

CONFORMED COPY

CREDIT NUMBER 3382 IND

Development Credit Agreement

(Second Water and Sanitation for Low Income Communities Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 22, 2000

CREDIT NUMBER 3382 IND

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 22, 2000, between the 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 intends to obtain from the Australian Agency for International Development (AusAID) a grant in an amount of US\$ 6,500,000 equivalent (the AusAID Grant) to assist in financing the technical assistance under the Project on the terms and conditions set forth in an agreement to be entered between the Borrower and the International Bank for Reconstruction and Development (as Administrator of the grant funds provided by AusAID) (the AusAID Grant Agreement); 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 (c) is added to Section 3.04 to read:

"If the Association shall at any time receive less than the full amount then due and payable to it under the Development Credit Agreement, the Association shall have the right to allocate and apply the amount so received in any manner and for such purposes under the Development Credit Agreement as the Association shall in its sole discretion determine."; and

(b) Section 11.01 is modified by replacing, in the second sentence, the word "radiogram" with the word "facsimile" and adding a new sentence at the end of the said Section to read:

"Deliveries made by facsimile transmission shall also be confirmed by mail."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and the following additional terms have the following meanings:

(a) "Affected Person" means a person who, on account of the execution of Part C.3 of the Project, has or would have his or her (i) standard of living adversely affected; (ii) right, title or interest in any house, land (including premises, agricultural land and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, work, or place of residence or habitat adversely affected.

(b) "BAPPEDA" means any one of the Borrower's Provincial Development Planning Agencies in the Project Provinces.

(c) "Community Action Plan" and "Community Action Plans" mean singularly a community water and health action plan and collectively the community water and health action plans adopted by VITs in accordance with the provisions of paragraph 6 of Schedule 4 to this Agreement.

(d) "Community Facilitation Team" and "Community Facilitation Teams" mean singularly a team of facilitators and collectively the teams of facilitators appointed with in accordance with the provisions of paragraph 7 of Schedule 4 to this Agreement.

(e) "CPMU" means the Central Project Management Unit, established and operating within MOH pursuant to Director General Decree No. HK00.06.7.325 and maintained in accordance with paragraph 1 of Schedule 4 to this Agreement, responsible for overall management of

the Project.

(f) "DPMU" means a project management unit established within the Department of Health, or any successor thereto, in a Project Kabupaten, responsible for Project implementation activities at the Kabupaten level.

(g) "Grant" means a grant made available by the Borrower out of the proceeds of the Credit to a VIT for a Sub-project under Parts B.3 and C.3 of the Project in accordance with the terms of Schedule 4 to this Agreement.

(h) "Guidelines for Compensation and Resettlement" means the guidelines prepared by the Borrower, in agreement with the Association, for the provision of compensation to Affected Persons as set forth in paragraph 12 of Schedule 4 to this Agreement and in the Operations Manual, as such Guidelines may be amended from time to time in agreement with the Association.

(i) "Implementation Agreement" and "Implementation Agreements" mean singularly an implementation agreement and collectively the implementation agreements referred to in paragraph 8 of Schedule 4 to this Agreement and to be entered into among the relevant Pimbagpros and VITs in accordance with the provisions of said paragraph 8, for the purpose of implementing Sub-projects under Part C.3 of the Project.

(j) "Isolated Vulnerable People" means those social groups in Indonesia that have a distinct social and cultural identity, and that are susceptible to being disadvantaged in the development process induced by the Project or any part thereof.

(k) "Kabupaten" means a district, an administrative division of the Borrower; and "Project Kabupaten" means a Kabupaten within a Project Province which is selected for inclusion in the Project in accordance with the provisions of paragraph 3 of Schedule 4 to this Agreement.

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

(m) "MOH" means the Ministry of Health of the Borrower.

