

August 30, 2001

His Excellency
DR. Boediono
Minister of Finance
Ministry of Finance
Jakarta, Indonesia

Dear Mr. Minister:

Re: Netherlands Grant for the Water Resources
and Irrigation Reform Implementation Program
Grant Number TF-027755

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) to indicate the Bank's agreement, as administrator of grant funds provided by the Netherlands, to make a grant in an amount not exceeding nine million seven hundred thousand United States dollars (US\$9,700,000) (the Grant) to the Republic of Indonesia (the Recipient).

The Grant is made in response to the Recipient's request for financial assistance and for the purposes and on the terms and conditions set forth in the Annex to this Letter Agreement. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said purposes and on the said terms and conditions.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter Agreement. This Letter Agreement will become effective upon receipt by the Bank of: (i) the copy of this Letter Agreement countersigned by you, (ii) notification that the Project Manual has been issued; and (iii) notification that the Land Acquisition and Resettlement Guidelines have been adopted.

Very truly yours,

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Mark Baird
Director, Indonesia

AGREED:

REPUBLIC OF INDONESIA

By /s/ Dr. Boediono
Minister of Finance

Date: August 30, 2001

ANNEX

Objectives, Terms, and Conditions of the Grant

1. Description of the Project

1.1. The objective of the Project is to assist the Recipient in (i) improving irrigation performance by the implementation of new national and provincial policies and related regulations on irrigation, and the establishment of related institutions; and (ii) improving the organizational framework for integrated river basin management at the provincial and local levels.

1.2. The Project consists of the following Parts, each of which includes the following activities (the Activities):

Part A: River Basin Water Resources Planning

1. Establishment of basin management plans for the Ciliwung/Cisadane river basin in the provinces of Banten, D.K.I. Jakarta and West Java, and the Jratunseluna river basin in the province of Central Java, and carrying out of preparatory activities for the administration of said plans, through the provision of technical assistance.
2. Provision of training in river basin planning and management to staff of the Planning Unit of the Public Works Department or the Water Resources Department, as applicable, in each of the provinces of Central Java and West Java and to the staff of the Planning Unit of the Directorate General of Water Resources of Kimpraswil.
3. Strengthening the Planning Unit of the Public Works Department or the Water Resources Department, as applicable, in each of the provinces of Central Java and West Java and the Planning Unit of the Directorate General of Water Resources of Kimpraswil, through the provision of goods and technical assistance.
4. Provision of training in river basin planning and management to provincial staff in the provinces of Banten, East Java, East Nusa Tenggara, North Sumatera, South Sulawesi, South Sumatera and West Sumatera.

Part B: River Basin Water Resources Management

1. Establishment of Balai PSDAs, PTPAs and PPTPAs in the provinces of East Nusa Tenggara, South Sulawesi, South Sumatera and West Sumatera, through the provision of technical assistance.
2. Strengthening of Balai PSDAs, PTPAs, PPTPA, and Hydrological Units of the Provincial Public Works Departments or the Water Resources Departments, as applicable, in the provinces of East Nusa Tenggara, Lampung, North Sumatera, South Sulawesi, South Sumatera and West Sumatera, through the provision of goods and technical assistance.
3. Carrying out of repairs and minor rehabilitation works of rivers and river infrastructure by the Balais PSDA in the provinces of East Nusa Tenggara, Lampung, North Sumatera, South Sulawesi, South Sumatera and West Sumatera.
4. Carrying out of studies, as agreed between the Recipient and the Bank, relating to basin water resources management.

