Public Disclosure Authorized

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3519 IND

Development Credit Agreement

(Western Java Environmental Management Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 30, 2001

CREDIT NUMBER 3519 IND

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 30, 2001, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower dated May 15, 2001, describing a program designed to enhance the environmental quality, human health, and economic productivity of the Borrower's Provinces of Banten, DKI Jakarta and Jawa Barat through the provision of assistance to local governments for the development of local environmental agendas, pollution reduction, methane generation reduction, and improved municipal services (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) the Borrower has requested that the Association support the Borrower's execution of the Program through a series of credits over a period of approximately ten years to be utilized by the Borrower in the implementation of the Program;

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

(D) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to eleven million seven hundred thousand Dollars

($11,700,000) (the Loan);

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

(F) the Borrower has requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of the Project, the Bank has determined that such assistance would be in accordance with the provisions of Resolution No. 94-2 of the Executive Directors of the Bank, dated May 24, 1994, establishing the GEF Trust Fund, and, by an agreement of even date herewith between the Borrower and the Bank, acting as an Implementing Agency of the GEF (the GEF Grant Agreement), GEF is agreeing to provide such assistance in an aggregate principal amount equivalent to two million Special Drawing Rights (SDR 2,000,000) (the GEF Grant); and

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

NOW THEREFORE the parties hereto hereby agree as follows;

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries.";

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."; and

(c) paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

Section 1.02. Unless the context otherwise requires, the several terms defined

in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "AMDAL" means Analisis Mengenai Dampak Lingkungan, the Borrower's national procedures for the preparation of environmental impact assessment, including mitigation and monitoring measures established by Government Regulation No. 27 of 1999, of the Borrower;

(b) "BAPPENAS" means the Borrower's National Development Planning Agency;

(c) "BAPEDA" means the Provincial Planning Agency in the Borrower's Participating Province of Jawa Barat;

(d) "BAPPEDA" means the Provincial, Kabupaten and Kota Development Planning Agency in the Borrower's Participating Provinces of Banten and DKI Jakarta; and the Kabupaten and Kota Development Planning Agency in the Borrower's Participating Province of Jawa Barat;

(e) "BAPEDAL" means the Borrower's National Environmental Impact Management Agency;

(f) "BAPEDALDA" means the Provincial Environmental Impact Management Agency;

(g) "Bupati" means the chief executive of a Kabupaten;

(h) "Central Program Support Unit" means the unit established in the Borrower's Directorate General of Urban and Rural Development in the Ministry of Settlements and Regional Infrastructure to coordinate the implementation of the Program;

(i) "DPRD" means the provincial council of a Province and the local council of a Kabupaten and Kota;

(j) "Environmental Forum" means a forum established by a Participating Local Government consisting of a group of residents of a Kabupaten or Kota, interested in local environmental issues;

(k) "Fiscal Year" and "FY" mean the Borrower's fiscal year commencing January 1 and ending December 31;

(l) "Grantee" means a person or an entity carrying out activities under Part B.4 of the Project;

(m) "Kabupaten" means a district;

(n) "Kota" means a municipality;

(o) "Land Acquisition and Resettlement Guidelines" means the framework issued by a Participating Local Government describing procedural and institutional aspects pertaining to land acquisition and the resettlement, rehabilitation and compensation of Project Affected Persons under the Project, as such Guidelines may be amended from time to time in agreement with the Association;

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

(q) "Local Program Support Unit" means the unit established in the BAPEDA or BAPPEDA in each participating Kabupaten and Kota to manage the Project components carried out by such Kabupaten and Kota;

(r) "Memorandum of Understandings" means the memorandum of understandings entered into between the Borrower and each of the Participating Local Governments in accordance with Section 6.01 (c) of this Agreement;

(s) "Participating Local Government" means a Kabupaten, Kota or a Province whose DPRD has passed a resolution agreeing to its participation in the Project and

whose chief executive has entered into a Memorandum of Understandings with the Borrower’s Ministry of Settlements and Regional Infrastructure;

(t) "Participating Provinces" means the Borrower’s provinces of Banten, DKI Jakarta and Jawa Barat;

(u) "Project Affected Persons" means persons who, on account of the execution of Part D of the Project, had or would have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, work or place of residence or habitat adversely affected, and "Project Affected Person" means individually all those who qualify as Project Affected Persons;