(n) "Operations Manual" means the manual, satisfactory to the Association, to be developed by MOH pursuant to paragraph 2 of Schedule 4 to this Agreement, to assist the CPMU, the PCUs, the DPMUs and the VITs in the carrying out of their responsibilities under the Project by describing, inter alia, the following matters with respect to the Project: the financial management, procurement and disbursement arrangements and procedures; the Project Performance Indicators; the Guidelines for Compensation and Resettlement; environmental criteria applicable to Sub-project design; criteria for the selection of Sub-projects; and maintenance procedures for works to be carried out under Part C.3 of the Project.

(o) "PCUs" means the Provincial Coordinating Units operating within the BAPPEDA in each of the Project Provinces and maintained in accordance with paragraph 1 of Schedule 4 to this Agreement, responsible for the coordination of Project activities within the relevant Project Province.

(p) "Participating Village" means a village or community in a

Project Province for which an Implementation Agreement has been prepared and signed.

(q) "Pimbagpro" means the manager of a DPMU.

(r) "Project Provinces" means the provinces of the Borrower set out in Annex A of Schedule 2 to this Agreement and such other provinces of the Borrower which may from time to time be designated as Project Provinces by agreement between the Borrower and the Association, and "Initial Project Provinces" means the Project Provinces set out in Annex A of Schedule 2 to this Agreement.

(s) "Rupiah" or "Rp" means the currency of the Borrower.

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

(u) "Sub-project" and "Sub-projects" mean singularly a specific investment sub-project and collectively the investment projects carried out under Parts B.3 and C.3 of the Project, eligible for financing out of a Grant in accordance with the terms of Schedule 4 to this Agreement.

(v) "VIT" and "VITs" mean singularly a village implementation team and collectively the village implementation teams established and operating in accordance with the terms of paragraph 6 of Schedule 4 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 fifty-seven million eight hundred thousand Special Drawing Rights (SDR 57,800,000).

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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank Indonesia or in a state commercial bank acceptable to the Association on terms and conditions satisfactory to the Association, including, in the case of a state commercial bank, appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009, 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 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 semi-annually on February 1 and August 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 February 1 and August 1, commencing August 1, 2010 and ending February 1, 2035. Each installment to and including the installment payable on February 1, 2020 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 semiannual 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 with due diligence and efficiency and in conformity with appropriate administrative, financial, health, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Notwithstanding the generalities of paragraph (a) of this Section, the Borrower shall take all necessary measures to:

(i) ensure that the financing of the Project from its own resources is maintained during the implementation of the Project at such levels as agreed between the Borrower and the Association; and

(ii) make available an amount up to the ceilings specified in the Operational Manual to each Project Village on a grant basis. These ceilings may be reviewed periodically and may be revised with the agreement of the Association.

(c) 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. 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 3.03. For the purposes of Section 9.07 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 Project's objectives; 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 Project Management Reports or 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 Project Management Reports or 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, 2001, 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

##### Effective Date: Termination

Section 5.01. The following 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) an Operations Manual for the implementation of the Project, acceptable to the Association, has been issued; and

(b) the CPMU, the PCUs for each of the Initial Project Provinces, and the DPMUs within each of the Initial Project Provinces have been established with terms of reference, facilities and staff acceptable to the Association.

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 Budget  
Jalan Lapangan Banteng Timur 2-4  
P.O. Box 1139  
Jakarta 10710  
Indonesia

Facsimile:	Cable address:	Telex:	
	FINMINISTRY	45799 DJMLN-IA	(21)
381 2859		Jakarta	
44319 DEPKEU-IA			

For the Association:

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

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

REPUBLIC OF INDONESIA

By /s/ A. Anshari Ritonga  
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)	% of Expenditures to be Financed
(1) Goods  (ex-factory local expenditures for other locally	1,270,000	100% of foreign expenditures, 100% of local expenditures  cost) and 80% of  items procured
(2) Grants under Parts B.3 and C.3 of the Project	32,580,000	90%
(3) Service delivery contractors	19,730,000	100%
(4) Consultants' services	370,000	100%
(5) Project Management	370,000	100%
(6) Unallocated	3,480,000	
TOTAL	57,800,000	

2. For the purposes of this Schedule:

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

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

(c) the term "Service delivery contractors" means expenditures for the providers of services under Parts A, B and C of the Project; and

(d) the term "Project Management" means expenditures by the CPMU, the PCUs and the DPMUs for administrative costs, including local travel and travel-related per diems for project staff and consumable

office supplies.

