to cost
less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be
procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the
Consultant Guidelines.

2. Service Delivery Contractors

Services to be provided by farmers for demonstrations and seed multiplication
under Parts A, C.1 (a) and C.5 of the Project shall be procured in accordance with
procedures acceptable to the Bank.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

Section A: Agencies and Institutions Responsible for Project Coordination and Implementation

I. Project Coordination

The Borrower shall ensure that the following arrangements for Project coordination are established and maintained until completion of the Project:

1. The CGC shall be responsible for coordination of the Project at the central level and shall provide policy guidance. The CGC shall be chaired by BAPPENAS, through its Deputy for Regional Development. Members shall include representation of the Ministry of Finance (Directorate General of Budget), the Ministry of Home Affairs (BANGDA), the Ministry of Agriculture, Ministry of Industry and Trade (Directorate General of Agriculture and Forestry Products), and the Ministry of Communications (Directorate General of Sea Communication). BANGDA, through its Directorate for Area Development, shall serve as the Secretariat of the CGC.

2. The Provincial Project Coordination Committee, chaired by the head of BAPPEDA Tk. I, shall be responsible, at the provincial level, for the coordination of Project activities with other relevant agencies of the Borrower.

3. A Kabupaten Project Coordination Committee shall be established in each Participating Kabupaten not later than August 1, 1998, chaired by the head of BAPPEDA Tk. II, and responsible, at the Kabupaten level, for the coordination of Project activities with other relevant agencies of the Borrower.

4. A Kecamatan Task Force shall be established in each Kecamatan selected as Participating Kecamatan in the initial year of the Project, not later than August 1, 1998, chaired by the Camat, and responsible, at the Kecamatan level, for the coordination, monitoring and evaluation of proposed Sub-projects under Part B of the Project.

5. At the provincial level, there shall be Pimpros, based in Ambon, responsible for the coordination of Parts A, C. 1, C. 3, C. 4, C. 5, D and E of the Project, respectively, and in each Participating Kabupaten there shall be Pimpros responsible for the coordination of Parts B, C. 2, C. 3 and E of the Project, respectively.

II. Project Implementation

The Borrower shall ensure that the following arrangements for Project implementation are maintained until completion of the Project:

1. The following entities shall be responsible for the implementation of Part A of the Project:

(a) the Directorate General of Estates of the Ministry of Agriculture at the central level;

(b) the Project Management Office with competent staff in adequate numbers, including a Pimpro, at the provincial level; and

(c) the Project Management Units in the Participating Kecamatan with competent staff in adequate numbers.

2. The following entities shall be responsible for the implementation of Part B of the Project: (a) BAPPEDA Tk. II at the Kabupaten level; (b) the Camat and the Committee for Kecamatan Planning and Coordination (UDKP) at the Kecamatan level; (c) the LKMD in each Participating Village, assisted by local community organizers, at the village level; and (d) DINAS Tk. II for Public Works for the administration of Project activities under Part B. 1 of the Project, including entering into village implementation agreements with LKMDs. DINAS Tk. II for Public Works shall delegate technical and field work to field engineers.

3. The following entities shall be responsible for the implementation of Part C of the Project: (a) for Part C.1 of the Project, the Pimpro for the KANWIL for Industry and Trade, at the provincial level; (b) for Part C.2 of the Project, the BIPPs in each Participating Kabupaten and DINAS Tk. II for Livestock; (c) for Part C.3 of the Project, AIAT at Ambon; (d) for Part C.4 of the Project, DINAS Tk. I for Fisheries; and (e) for Part C.5 of the Project, DINAS Tk. I for Food Crops.

4. The KANWIL for Communications shall be responsible for the execution of Part D of the Project.

Section B: Implementation Actions

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

(a) select farmers to whom and activities for which Inputs Credits shall be provided in accordance with the criteria set forth in the Guidelines for Implementation of Tree Crop Development and Rehabilitation, such criteria to include the following:

(i) Inputs Credits in the form of grants for the acquisition of agro-inputs for tree crops, intercropped with food, forage and other crops shall only be made available to farmers for the initial year of planting and for no more than a half hectare;

(ii) Inputs Credits for the second and third year of tree crop production shall be in the form of loans under terms and conditions set forth in the Guidelines for Credits and Revolving Funds, provided, however, that loans shall not be made for more than a half hectare; and

(iii) Inputs Credits shall not be used for the planting of cacao; and

(b) prepare and issue Guidelines for Implementation of Tree Crop Development and Rehabilitation, acceptable to the Bank, such Guidelines to include the description of, among others, procurement procedures and standard documentation, reporting requirements, the Project Performance Indicators, environmental criteria, selection criteria for eligibility of farmers to receive Input Credits; ensure that, until completion of the Project, the Guidelines are made available to Participating Villages and applied in the carrying out of Part A of the Project; and periodically update the Guidelines, if needed, with the prior agreement of the Bank.

