

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4077-IND

Development Credit Agreement

(Managing Higher Education for Relevance and Efficiency Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 2, 2005

CREDIT NUMBER 4077-IND

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 2, 2005, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is making a loan to the Borrower in the amount of fifty million Dollars (\$50,000,000) (the Loan); and

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective

meanings therein set forth and the following additional terms have the following meanings:

(a) “BAN-PT” means the Borrower’s National Accreditation Board, or any successor thereto.

(b) “Competitive Grant” means a Competitive Grant under Part B.1 or B.2(a) of the Project, and to be financed out of the proceeds of the Credit.

(c) “DGHE” means the Directorate General of Higher Education of MONE, or any successor thereto.

(d) “DGHE-IU” means the DGHE Implementing Unit referred to in paragraph 2(b) of Schedule 4 to this Agreement.

(e) “Eligible Categories” means Categories (1) and (2) set forth in the table in Part A.1 of Schedule 1 to this Agreement.

(f) “Eligible Expenditures” means the expenditures for goods, works and services, as well as amounts paid under Grants, referred to in Section 2.02 of this Agreement.

(g) “Financial Monitoring Report” or “FMR” means a report prepared in accordance with Section 4.02 of this Agreement.

(h) “Fiscal Year” means the Borrower’s fiscal year commencing January 1 and ending December 31.

(i) “Grant Agreement” means an agreement referred to in paragraph 10 of the Annex to Schedule 4 to this Agreement.

(j) “Grant” means a Competitive Grant, a Proposal-based Grant or a Performance-based Grant.

(k) “HEI” means a Higher Education Institution, whether public or private.

(l) “HELTS” means the Borrower’s Higher Education Long Term Strategy 2003-2010.

(m) “Loan Agreement” means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the “General Conditions applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement.

(n) “MoNE” means the Borrower’s Ministry of National Education, or any successor thereto.

(o) “NISHE” means the Borrower’s National Information System for Higher Education, or any successor thereto.

(p) “Open University” or “OU” means the Borrower’s Open University.

(q) “Operation Procedures Manual” means the Operation Procedures Manual referred to in paragraph 3 of Schedule 4 to this Agreement, as same may be amended from time to time in agreement with the Association, and such term includes any schedules to the Operation Procedures Manual.

(r) “Participating HEI” means any HEI which is the recipient of a Grant and party to a Grant Agreement.

(s) “Performance-based Grant” means a Performance-based Grant under Part B.2(c) of the Project, and to be financed out of the proceeds of the Credit.

(t) “Procurement Plan” means the Borrower’s procurement plan, dated May 13, 2005, covering the initial twelve (12) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding twelve (12) month periods (or longer) of Project implementation.

(u) “Project Performance Indicators” means the indicators set forth in Schedule 5 to this Agreement.

(v) “Proposal-based Grant” means an Institutional Management Grant under Part B.2(b) of the Project, and to be financed out of the proceeds of the Credit.

(w) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.4 of Schedule 1 to this Agreement.

(x) “Rupiah” and “Rp” means the currency of the Borrower.

(y) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in

various currencies equivalent to nineteen million eight hundred and fifty thousand Special Drawing Rights (SDR 19,850,000).

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

Section 2.03. The Closing Date shall be June 30, 2011, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each

May 15 and November 15, commencing November 15, 2015, and ending May 15, 2040. Each installment to and including the installment payable on May 15, 2025, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

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

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

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

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

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

ARTICLE III

Execution of the Project

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

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

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

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

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

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

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

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

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

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 6 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

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

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

Section 4.03. The Borrower shall make publicly available, and agrees that the Association may also make publicly available, each final audit report referred to in Section 4.01 of this Agreement, promptly after its issuance by the independent auditors referred to therein.

ARTICLE V

Effective Date; Termination

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

- (a) the Operation Procedures Manual, acceptable by the Association, has been adopted by the Borrower; and
- (b) 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.

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

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

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

Cable address:	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 Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

REPUBLIC OF INDONESIA

By: /s/ Jusuf Anwar

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Kundhavi Kadiresan

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

Part A: General

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, works and consultants' services under Part A of the Project	330,000	810,000	100%
(2) Grants	19,520,000	48,190,000	100% of Grant amount disbursed
(3) Unallocated	-	750,000	
(4) Fee	-	250,000	Amount due under Section 2.04 of the Loan Agreement
TOTAL	<u>19,850,000</u>	<u>50,000,000</u>	

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

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under: (a) Grants; (b) goods under contracts costing less than \$100,000 equivalent each; (c) works under contracts costing less than \$300,000 equivalent each; (d) contracts for the employment of consultants costing less than \$100,000 equivalent, in the case of consulting firms, and \$50,000

equivalent, in the case of individuals; all under such terms and conditions as the Association shall specify by notice to the Borrower.