Part C: Irrigation Management Reform Implementation

1. Empowerment of Water User Associations through the establishment of WUAFs in the provinces of Banten, Central Java, Central Sulawesi, D.I. Aceh, D.I. Yogyakarta, East Java, East Nusa Tenggara, Lampung, North Sumatera, South Sulawesi, South Sumatera, West Java and West Sumatera, and the provision of technical assistance by Community Organizers and the provision of training.
2. Establishment of demand-based matching grant funds at the Kabupaten level (Kabupaten Irrigation Improvement Fund), including financing procedures, for purposes of irrigation investments by WUAFs in the provinces of Banten, Central Java, Central Sulawesi, D.I. Aceh, D.I. Yogyakarta, East Java, East Nusa Tenggara, Lampung, North Sumatera, South Sulawesi, South Sumatera, West Java and West Sumatera, through the provision of technical assistance.
3. Carrying out of repairs and minor rehabilitation works of irrigation systems by WUAFs, with the support of the relevant Kabupaten DINAS PUP, in the provinces of Banten, Central Java, Central Sulawesi, D.I. Aceh, D.I. Yogyakarta, East Java, East Nusa Tenggara, Lampung, North Sumatera, South Sulawesi, South Sumatera, West Java and West Sumatera.
4. Strengthening WUAFs and local governments to stimulate gender-responsive irrigation and water management project design, through the provision of technical assistance.
5. Strengthening the Dinas PUP in the Participating Provinces in the provision of overall quality management, and in the implementation of the new policies and regulations relating to the Recipient's national water resources sector reform program, through the provision of technical assistance.
6. Strengthening the provincial and Kabupaten BAPPEDAs in the Participating Provinces in providing empowerment to WUAFs for its institution and capacity

building, and in the implementation of the new policies and regulations relating to the Recipient's national water resources sector reform program, through the provision of technical assistance.

Part D: Quality Assurance

Strengthening technical implementation quality assurance of Kabupaten Dinas PUPs in the provinces of Banten, Central Java, Central Sulawesi, D.I. Aceh, D.I. Yogyakarta, East Java, East Nusa Tenggara, Lampung, North Sumatera, South Sulawesi, South Sumatera, West Java and West Sumatera, through the provision of training to the WUA members, staff of the provincial and Kabupaten Dinas PUPs and the relevant staff of Kimpraswil, and the provision of technical assistance to WUAFs, and provincial and Kabupaten Dinas PUPs.

Part E: Preparation of a National Water Resources Management Program

Carrying out of studies and preparation of project designs for the Recipient's proposed National Water Resources Management Program, in accordance with the Recipient's national water resources sector reform program under the Recipient's Water Sector Adjustment Loan.

1.3. For purposes of this Letter Agreement the following terms, wherever used in this Letter Agreement, have the following meanings:

(a) "Affected Persons" means persons who, on account of the execution of an Activity, had or would have their: (i) standard of living adversely affected; or (ii) right, title, 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; (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected; and "Affected Person" means individually all those who qualify as Affected Persons;

(b) "Annual Work Program" means the program of the Central, Provincial and Kabupaten Dinas PUP or equivalent, pertaining to the scheduling and specification of the activities to be funded under the Project;

(c) "APBD" means the budget of a local government;

(d) "Balai PSDA" means a Basin Water Resources Management Unit;

(e) "BAPPEDA" means the Recipient's regional Development Planning Agency at the provincial and Kabupaten level;

(f) "BAPPENAS" means the Recipient's National Development Planning Agency;

(g) "Community Organizers" means persons with (i) expertise in the facilitation and development of initiatives among or within local communities, and (ii) familiarity of local or regional cultural and social economic characteristics;

(h) "Dinas PUP" means a Public Works Department or a Water Management Department at the provincial and Kabupaten level;

(i) "Fiscal Year" means the Recipient's fiscal year starting January 1 and ending December 31;

(j) "Kabupaten" means a district;

(k) "Kimpraswil" means the Recipient's Ministry of Settlements and Regional Infrastructure;

(l) "Land Acquisition and Resettlement Guidelines" means the Guidelines adopted by the Recipient, acceptable to the Bank, for the provision of compensation, rehabilitation and resettlement assistance to Affected Persons, as such Guidelines may be amended from time to time in agreement with the Bank;

(m) "Participating Provinces" means the Recipient's provinces of Banten, Central Java, Central Sulawesi, D.I. Aceh, D.I. Yogyakarta, East Java, East Nusa Tenggara, Lampung, North Sumatera, South Sulawesi, South Sumatera, West Java and West Sumatera;