2. A proposed Sub-project selected by a village under Part B of the Project shall qualify as eligible for financing out of the proceeds of the Loan only if the proposed Sub-project has been selected in accordance with the provisions of the Guidelines for Implementation of Village Grants, including the following provisions:

(a) the Sub-project proposed under Part B.1 of the Project is a public infrastructure investment project and is technically and environmentally viable, and economically justified by the number of beneficiaries;

(b) the Sub-project proposed under Part B.2 of the Project is an income-generating activity, is technically, economically and environmentally viable, and is not aimed at increasing fisheries exploitation; and

(c) (i) for a proposed Sub-project under Part B.1 of the Project:
(A) the amount of the Grant approved for a Sub-project under Part B.1 of the Project in a Participating Village does not exceed \$20,000 equivalent, and (B) the total amount of all Grants approved for Sub-projects under Part B.1 of the Project in such Participating Village, when added to the amount of the Grant proposed to be made for the Sub-project, does not exceed \$40,000 equivalent; and

(ii) for a proposed Sub-project under Part B.2 of the Project:
(A) the amount of the Grant approved for a Sub-project under Part B.2 of the Project in a Participating Village does not exceed \$10,000, and (B) the total amount of all Grants approved for Sub-projects under Part B.2 of the Project in such Participating Village, when added to the amount of the Grant proposed to be made for the Sub-project, does not exceed \$20,000; (d) the Sub-project proposal has been publicly discussed among, and agreed to by, the villagers in the Participating Village under the coordination of the Kepala Desa and LKMD; and

(e) the Sub-project proposal has been furnished to the respective Camat for review and comments and has been approved by the Kecamatan Task Force.

3. The Borrower shall, through the relevant Pimpro, ensure that, prior to the carrying out of a Sub-project under Part B of the Project:

(a) for a Sub-project under Part B.1 of the Project, the field engineer shall have completed the technical review of such Sub-project; and for a Sub-project under Part B.2 of the Project the community development facilitator shall have completed the technical review of such Sub-project;

(b) the field engineer for a Sub-project under Part B.1 of the Project, and the community development facilitator, for a Sub-project under Part B.2 of the Project, shall have confirmed the following in respect of the said Sub-project:

(i) all requirements set forth in paragraph 2 of this Section 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 Guidelines for Implementation of Village Grants;

(iii) the Guidelines for Compensation and Resettlement have been complied with, and, if applicable, appropriate compensation arrangements have been completed as set forth under such Guidelines for Compensation and Resettlement and paragraph 5 below and are satisfactory to the Affected Persons;

(iv) necessary funding to finance fully the proposed Sub-project has been obtained, including a Grant and any voluntary contributions to be made by the respective Participating Village;

(v) an implementation plan for the Sub-project has been prepared in

accordance with the provisions of the Guidelines for
Implementation of Village Grants; and

(vi) a maintenance program for the works to be carried out under the Sub-project has been prepared in accordance with the Guidelines for Implementation of Village Grants, which shall include assignment of maintenance responsibilities in the respective Participating Village, the preparation of training programs to strengthen the maintenance capabilities of the Participating Village, and the identification of available sources of financing to carry out such programs.

4. In carrying out Part B of the Project, the Borrower shall prepare and issue Guidelines for Implementation of Village Grants, acceptable to the Bank, to assist the Participating Villages in the implementation of Part B of the Project, such Guidelines to include the description of, among others, procurement procedures and standard documentation, reporting requirements, the Project Performance Indicators, the Guidelines for Compensation and Resettlement, environmental criteria applicable to Sub-project design, maintenance provisions for works to be carried out under Sub-projects and criteria for the selection of Sub-projects; ensure that, until completion of the Project, the Guidelines are made available to Participating Villages and applied in the carrying out of Sub-projects; and periodically update the Guidelines, if needed, with the prior agreement of the Bank.