(v) "Project Coordination and Review Committee" means the committee established to coordinate and annually review the Project on the basis of the reports prepared by the Central Program Support Unit;

(w) "Project Management Manual" means the manual to assist the Central, Provincial and Local Governments’ Project staff in the implementation of the Project through the description of, inter alia, procurement procedures (including the letter on national competitive bidding procedures) and standard documentation, reporting requirements, financial management procedures including audit procedures, the Project Performance Indicators, and environmental criteria applicable to Project and Sub-project design, as such Project Management Manual may be amended from time to time in agreement with the Association;

(x) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(y) "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;

(z) "Provincial Program Support Unit" means the unit established in the BAPEDALDA of Jawa Barat and in the BAPPEDA of Banten and DKI Jakarta to manage the Project components carried out by such Participating Province;

(aa) "Resettlement Action Plan" means a resettlement and rehabilitation action plan to be prepared by a Participating Local Government pursuant to the Land Acquisition and Resettlement Guidelines;

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

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

(dd) "State of the Environment Report" means the annual report prepared by a Participating Local Government as required by BAPEDAL;

(ee) "Sub-grant" means a grant made available by the Borrower out of the proceeds of the GEF Grant to a Grantee for purposes of Part B.4 of the Project;

(ff) "Sub-project" means a specific public environmental improvement investment project under Part D of the Project;

(gg) "Subsidiary Loan" means a loan made or proposed to be made by the Borrower to a Participating Local Government under a Subsidiary Loan Agreement for a Sub-project;

(hh) "Subsidiary Loan Agreement" and "SLA" mean the agreement to be entered into between the Borrower, represented by MOF, and a Participating Local Government pursuant to Section 3.02 of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and "Subsidiary Loan Agreements" and "SLAs" mean all such Subsidiary Loan Agreements;

(ii) "UKL/UPL" means the environmental management and monitoring plans prepared by each Participating Local Government in accordance with the Borrower's national guidelines for environmental assessment and mitigation established by Government Regulation No. 27 of 1999 of the Borrower; and

(jj) "Walikota" means the chief executive of a Kota.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to four million six hundred thousand Special Drawing Rights (SDR 4,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project (except Parts B.3, B.4 and B.5 of the Project) and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project (except Parts B.3, B.4 and B.5 of the Project) open and maintain in dollars a special deposit account in Bank Indonesia (its Central Bank) or in a state commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, 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 6 to this Agreement.

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

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (½ of 1%) per annum.

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semi-annually on May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each May 1 and November 1 commencing November 1, 2011, and ending May 1, 2036. Each installment to and including the installment payable on May 1, 2021, shall be one and one-fourth percent (1 1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2 1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower

creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semi-annual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the Directorate General of Urban and Rural Development of its Ministry of Settlements and Regional Infrastructure with due diligence and efficiency and in conformity with appropriate administrative, engineering, environmental and financial practices, and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. (a) The Borrower shall make available out of the proceeds of the Credit the amounts allocated from time to time to Category (1) of the table in paragraph 1 of Schedule 1 to this Agreement to selected Participating Local Governments under Subsidiary Loan Agreements to be entered into between the Borrower and the selected Participating Local Governments, under terms and conditions which shall have been approved by the Association.

(b) The Borrower shall make available out of the proceeds of the Credit to the Participating Local Governments, on a grant basis, the amount allocated from time to time to Category (2) of the table in paragraph 1 of Schedule 1 to this Agreement, in accordance with conditions which shall have been approved by the Association.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.03. Except as the Association shall otherwise agree, procurement of

the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association 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 Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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

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

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association'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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than January 31, 2002, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) an event shall have occurred which shall make it improbable that the Program or a significant part thereof will be carried out; and

(b) (i) subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

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

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

(c) that each Participating Local Government has passed a resolution supporting its participation in the Project, including an agreement to public consultation on environmental indicators and targets, and reporting mechanisms for annual progress on these targets;

(d) that each Participating Local Government has entered into a Memorandum of Understandings with the Borrower's Ministry of Settlements and Regional Infrastructure, acceptable to the Association, based on the resolution in paragraph (c) of this Section, and covering the period until Project completion;