(n) "Perda" means a regional regulation;

(o) "Project Manual" means the manual to assist the Provincial and Kabupaten Dinas PUP, the WUAs and the WUAFs in the implementation of the Activities, as such Project Manual may be amended from time to time with the agreement of the Bank;

(p) "PPI" means the principles and implementation arrangements for the transfer of governance and management responsibilities of tertiary, secondary and primary irrigation schemes from local or national government to the WUAs set forth in the Recipient's Inpres 3/99, as such Inpres may be amended from time to time;

(q) "PTPA" means a provincial water coordination committee with stakeholder involvement;

(r) "PPTPA" means a river basin water coordination committee with stakeholder involvement;

(s) "WUA" means a Water Users Association, an autonomous association of irrigators and other water users in a specific irrigation scheme, disposing of accounts and empowered to raise and retain revenue, and having a representative leadership; and

(t) "WUAF" means a federated or aggregated group of Water Users Associations.

2. Implementation Generally

2.1. The Recipient shall: (a) carry out Parts A, B, C.5 and D of the Project through Kimpraswil; Part C.1 to C.4 of the Project through Dinas PUP; Part C.6 of the Project through its Ministry of Home Affairs; and Part E of the Project jointly through Kimpraswil and its Ministry of Home Affairs, and with the assistance of other agencies as agreed between the Recipient and the Bank; all with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that purpose; (c) furnish all information covering the Project and the use of the proceeds of the Grant as the Bank shall reasonably request; (d) from time to time exchange views with the Bank's representatives on the progress and results of the Project; and (e) take all necessary measures required to enable the Bank to visit the territory of the Republic of Indonesia for purposes related to the Grant. Without limitation on the foregoing, the Recipient shall, if the Bank shall so request, prepare and furnish to the Bank promptly upon completion of the Project a report, in form and substance satisfactory to the Bank, on the results and impact of the Project.

2.2. The Recipient shall cause BAPPENAS to carry out the overall coordination of the Activities, and the monitoring of the implementation of the Activities so as to ensure compatibility with the Recipient's medium-term water resources and irrigation sector reform policies.

2.3. The Recipient shall adopt and, thereafter, apply and cause the WUAs participating in the Project to apply, in the implementation of the Activities, the Project Manual, acceptable to the Bank, which shall include the description of: (i) implementation arrangements, (ii) the procurement procedures set forth in Attachment I to this Annex and standard procurement documentation, (iii) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of this Annex; (iv) the Project Performance Indicators set forth in Attachment III of this Annex; and (v) the Land Acquisition and Resettlement Guidelines.

2.4. The Recipient shall maintain until the completion of the Project, the Technical Teams in Kimpraswil and the Ministry of Home Affairs, responsible for the day-to-day management of the Project, with competent staff in adequate numbers, all with terms of reference, qualification and experience acceptable to the Bank.

2.5. The Recipient shall appoint Project Managers with terms of reference, qualification and experience acceptable to the Bank.

2.6. In carrying out the Activities under paragraph 1.2 of the Annex, the Recipient shall cause the Central, Provincial and Kabupaten Governments participating in the Project to:

(a) prepare and furnish to the Bank for comments, not later than November 30 in each year, commencing November 30, 2001, an Annual Work Plan for the following Fiscal Year which shall include:

(i) a detailed description of the location and the activities to be undertaken (including timelines and Gantt charts) during such

Fiscal Year for each Part of the Activities;

- (ii) the proposed budget allocation for each line item activity pertaining to each sub-component; and
- (iii) a breakdown of the amounts for each line item to be financed from the Grant proceeds and the corresponding amount of counterpart funding to be provided from either national, provincial or Kabupaten fiscal sources; and

(b) thereafter, carry out the Annual Work Program taking into account the comments of the Bank thereon, including allocation of the counterpart funding from local revenues or from national fiscal transfers.

2.7. In carrying out the Activities under paragraph 1.2, Part A, of the Annex, the Recipient shall ensure that the planning activities by provincial governments include:

- (a) the use of public consultation procedures in plan formulation;
- (b) preparation of a Basin Water Resources Management Plan which includes institutional and financing issues; and
- (c) review of the plans by the PPTPA and PTPA or equivalent institutions, that shall represent the stakeholders.