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

Part B: Special Account

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

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

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

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

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

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

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

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

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

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of paragraph 2 of Part B of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

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

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

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

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

Annex A

to

SCHEDULE 1

Operation of Special Account

When Withdrawals Are Not

Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$8,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

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

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

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 3 of Part B 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section

5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Association shall specify by notice to the Borrower.

Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B

to

SCHEDULE 1

Operation of Special Account

When Withdrawals Are

Report-based Disbursements

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

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of:

(a) the amount so requested; and

(b) the amount which the Association has determined, based on the reports referred to in paragraph 4 of Part A of this Schedule applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to create an enabling environment for the evolution of autonomous and accountable public higher education institutions, and to develop effective support mechanisms for the improvement of the quality, relevance, efficiency and equity of higher education.

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: Higher Education System Reform and Oversight

1. Supporting: (a) the development of a revised legal framework for higher education governance, financial management and personnel management; (b) the improvement of financial management capacity both within the DGHE and within public HEIs; (c) the expansion and improvement of the data collection capacity of NISHE; and (d) the development of a strategy for scaling up reforms based on evidence of effectiveness, with particular attention to financing innovations.

2. Supporting: (a) the restructuring of the accreditation system of BAN-PT to facilitate the transition from its emphasis on study program accreditation to emphasis on institutional accreditation; (b) the improvement of the financial sustainability of the quality assurance system; (c) strengthening of HEIs and professional associations to support licensure of professional fields; and (d) the development of teacher certification.

3. Supporting: (a) a review of the various options available for a comprehensive revitalization of OU in view of developing a strategy and plan to modernize its governance, finance, outreach, content and delivery; (b) broad stakeholder consultations to generate a consensus between stakeholders and DGHE on the future direction and mandate of OU; and (c) the upgrading of the OU, based on the outcome of the strategy and plan.

Part B: Grants for Responsive and Efficient Allocation of Resources

1. Provision of financial incentives to HEIs to improve the quality of their institutions and programs in alignment with HELTS, through a transparent process of competitive grants for the benefit of public and private HEIs, using two competitive grant windows to support grants to improve the quality of study programs and encourage institutional outreach to disadvantaged students.

2. Development of a system of autonomous public HEIs with good governance practices and organizational cultures that focus on education quality, institutional efficiency, and active efforts to increase the participation of disadvantaged students,

through: (a) competitive grants for strengthening institutional management in public non-autonomous HEIs; (b) proposal-based grants for strengthening institutional management at autonomous HEIs; and (c) performance-based grants for autonomous HEIs.

* * *

The Project is expected to be completed by December 31, 2010.

SCHEDULE 3

Procurement

Section I. General

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

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

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

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract and works estimated to cost less than \$1,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding, and the provisions of Annex B to this Schedule 1.

2. Shopping. Goods and works estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis

of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services under the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants.

B. Other Procedures

1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

2. Individual Consultants

Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$100,000 or more, or works and services (other than consultants' services) estimated to cost the equivalent of \$300,000 or more; (b) each contract for goods or works procured on the basis of Direct Contracting, as well as the first contract for goods or works procured in each Fiscal Year by each procuring entity on the basis of National Competitive Bidding; (c) each contract for consultants' services provided by a firm selected on the basis of Single Source Selection or that is estimated to cost the equivalent of \$100,000 or more. In addition, the record of justification referred to paragraph 5 to Appendix 1 to the Consultant Guidelines for each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more shall be subject to prior approval by the Association. All other contracts shall be subject to Post Review by the Association.

Annex A

to

SCHEDULE 3

Without limitation on the provisions of Schedule 3 to the Development Credit Agreement (Schedule 3) and of the Procurement Guidelines and the Consultant Guidelines (as such terms are defined in said schedule and referred to hereafter as the Guidelines), the following provisions shall apply in respect of goods, works and consultants' services to be procured under the Project:

1. To ensure end-user participation in the procurement of goods, works and consultants' services under this Project, the requester/user of such goods, works or consultants' services (as the case may be) to be acquired shall be represented on relevant procurement/selection committee. The criteria for the selection of procurement/selection committee members shall in all cases be consistent with the provisions of the Guidelines.
2. The Procurement Plans, including all updates thereof, shall be made publicly available promptly after their finalization.
3. All bidding documents and requests for proposals issued in accordance with Schedule 3 shall be made available to any member of the public promptly upon request, subject only to payment of a reasonable fee to cover the cost of printing and delivery. In the case of requests for proposals, the relevant documents will only be made available after notification of award to the successful firm. Each such document will continue to be made publicly available until a year after completion of the contract entered into for the goods, works or consultants' services in question.
4. All short lists of consultants and, in cases of pre-qualification, lists of pre-qualified contractors and suppliers shall be made available to any member of the public promptly upon request.
5. A summary of the evaluation of all bids and proposals for specific contracts shall be disclosed to all bidders and parties submitting proposals therefor, promptly after the notification of award to the successful bidder/consultant. Information in such summaries will be limited to a list of bidders/consultants, all bid prices and financial proposals as read out at public openings for bids and financial proposals, all bids and proposals declared non responsive (together with reasons for such an assessment), the name of winning bidder/consultant and the contract price. Such summaries will be made available to any member of the public promptly upon request.
6. Contract award information for all contracts for goods estimated to cost \$100,000 equivalent or more, all contracts for works estimated to cost \$500,000 equivalent or more and all contracts for consultants' services estimated to cost \$100,000 equivalent or more,