(e) that the Central Program Support Unit has been established in accordance with paragraph 1 of Schedule 4 to this Agreement;

(f) that the members of the Project Coordination and Review Committee have been selected in accordance with paragraph 2 of Schedule 4 to this Agreement;

(g) that the Provincial Program Support Units have been established in accordance with paragraph 3 of Schedule 4 to this Agreement;

(h) that the Local Program Support Units have been established in accordance with paragraph 4 of Schedule 4 to this Agreement; and

(i) that the Project Management Manual, acceptable to the Association, has been issued.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. 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:	Telex:	Facsimile:
FINMINISTRY Jakarta	45799 DJMLN-IA 44319 DEPKEU-IA	(21) 381 2859

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS	248423 (MCI) or	(202) 477-6391
Washington, D.C.	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 Jakarta, Republic of Indonesia, as of the day and year first above written.

REPUBLIC OF INDONESIA

By /s/ H.E. DR. Boediono
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mark Baird
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Loan Allocated (Expressed in dollars)	% of Expenditures to be Financed
(1) Civil works and goods (including specialized trucks but excluding all other vehicles) for Sub-projects financed under SLAs		5,600,000	90%
(2) Consultants' services (except Part B.3 and B.5 of the Project)	4,600,000	5,983,000	100%
(3) Fee		117,000	

TOTAL	4,600,000	11,700,000

2. 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 under Category (1) with respect to expenditures incurred under a Sub-project, unless: (i) the relevant Participating Local Government has issued Land Acquisition and Resettlement Guidelines, acceptable to the Association; (ii) the Sub-project has been selected in accordance with the criteria described under paragraph 10 (b) of Schedule 4 to this Agreement; (iii) the Association has approved the terms and conditions of the Subsidiary Loan; and (iv) where applicable, the implementation of the Resettlement Action Plan and the AMDAL requirements have been found acceptable to the Association.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (i) contracts for goods and works costing less than $100,000 equivalent each; (ii) contracts for the employment of consulting firms valued at less than $100,000 equivalent each; and (iii) contracts for the employment of individual consultants valued at less than $50,000 equivalent each, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in implementing the Program by providing assistance to Participating Local Governments for the preparation of local environmental agendas to reduce local environmental degradation in the Participating Local Governments through improved infrastructure services and the strengthening of the overall management skills of Participating Local Governments.

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

Part A: Overall Urban Environmental Management

1. Development of provincial and local environmental strategies and medium- and long-term environmental action plans for Participating Local Governments.

2. Development of a strategic plan and a detailed action plan for the collection, transportation and disposal of medical waste for Participating Local Governments.

3. Strengthening of the Central Program Support Unit, the Provincial Program Support Units and the Local Program Support Units through the provision of staff training and management and technical advisory services, and provision of training to environmental groups.

4. Development and implementation of an environmental awareness program for Participating Local Governments.

5. Carrying out of a review of the curriculum for environmental education in the school system in the Participating Provinces, and implementation of improvements to such curriculum.

6. Preparation of an emergency response plan for large scale industries for Kota Cilegon and Kabupaten Serang.

7. Carrying out of a feasibility study and detailed engineering design for the

treatment of waste water discharges and improvement of the oxidation pool in Kesenden in Kota Cirebon.

8. Carrying out of a study for the normalization and the development of the lakes in Kota Depok.

9. Preparation of a sanitation and sewerage scheme to improve the quality of the Cikapundung river in Kota Bandung.

10. Carrying out of a feasibility study and detailed engineering design for a wastewater treatment plant in Kota Tangerang.

Part B: Solid Waste Management

1. Development of the organizational structure and establishment of the proposed Jabotabek and the Greater Bandung Waste Management Corporations.

2. Preparation of feasibility studies for landfills and preparation of waste management plans, including environmental impact assessments and remedial plans for Kota Cirebon and Kabupaten Serang.

3. Development of a compost production and marketing system, including design and establishment of a program to foster good quality compost production under Part B.4 of the Project, and carrying out of a marketing plan and a consumer socialization plan for use of compost produced on a commercial scale.

4. Carrying out of a program to support the production of good quality compost by compost producers in the Participating Provinces, through the provision of Sub-grants to producers.