2.8. In carrying out the Activities under paragraph 1.2, Part B, of the Annex, the Recipient shall ensure that the following eligibility criteria are applied for the financing of the Activities:

- (a) a Perda has been enacted for the establishment of Balai PSDA;
- (b) Balai PSDA staff and managers have been trained, or have been selected to be trained, in river basin planning and management;
- (c) the relevant Province has made provision for the use of APBD resources for the financing of the staff and the basic operation of its Balai PSDA; and
- (d) Balai PSDA chiefs (i) have been designated as project managers with spending authority; or (ii) function as agents with executive power, in order to facilitate planning, programming and budgeting in line with the Annual Work Plan.

2.9. In carrying out the Activities under paragraph 1.2, Part C, of the Annex, the Recipient shall ensure that the following eligibility criteria are applied for the financing of the Activities:

- (a) the PPI principles as set out in the Recipient's Inpres 3/99, as such Inpres may be amended from time to time, and any regulation superceding Inpres 3/99, shall applied;
- (b) the PPI implementation arrangements set out in the Recipient's manuals for the Recipient's Java Irrigation Improvement and Water Management Project shall apply;
- (c) operation and maintenance expenditures for irrigation schemes shall be funded in part by Kabupaten APBD resources transferred to the account of scheme-level WUAFs to which irrigation governance responsibilities have been transferred; such funds to be matched with the WUAF's contribution;
- (d) the procedures for the Kabupaten irrigation improvement fund as set out in the Project Manual shall apply; and
- (e) a Kabupaten Irrigation Working Group has been established.

2.10. In carrying out the Activities under paragraph 1.2, Part D, of the Annex, the Recipient shall ensure that the following eligibility criteria are applied for the financing of the Activities:

- (a) the provincial Dinas PUP has established a core team for the implementation of the quality assurance training of the Provincial and Kabupaten staff of the respective Dinas PUP;
- (b) the principles and procedures set out in the Recipient's manuals for the

Recipient's Java Irrigation Improvement and Water Management Project have been adopted for implementation of these Activities; and

(c) the Kabupaten has prepared an action program for the training of its staff, and at least three quality assurance plans for the preparation and implementation of works.

2.11. The Recipient shall cause the training components under paragraph 1.2 of the Annex to be carried out in accordance with a training program acceptable to the Bank.

2.12. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Attachment III to this Annex, 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 August 1, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by August 31, 2002, or such later date as the Bank shall request, the report referred to in sub-paragraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

3. Procurement

3.1. 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 Grant shall be governed by the provisions of Attachment I to this Annex.

3.2. The Recipient shall ensure that all imported goods to be financed out of the proceeds of the Grant shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and that any indemnity for such insurance is payable in a freely usable currency to replace or repair such goods. The Recipient shall ensure that any facilities relevant to the Project are at all times operated and maintained in accordance with appropriate practices and that any repairs or renewals of such facilities are promptly made as needed.

4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account opened by the Bank on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient in accordance with the provisions of this Section 4, for expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Grant.

4.2. The expenditures for the following Categories of items may be financed out of the proceeds of the Grant and shall be used exclusively in the carrying out of the Project:

Category	Amount of the Grant Allocated (in United States Dollars)	% of Expenditures to be Financed
(1) Civil Works		80%
(a) Part B.3 of the Project	200,000	
(b) Part C.3 of the Project	800,000	
(2) Goods	300,000	100% of foreign expenditures, 100% of local

and		expenditures, (ex-factory cost)	
for		65% of local expenditures	
		other items procured locally	
(3)	Incremental operating costs and training	4,020,000	90%
(4)	Consultants' services for:		
	(a) Part C of the Project	1,740,000	100%
	(b) Parts A,B,D and E of the Project	2,640,000	95%
	TOTAL	9,700,000	

For purposes of this paragraph:

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

(b) the term "local expenditures" means any expenditures that are not foreign expenditures; and

(c) the term "incremental operating costs" means reasonable expenditures incurred by the Recipient's executing agencies for staff travel, per diems, transportation, communications, consumables, and labor costs, but excluding staff salaries (which expenditures would not have been incurred absent the Project).