in the case of consulting firms, and \$50,000 equivalent or more, in the case of individuals, shall be made publicly available and published widely, and be made available to any member of the public upon request, promptly after such award.

7. A list of all contracts awarded in the three (3) months preceding the date of such request, including, with respect to each such contract, the name of the contractor/consultant selected, the contract amount, the number of bidders/makers of proposals in respect thereof, the procurement method followed and the purpose of such contract shall be made available, promptly upon request by any member of the public.

8. Representatives of the end-users of goods and works being procured shall be permitted to attend public bid openings in respect thereof.

Annex B
to
SCHEDULE 3

1. General

Subject to the provisions of paragraph B.1 of Section II to Schedule 3 to this Agreement, the procedures to be followed for national competitive bidding shall be those set forth in Presidential Decree No.80/2003 of the Republic of Indonesia with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the “Guidelines for Procurement under IBRD Loans and IDA Credits” dated May 2004 (the “Procurement Guidelines”).

2. Registration

(a) Bidding shall not be restricted to pre-registered firms and shall not be a condition for participation in the bidding process.

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

3. Pre-qualification

Pre-qualification shall not be used for simple goods. Normally, post-qualification shall be used. When pre-qualification shall be required:

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

(b) invitations to pre-qualify for bidding shall be advertised in at least one (1) widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications.

4. Joint Ventures

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

5. Preferences

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

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

6. Advertising

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

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

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

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

7. Bid Security

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

8. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids, and if bids are invited in two (2) envelopes, both envelopes (technical and price) shall be opened at the same time.

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

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

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

9. Rejection of Bids

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

(b) When the number of responsive bids is less than three (3), re-bidding shall not be carried out without the Association's prior concurrence.

SCHEDULE 4

Implementation Program

1. The Borrower shall vest overall responsibility for implementation of the Project in DGHE and, accordingly, appoint the Director General of DGHE (DGHE-DG) to be the official responsible for the overall project implementation.

2. To assist the DGHE in its functions under the Project, the Borrower shall appoint:

(a) a Board of Higher Education (BHE), whose mandate, composition and terms of reference shall be acceptable to the Association, to be responsible for monitoring and evaluation of implementation of the Project, establishing the selection criteria for Grants and overseeing the selection process for Competitive Grants, and providing advice to DGHE in the negotiations of Performance-based Grants;

(b) a DGHE Implementing Unit (DGHE-IU), whose mandate, composition and terms of reference shall be acceptable to the Association, to be responsible for the management and monitoring of the Project at the central level, management of the selection process for award of Competitive Grants, coordination of the negotiations for the Performance-based Grants with HEIs, production of reports required under the Project, and generally ensuring that the objectives of the Project are achieved; and

(c) a Project Steering Committee (PSC), whose mandate, composition and terms of reference shall be acceptable to the Association, to provide the DGHE with guidance and strategic direction in the implementation of the Project.

3. The Borrower shall, through DGHE:

(a) adopt an Operation Procedures Manual, acceptable to the Association, giving details of guidelines and procedures agreed with the Association for the implementation, supervision, and monitoring and evaluation, of the Project, including: (i) implementation arrangements; (ii) procurement procedures set forth in Schedule 3 to this Agreement and standard procurement documentation; (iii) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of this Agreement; (iv) the Project Performance Indicators; (v) criteria for the selection of proposals for Grants, as well as the additional terms and conditions governing Grants as set forth in the Annex to this Schedule; and

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

4. For purposes of Part B of the Project, the Borrower shall apply the proceeds of the Credit allocated to finance Grants in accordance with the guidelines, procedures and criteria set forth in the Operation Procedures Manual, and the additional terms and conditions set forth in the Annex to this Schedule.

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

6. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Project Performance Indicators, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 31, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Association, not later than December 31, 2008, or such later date as the Association shall request, the report referred to in paragraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter; and

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

Annex

to

SCHEDULE 4

Additional Terms and Conditions for Grants

General

1. No Grant shall be eligible for financing out of the proceeds of the Credit unless the corresponding calls for proposals for the Grants, the review of proposals and the award of Grants have been undertaken in accordance with the guidelines, procedures and selection criteria set forth in the Operation Procedures Manual.