5. Design of guidelines for the commercial production of compost in DKI Jakarta.

6. Preparation of an assistance program for waste-pickers at landfills and collectors in cities, and development of a community-based solid waste management program for waste reduction through waste reduction, waste reuse and waste recycling in the Participating Provinces.

Part C: Community and Private Sector Participation

1. Preparation of an industrial waste, wastewater and effluents minimization and disposal program, including design of an incentives program and design of a credit facility for small- and medium-scale industries to build waste treatment or improve production efficiency to reduce pollution in the Participating Provinces.

2. Preparation of a program design and implementation plan for a Community Environment Facility to assist the community in developing activities and small businesses which help reduce pollution and improve environmental quality in the Participating Provinces.

3. Preparation of a scheme to reduce waste from small- and medium-size soybean cake and tofu processing industries in DKI Jakarta.

4. Revision of the development plan for a wastewater treatment plant in the Jakarta Industrial Estate Pulogadung to include wastewater from neighboring residential areas of Pulogadung, including preparation of an environmental impact assessment, detailed design, management plans and financial plans.

5. Carrying out of feasibility studies for centralized industrial wastewater treatment plants in Kabupaten Serang and Kota Tangerang.

Part D: Investment Sub-projects

Carrying out of public environmental improvement investment Sub-projects through

the provision of Subsidiary Loans to Participating Local Governments.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

1. 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, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost $200,000 equivalent or more each, and contracts for works shall be grouped in bid packages estimated to cost $500,000 equivalent or more each..

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

National Competitive Bidding

Goods (excluding specialized trucks and other vehicles) estimated to cost less than $200,000 equivalent per contract, and works estimated to cost less than $500,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, and in accordance with the provisions of the Supplemental Letter on National Competitive Bidding Procedures of even date with this Agreement and appended to the Project Management Manual.

Part D: Review by the Association 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 Association 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 Association, and with the provisions of said paragraph 1.

2. Prior Review

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.

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

1. 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 Section II of this Schedule.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

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.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for technical assistance under Parts A.1, A.2, A.3, A.6, A.8, A.9, B.2, B.6, C.1 and C.4 of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines may 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 Association 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 Association 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 Association, 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, and the first contract for the employment of consulting firms by each of the Participating Local Government's agencies, 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, and the first contract for the employment of individual consultants by each of the Participating Local Government's agencies, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association 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 4

Implementation Program

1. The Borrower shall establish and, thereafter, maintain until completion of the Project, a Central Program Support Unit, headed by the representative from Ministry of Settlements and Regional Infrastructure, and including representatives from BAPEDAL and the Participating Provinces.

2. The Borrower shall establish and, thereafter maintain until completion of the Project, a Project Coordination and Review Committee, headed by the representative from BAPPENAS, and including representatives from the Ministry of Settlements and Regional Infrastructure, the Ministry of Finance, BAPEDAL and the Participating Provinces.

3. The Borrower shall establish and, thereafter, maintain until completion of the Project, a Provincial Program Support Unit in each Participating Province, with competent staff in adequate numbers, who shall report directly to the Governor.

4. The Borrower shall establish and, thereafter, maintain until completion of the Project, a Local Program Support Unit in each Participating Kabupaten and Kota, with competent staff in adequate numbers, who shall report directly to the Bupati and Walikota, respectively.

5. The Borrower shall:

(a) cause at least four Participating Local Governments, as coordinated by the respective Participating Province, to prepare an annual State of the Environment Report, and furnish such report to the Central Program Support Unit and the Association not later than March 31 in each year, commencing not later than March 31, 2002, and cause the remaining Participating Local Governments, as coordinated by the respective Participating Province, to prepare an annual State of the Environment Report, and furnish such report to the Central Program Support Unit and the Association not later than March 31 in each year, commencing not later than March 31, 2003, and

(b) cause each of such Reports to be evaluated by an independent team, acceptable to the Association, by not later than July 31 in each year, commencing not

later than July 31, 2002.

6. The Borrower shall cause each Participating Local Government which does not have an Environmental Forum that is part of an existing urban forum, to establish, not later than July 31, 2002, an Environmental Forum.

7. The Borrower shall cause the Participating Local Governments which operate landfills to each select at least one landfill and establish for such landfill, by not later than December 31, 2003, a neighborhood advisory committee to advise the Participating Local Government on the performance of the agency responsible for such landfill.