4.3. Notwithstanding the provisions of paragraph 4.2 above:

(a) no withdrawals shall be made from the Grant Account: (i) for payments made for expenditures prior to the date of signature of this Letter Agreement by the Bank, except that withdrawals, in an aggregate amount not exceeding US\$100,000, may be made on account of payments made for expenditures before that date but after June 1, 2001; (ii) for payments made for expenditures under Category 1 (b) unless and until the Recipient has adopted the Guidelines for the Kabupaten irrigation improvement fund (Pedoman Pengelolaan Dana Irigasi Kabupaten) acceptable to the Bank; (iii) on account of payments for any taxes levied by or in the territory of the Recipient; (iv) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in or works and services supplied from such territories; or (v) for the purpose of any payment to persons or entities, or for any import of goods or works, if such payment or import, to the Bank's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations;

(b) no withdrawals shall be made from the Grant Account after May 31, 2003, or such later date that the Bank shall establish by notice to the Recipient (the Closing Date); and

(c) if, in the Bank's opinion, an amount of the Grant allocated to any of the items in the table in paragraph 4.2 above will be insufficient to finance the expenditures for such item, the Bank may, by written notice to the Recipient, reallocate to such item an amount of the Grant then allocated to another item which, in the Bank's opinion, will not be necessary to meet other expenditures.

4.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to the Bank a written application for withdrawal of such amount in the form specified by the Bank. Withdrawal applications shall be: (a) signed on behalf of the Recipient by the Director General of Budget or such other person as he or she shall have authorized in writing; and (b) accompanied by such evidence in support of the application as the Bank shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy the Bank that the Recipient is entitled to withdraw

such amount from the Grant Account and that such amount is to be used in the carrying out of the Project. The Bank shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.5. The Bank may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for (i) civil works contracts; (ii) contracts for goods; (iii) incremental operating costs; (iv) training; and (v) contracts for the employment of consulting firms valued at less than US\$100,000 equivalent each and contracts for the employment of individuals and Community Organizers valued at less than US\$50,000 equivalent each; all under such terms and conditions as the Bank shall specify by notice to the Recipient.

4.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. The Bank, at the Recipient's request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Bank.

4.7. To facilitate the carrying out of the Project, the Recipient may open and maintain in United States dollars a special deposit account (the Special 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 or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Attachment II to this Annex.

5. Accounts and Audits

5.1. (a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare quarterly financial statements in a format acceptable to the Bank, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the Project.

(b) The Recipient shall: (i) have the records, accounts and financial statements referred to in subparagraph (a) above and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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, and concerning said auditors, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) maintain or cause to be maintained, in accordance with subparagraph (a) above, 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 Grant 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 subparagraph (b) above 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.

6. Suspension and Cancellation

6.1. The Bank may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) the Recipient has failed to comply with any of its obligations herein specified; or (b) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Republic of Indonesia, to make withdrawals under any loan agreement with the Bank or any

development credit agreement with the International Development Association shall have been suspended.

6.2. The Bank may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account: (a) at any time after the right of the Recipient to make withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to the Bank, within six months after the effective date hereof, to carry out the Project.

Attachment I

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 the "Guidelines for Procurement under IBRD Loans and IDA Credits" (the Guidelines) published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost \$20,000 equivalent or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and in accordance with the provisions of the Appendix to this Attachment.

(b) Except as provided in paragraph 3 of this Part, works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines and in accordance with the provisions of the Appendix to this Attachment.

2. National Shopping

Goods estimated to cost less than \$20,000 equivalent per contract 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

Works required for Activities under paragraph 1.2, Part C, of the Annex and to be carried out by Water User Associations, shall be procured in accordance with procedures acceptable to the Bank.

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. Post Review

With respect to each contract the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Consultants' Services

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 and January 1999 (the Consultant Guidelines), and the following provisions of this Section I.