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

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

(b) in respect of a Grant to a Participating Village unless an Implementation Agreement has been entered into with the VIT of such Participating Village in accordance with paragraphs 8 and 9 of Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) Grants; (ii) contracts for goods valued at less than \$50,000 equivalent each; (iii) Project Management; and (iv) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each and contracts for the employment of individuals costing less than \$50,000 equivalent each; 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 providing safe, adequate, cost effective and easily accessible water supply and sanitary services to, and improving health behavior and health services in, poor communities in under-served rural villages in the Project Provinces through community participation, in order to improve their health status, productivity and quality of life.

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: Community and Local Institutions Capacity Building Support

1. Provision of facilitation and training services to VITs, Community Facilitation Teams, community members, local government and non-government agencies in the Project Provinces for the development of skills to: (a) identify and prepare community-based water-supply and sanitation projects; (b) carry out fiscal and organizational management responsibilities; and (c) operate and maintain water-supply and sanitation infrastructure.

2. Provision of training for Kabupaten and Kecamatan local government staff and NGO members in the Project Provinces to develop effective skills in community health care management, health education and planning operation and maintenance services for water supply and sanitation to support and facilitate community initiatives.

3. Provision of technical assistance to local government staff at the Kabupaten and Kecamatan levels in the Project Provinces for the establishment of staffing profiles and operating procedures appropriate for supporting demand responsive and community based water supply and sanitation programs.

4. Provision of technical assistance to government institutions at the Kabupaten in the Project Provinces involved in water supply and sanitation programs to improve program planning, implementation and

monitoring, including the development of mechanisms to maximize transparency in decision-making and financing processes.

Part B: Improving Health Behavior and Services

1. Provision of technical assistance, training and materials to primary school staff and administrators for the development of a school-based hygiene and sanitation promotion program and the integration of such program into school curricula.
2. Provision of technical assistance, training and materials to health workers, educators and local government and non-government institutions for the development and carrying out of hygiene and sanitation promotion and community outreach activities.
3. Provision of grants to Village Implementation Teams for the carrying out in the Participating Villages of community based health and sanitation programs and targeted health center based programs.
4. Provision of technical assistance to the Ministry of Health and local governments for monitoring the health impact of Project interventions.

Part C: Developing Water and Sanitation Infrastructure

1. Provision of technical assistance to communities in the Project Provinces for the development of menus of options for technology, service levels and costs for water supply and sanitation services.
2. Provision of technical advisory services to assist households and Participating Villages in the Project Provinces to evaluate water and sanitation infrastructure options and plan the construction of projects selected from such options.
3. Provision of grants to Village Implementation Teams for the design and construction of water supply, sanitation and health infrastructure projects at the community level in the Participating Villages.
4. Provision of training and technical assistance for operation and maintenance activities in respect of infrastructure investments carried out under Part C.3 of the Project.

\* \* \*

The Project is expected to be completed by December 31, 2008.

ANNEX A

Initial List of Project Provinces

1. East Java
2. Nusa Tenggara Barat
3. West Sumatra
4. South Sumatra

## Procurement and Consultants' Services

### Section I. Procurement of Good and Works

#### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

#### Part B: Procurement Procedures

##### 1. National Competitive Bidding

Except as otherwise provided in paragraphs 2 and 4 of this Part, goods shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

##### 2. National Shopping

Except as provided in paragraph 4 below, (a) goods to be procured under Parts B.3 and C.3 of the Project and (b) goods to be procured other than under Parts B.3 and C.3 of the Project and which are estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

##### 3. Procurement of Small Works

Except as provided in paragraph 4 below, works shall be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

##### 4. Community Participation

Goods and works for Part C of the Project may be procured in accordance with procedures acceptable to the Association.