8. In carrying out Part B.3 of the Project, the Borrower shall furnish to the Association for its approval, the program to foster good quality compost production under Part B.4 of the Project.

9. In carrying out Part B.4 of the Project the Borrower shall make Sub-grants in accordance with the program agreed with the Association under Part B.3 of the Project.

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

(a) cause the relevant Participating Local Government to issue Land Acquisition and Resettlement Guidelines, acceptable to the Association;

(b) cause the relevant Participating Local Government to select and prepare Sub-projects to be financed under Part D of the Project using technical, financial, economic, environmental and social criteria acceptable to the Association. Such criteria shall include, without limitation, that: (i) each Sub-project shall be prepared by the respective Participating Local Government in accordance with general technical guidelines approved by the Association; (ii) for each Sub-project involving the involuntary resettlement of Project Affected Persons, a Resettlement Action Plan has been prepared in accordance with the Land Acquisition and Resettlement Guidelines and in consultation with said Project Affected Persons, and such Resettlement Action Plan has been approved by the Association; (iii) for each Sub-project, operation and maintenance arrangements have been defined; and (iv) for each Sub-project, the AMDAL and UKL/UPL requirements have been completed; and

(c) furnish to the Association for its approval the terms and conditions of the relevant Subsidiary Loan.

11. The Borrower shall ensure that each Participating Local Government carrying out a Sub-project under Part D of the Project:

(a) shall declare 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 Sub-project under Part D of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental and resettlement practices, and shall provide, or cause be provided, promptly as needed, the funds, facilities, services and other resources required for such Sub-project;

(b) shall procure the goods, works and consultants' services required for the Sub-project and to be financed out of the proceeds of the Credit in accordance with the provisions of Schedule 3 to this Agreement;

(c) shall use the goods and services financed out of the proceeds of the Credit exclusively for the purposes of the Sub-project;

(d) shall allow the Borrower to inspect, from time to time, the goods, works and services under the Sub-project, including all records and documents relating thereto;

(e) promptly informs the Borrower of any condition which interferes or threatens to interfere with the progress of the Sub-project and ensures that

appropriate corrective measures are taken;

(f) from time to time, at the request of either the Borrower or the Association, exchanges views with the Borrower and the Association regarding progress achieved in carrying out the Sub-project; and

(g) furnishes to the Association all such information and documents related to the Sub-project as may reasonably be requested. The Participating Local Government shall further agree to obtain such information and documents as may be required by the Borrower to fulfill its supervision, monitoring, recording and reporting obligations to the Association.

12. 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 Association, and furnish to the Association, on or about July 31, 2003, 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 Association, by September 30, 2003, or such later date as the Association 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 Association’s views on the matter.

SCHEDULE 5

Performance Indicators

1. At least 50% of the Participating Local Governments have met the following indicators by Project completion:

(a) the Participating Local Government which operates landfills has selected at least one landfill and established for such landfill a neighborhood advisory committee that meets on a regular basis;

(b) the Participating Local Government’s solid waste net revenues have increased by 20% over FY 2001 net revenues; and

(c) at least eight annual "State of the Environment" reports, acceptable to the Association, have been prepared by Participating Local Governments.

2. By Project completion, the Jabotabek Waste Management Corporation has been established and its operations funded partially by the revenues generated from transactions.

3. By Project completion, the Greater Bandung Waste Management Corporation has been established and its operations funded partially by the revenues generated from transactions.

4. By Project completion, waste management master plans for the Jabotabek and Bandung regions have been updated, agreed and publicly vetted. Environmental impact assessments, consistent with the Association’s environmental assessment requirements, and operating plans exist for all operating and proposed landfills.

5. By Project completion, an aggregate of at least 60,000 tons of quality, certified compost has been produced.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project (except Parts B.3, B.4 and B.5 of the Project) and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to $1,750,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $875,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of $3,500,000.

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 Association 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 Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Category, 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 Association shall reasonably request, furnish to the Association 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 Association

shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit 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 Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association 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 Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Category minus the total amount of all outstanding special commitments entered into by the Association 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 Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Category shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association 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 Association, refund to the Association such outstanding amount.

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

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