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 paragraph 1.2, Part E of the Annex, estimated to cost less than US\$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. Selection Based on Consultants' Qualifications

Services under paragraph 1.2, Parts B, C and D, of the Annex estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services under paragraph 1.2, Part A, of the Annex estimated to cost less than US\$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.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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 US\$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 US\$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 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.

National Competitive Bidding Procedures

1. General

The procedures to be followed for national competitive bidding under Schedule 3 to the Development Credit Agreement shall be those set forth in Presidential Decree No. 18/2000 of the Republic of Indonesia with the clarifications set forth in the following paragraphs required for compliance with the provisions of the "Guidelines for Procurement under IBRD Loans and IDA Credits" (the Guidelines).

2. Registration

(a) Bidding shall not be restricted to pre-registered firms.

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

3. Pre-qualification

When pre-qualification shall be required for large or complex works (not for simple goods and works):

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

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

4. Joint Ventures

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

5. Preferences

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

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

6. Advertising

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

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

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

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

7. Bid Security

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

8. Bid Opening and Bid Evaluation

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

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

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

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

9. Rejection of Bids

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

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

Attachment II

Special Account

1. For the purposes of this Attachment:

(a) the term "eligible Categories" means the Categories set forth in the table in paragraph 4.2 of the Annex to this Letter Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Activities of the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of paragraph 4.2 of the Annex to this Letter Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to US\$1,600,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Attachment.

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

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) The Recipient shall furnish to the Bank a request or requests for a deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

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

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

4. For each payment made by the Recipient out of the Special Account, the Recipient

shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account;

(b) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in paragraph 5.1 (b) (ii) of the Annex to this Letter Agreement, any of the audit reports required to be furnished to the Bank pursuant to said paragraph in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 6.1 of the Annex to this Letter Agreement; or

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

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

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

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

Attachment III

Performance Indicators

Part A Activities

(a) By closing date, two basin water resources management plans, with exhaustive reviews for addressing the management aspects of their implementation (including notably operation and maintenance, administration and personnel aspects), one for the Ciliwung/Cisadane basin, bearing out its to Jabotabek regional planning (Provinces of Banten, West Java, and D.K.I. Jakarta), and one in Jratunseluna (Province of Central Java).

(b) By closing date, training, both formal and hands-on, provided to 150 staff of Planning Units in Provincial Dinas PUPs of the provinces of West Sumatera, South Sumatera, Lampung, South Sulawesi, Banten and East Java.

Part B Activities

i. By mid-term review (i) on average, three Basin Water Resources Management Units (Balai PSDA) established and operational per province in the provinces of West and South Sumatera, South Sulawesi and East Nusa Tenggara, (ii) per province, one Provincial Water Resources Committees (PTPA) and at least three Basin Water Resources Committees (PPTPA) established and operational in the provinces of West and South Sumatera, South Sulawesi and East Nusa Tenggara, and (iii) Balai and Provincial

Hydrological Unit as well as PTPA and PPTPA in the provinces of North Sumatera and Lampung strengthened.

ii. By closing date, the Balais and Provincial Hydrological Units as well as PTPAs and PPTPAs strengthened in all selected provinces outside Java.

Part C Activities

(a) By closing date, per Kabupaten, on average six WUAFs established and operational, as independent and autonomous entities, with own bank account and revenue generation and retaining authority, and with a leadership that is representative of its members.

(b) By closing date, Kabupaten Irrigation Improvement Fund introduced and made operational in all Kabupaten that meet the criteria for accession to the Kabupaten Irrigation Improvement Fund.

(c) By closing date, transparent procedures applied in decision making in planning, water allocation, and funds management.

Part D Activities

(a) By closing date, technical assistance provided in the selected provinces to the provincial and Kabupaten Dinas PUPs and the selected staff in Kimpraswil, and 350 staff trained.

(b) By closing date, three quality assurance plans for works established in each Kabupaten.

Part E Activities

By mid-term review, preparation and design for the proposed National Water Resources Management Project completed.