#### Part C: 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

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines apply.

(b) With respect to each contract for goods or works estimated to cost the equivalent of \$20,000 or more which are to be procured in accordance with the provisions of paragraphs 2, 3 or 4 of Part B of this Schedule 3:

(i) the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received, a copy of the specifications and the draft contract; and

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

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999; and (b) the provisions of the following Parts of this Section II.

Part B: Procedures for the Selection of Consultants

1. Quality - and Cost - Based Selection

Except as otherwise provided in paragraphs 2 and 3 of this Part B, 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, and the provisions of paragraph 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants. Subject to the provisions of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

2. Selection Based on Consultant's Qualifications

Services for project management start-up may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

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

Part C: 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, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the 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 C, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower shall maintain until completion of the Project, the following units with terms of reference, facilities and staff, acceptable to the Association:

- (a) the CPMU;
- (b) the PCUs; and
- (c) the DPMUs.

2. The Borrower shall:

(a) develop, in accordance with guidelines acceptable to the Association, and furnish to the Association for approval a manual of

operations for the Project;

(b) thereafter carry out the Project in accordance with such manual as shall have been approved by the Association; and

(c) shall not amend, delete, suspend or waive any part of such manual without the prior approval of the Association.

3. The Borrower shall select Project Kabupaten in accordance with criteria acceptable to the Association, which criteria shall include: the percentage of impoverished households; the incidence of diarrhea; the percentage of households not served by an acceptable water system; and the adequacy of institutional and project implementation capacity and arrangements for the purposes of carrying out the Project in accordance with the Operations Manual, including, without limitation, the willingness to provide appropriate budgetary resources for carrying out the Project, and the establishment of a DPMU with appropriate terms of reference and adequate staffing, budgetary resources and facilities. A Kabupaten shall only qualify as a Project Kabupaten upon the approval of the Association.

4. The Borrower shall cause Project Kabupaten to select Sub-projects from villages which have expressed an interest in participating in the Project and in accordance with the Operations Manual and with criteria and procedures acceptable to the Association.

5. The criteria referred to in paragraph 4 of this Schedule 4 shall include: the percentage of the local population to be served by the proposed Sub-project; poverty level; water scarcity; water quality; incidence of water-borne diseases; availability of alternative sources of financing; and willingness to manage and contribute to the costs of construction, operations and maintenance of the proposed facilities.

6. The procedures referred to in paragraph 4 of this Schedule 4 shall include:

(a) issuing to all sub-districts and villages in a Project Kabupaten by not less than two months prior to the proposed selection of the Participating Villages, public information aimed at disclosing to villagers and their representatives, the objectives and all procedural, technical, administrative, financial and environmental aspects pertaining to the selection, design, preparation and implementation of Sub-projects;

(b) establish or have appointed a water and health improvement team ("VIT") with appropriate terms of reference, staffing and facilities that meet the criteria set out in the Operations Manual; and

(c) cause said VIT to prepare a community water and health action plan (a "Community Action Plan") for the proposed Sub-project that meets the criteria set out in the Operations Manual, including, without limitation:

(i) detailed engineering designs that meet appropriate engineering and environmental standards;

(ii) a detailed budget and financing plan for planning, construction and maintenance, which financing plan shall provide that:

(A) at least 20% of the total capital costs of



the construction of the proposed  
Sub-project shall be covered by contributions by the relevant  
Participating Village, including a contribution in  
cash covering at least 4% of such total  
capital costs;

(B) the cost of both routine operation and  
maintenance and replacement of assets shall be  
covered by the relevant Participating Village; and

(C) communities and/or households requesting  
private water connections shall pay the  
full cost of the services provided, including the capital  
costs of connection;