5. In carrying out Part B.1 of the Project:

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

(b) where the acquisition of land or assets or the displacement of villagers is unavoidable, 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; and

(c) in the event that 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 works, ensure that all Affected Persons shall have been compensated in accordance with the provisions of said plan as approved by the Bank.

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

(a) not later than June 30, 1999, prepare and issue Guidelines for Credits and Revolving Funds, acceptable to the Bank, such Guidelines to include the description of, among others, the terms and conditions of loans under Part A of the Project and the procedures for the establishment and maintenance of revolving funds; and periodically update the Guidelines, if needed, with the prior agreement of the Bank; and

(b) ensure that villages shall, where applicable, establish and maintain a revolving fund for purposes of activities under Parts A and B.2 of the Project, in accordance with the provisions set forth in the Guidelines for Credits and Revolving Funds.

7. The Borrower shall acquire any land required for purposes of Parts C and D of the Project, in accordance with procedures acceptable to the Bank.

8. In accordance with the Borrower's commitment to the protection of the interests of Isolated Vulnerable People, the Borrower shall take measures to:

(a) avoid adverse effects on Isolated Vulnerable People caused or likely to be caused by the Project; and

(b) through a process of informed participation, involve concerned Isolated Vulnerable People in the design and implementation of Project activities 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.

9. 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 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about April 30, 2001, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 2001, 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.

10. In carrying out Part C.2 (a), (b) and (d) of the Project, the Borrower shall prepare, and furnish to the Bank, management and staffing plans for the BIPPs, BPPs and POSKESWAN, acceptable to the Bank.

11. In carrying out Part C.4 (a) of the Project, the Borrower shall furnish to the Bank for approval the results of the fisheries and marine resource profiles, infrastructure recommendations and the proposed management plans.

12. The Borrower shall, not later than August 1, 1998, employ the consultants required for the carrying out of Part E of the Project.

13. In carrying out Parts A, B, and C of the Project, the Borrower shall, not later than August 1, 1998, furnish to the Bank for comments a Project information dissemination plan.

14. The Borrower shall carry out the training under Parts A, B, C and E of the Project in accordance with a training program agreed with the Bank.

15. The Borrower shall provide the vehicles required under Part A, B, C.2, C.3, C.5 and E of the Project in accordance with a schedule agreed with the Bank.

SCHEDULE 6

Project Performance Indicators Project Component Performance Indicator

Part A: Tree Crops Development

Hectares of new tree crops planted, and Hectares replanted with coconut or intensified with coffee intercropping.

By Mid-term: 3,000 hectares
By Completion: 7,500 hectares

Part B: Community Development Number of Infrastructure Sub-projects completed.

Number of Income-Generation Enterprises in operation.

By Mid-term: 75 grants for infrastructure and
75 for income generation

By Completion: at least 200 grants for infra-structure and 200 for income generation have been awarded

Part C: Support Services for By Mid-term:

The marketing unit has been Agriculture and Fisheries established, and processing demonstrations have been conducted in 20 locations and are operational.

Each BIPP has managed training for extension personnel totaling 370 person days. All POSKESWAN are operational. Completion of fishery resource profiles. Rice seed farms for planting 2,500 hectares per year have been established. About 250 farmer seed growers have been trained.

By Completion: Agricultural and processing demonstrations have been established in 35 villages. All BIPP (3), BPP (10) and POSKESWAN (7) facilities are staffed and operational.

Fisheries landing sites have been constructed if recommended by the studies. Rice seed farms are able to provide seed for at least 6,000 hectares. About 500 farmer seed growers have been trained.

Part D: Sea Transportation and By Mid-term: Construction of two dock On-Shore Facilities extensions and at least one new dock. By Completion: All dock extensions, new docks and on-shore facilities constructed.

Part E: Project Management, By Mid-term: Completion of Baseline Survey Coordination, Monitoring and Project Information Dissemination Plan. All and Evaluation consultants have been employed. All Kecamatan maps have been completed and the Data Book has been published. By Completion: All evaluation studies have been finalized.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (8) 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 \$1,300,000 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 \$650,000 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 \$2,600,000.

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

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

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

Bank such outstanding amount.

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

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