2. No Grant shall be made to finance expenditures pertaining to or involving: (a) a military or paramilitary purpose; (b) civil works for government administration or religious purposes; (c) the manufacture or use of environmentally hazardous goods (including asbestos, pesticides and herbicides), arms or drugs; (d) the manufacture or use of tackle or dynamite; (e) the financing of government salaries; (f) the production, processing, handling, storage or sale of tobacco or products containing tobacco; (g) activities within a nature reserve or any other area designated by the Borrower for the management and/or the protection of biodiversity, except with the prior written approval of the Borrower's agency responsible for the management and/or protection of such area; (h) mining or excavation of live coral; (i) water resources development on rivers which flow into or out of another country; (j) alterations to river courses; (k) land reclamation covering an area in excess of fifty (50) hectares; (l) new irrigation schemes covering an area in excess of fifty (50) hectares; (m) the construction of water retaining or storage structures of a capacity greater than ten thousand (10,000) cubic meters; or (n) the provision of goods, works or services, directly or through intermediaries, by suppliers or contractors, as the case may be, who have been declared ineligible to participate in the procurement of any Bank-financed contract, whether indefinitely or for a stated period of time, as a result of a decision of the Bank's Sanctions Committee, but only to the extent that such sanction remains valid and applicable, according to the terms of the decision.

Competitive Grants

3. Competitive Grants shall be awarded, using separate grant windows as follows, to: (a) improve the quality of study programs and encourage institutional outreach to disadvantaged students; and (b) build institutional management capacity in non-autonomous HEIs.

4. Proposals for Competitive Grants shall be assessed in accordance with principles of transparency and on the basis of the contents of the proposals, which shall include a detailed institutional development plan, an appropriate monitoring and evaluation plan,

evidence of adequate institutional capacity to manage the Grants and a matching commitment of counterpart funding to demonstrate institutional ownership.

Grants other than Competitive Grants

5. Grants other than Competitive Grants shall consist of Proposal-based Grants and Performance-Based Grants for the exclusive benefit of autonomous public HEIs.

6. Proposal-based Grants and Performance-based Grants shall be awarded on such terms and conditions as may be agreed with the Participating HEIs, including performance indicators, a monitoring and evaluation plan, and a public information dissemination action plan.

7. Proposals for Proposal-based Grants shall be evaluated on the basis of the contents of the proposals, which shall include a 3-year plan to build central management capacity required to conduct operations independently, and a minimum counterpart funding commitment to demonstrate partnership and ensure proper grant administration.

8. No HEI shall be eligible for a Performance-based Grant until it has attained sufficient management capacity as determined on the basis of the results of an external panel review of annual technical and financial audits to assess the level of capacity built.

9. Performance-based Grants shall be granted on such terms and conditions as may be agreed with Participating HEIs, including agreed goals and improvement targets to be achieved during a period not exceeding three (3) years, and a regime of rewards or sanctions to be applied, according to whether the agreed goals and improvement targets are achieved or not.

Grant Agreements

10. For purposes of every Grant, DGHE shall conclude a grant agreement with the Participating HEI, setting forth the respective obligations of the parties thereunder, including: (a) details of agreed disbursement schedules; (b) procurement procedures consistent with the provisions of Schedule 3 to this Agreement; (c) provisions for external audits of the Grants; (d) the appointment of an internal auditor with appropriate qualifications and experience, to be responsible for the internal audit of the Grant; (e) the amount of the Participating HEI's counterpart contribution, if any; (f) an undertaking on the part of the Participating HEI to execute the Grant with due diligence and efficiency and, upon its completion, to ensure the continued achievement of the objectives of the Grant; and (g) the action plan for institution building (procurement, financial management and human resources), which action plan shall be consistent with the provisions set out in the Operational Procedures Manual.

SCHEDULE 5

Performance Indicators

- The draft law on education institutions (BHP) is passed by 2010.
- The National Information System for Higher Education develops the capability to conduct and report on regular graduate tracer studies by 2010.
- Institutional accreditation is awarded to five percent of all public HEIs by 2010.
- Unqualified opinion awarded by external auditors on financial audits to 5 public HEIs.
- A comprehensive process evaluation of line item financing, competitive grants, and performance-based contracting is completed by 2010.
- Successful completion of the agreed procurement institutional strengthening programs by 2010, as demonstrated by the following factors:
 - ⌚ ninety percent (90%) of procurement carried out by the participating institutions is awarded within the bid validity period;
 - ⌚ fifty percent (50%) of procurement staff of participating institutions are certified in accordance with national certification policy in existence in 2010; and
 - ⌚ all participating institutions publish all records of contracted unit rates for goods and major construction materials for contracts above US\$50,000 equivalent.