(iii) a physical investment action plan describing,  
inter alia, proposed management, payment and procurement  
arrangements and schedules;

(iv) a maintenance program based on appropriate  
environmental management standards describing, inter  
alia, the assignment of maintenance responsibilities in the  
relevant community, the preparation of training programs  
to strengthen the maintenance capabilities of  
the relevant community and the identification of  
available sources of financing to carry out such programs;

(v) a health improvement action plan describing  
proposed actions for promoting health behavior  
improvements in the community; and

(vi) a plan that is in full compliance with the  
Guidelines for Compensation and Resettlement,  
including, where applicable, a description of the measures taken  
or to be taken to avoid or minimize land acquisition and  
displacement of Affected Persons and the  
completion of appropriate compensation arrangements  
satisfactory to all Affected Persons as set forth in such  
Guidelines and in paragraph 12 of this Schedule 4.

7. In order to assist the Borrower in carrying out the Project, the  
Borrower shall enter into service delivery contracts in accordance  
with Schedule 3 to this Agreement under which, inter alia, qualified  
community facilitation teams shall be engaged to assist villages in  
the Project Provinces in the carrying out the following activities:

(a) carrying out technical assessments of water supply and  
health services options;

(b) facilitating community planning for proposed  
Sub-projects;

(c) designing the water supply and sanitation systems to be  
constructed under proposed Sub-projects;

(d) preparing a community water and health action plan; and  
training for construction activities, financial management and  
operations and maintenance activities.

8. Notwithstanding the provisions of paragraphs 4 through 6 of this  
Schedule, a proposed Sub-project shall only qualify as such upon  
entering into an Implementation Agreement between the Pimbagpro of the  
relevant Project Kabupaten and the Leader of the VIT proposing such  
Sub-project that meets the criteria for said agreements set out in the  
Operations Manual.

9. Without limitation upon the provisions of paragraph 8 of this  
Schedule 4, the Pimbagpro of a Project Kabupaten shall sign an  
Implementation Agreement with a VIT only when the Process Monitoring  
Consultant and Kabupaten Coordinating Committee have confirmed the  
following:

(a) necessary funding to fully finance the proposed

Sub-project has been arranged, including approval of a Grant and deposit of contributions by villagers;

(b) appropriate engineering and environmental standards and practices that would minimize any acquisition of land and avoid involuntary resettlement of Affected Persons and adverse environmental impacts have been considered in the design of the Sub-project in accordance with the Operations Manual;

(c) the Guidelines of Compensation and Resettlement have been complied with, and if applicable, appropriate compensation arrangements have been completed and are satisfactory to the Affected Persons as set forth under the Guidelines for Compensation and Resettlement and paragraph 12 of this Schedule 4;

(d) an implementation plan for the Sub-project has been prepared in accordance with the provisions of the Operations Manual; and

(e) a maintenance program for the works to be carried out under the Sub-project has been prepared in accordance with terms acceptable to the Association and will be included in the Implementation Agreement, which program shall include assignment of maintenance responsibilities in the respective village, the preparation of training programs to strengthen the maintenance capabilities of the village, and the identification of available sources of financing to carry out such programs.

10. The Borrower shall cause each Project Kabupaten government, promptly after its selection for inclusion in the Project, to issue a decree authorizing and giving legal capacity to each VIT for a proposed Sub-project within such Kabupaten's jurisdiction:

(a) to collect the financial contributions by the relevant Participating Village to the capital cost of the construction and operation and maintenance of the facilities installed under a relevant Sub-project;

(b) to enter into an Implementation Agreement with respect to such Sub-project; and

(c) to enter into such other contracts as may be necessary for the implementation of the proposed Sub-project.

11. The Borrower shall cause VITs to carry out approved Sub-projects in accordance with the relevant Implementation Agreement and the provisions of the Operations Manual.

12. In carrying out Part C of the Project:

(a) the Borrower shall take steps to avoid adverse effects on Isolated Vulnerable People;

(b) through a process of informed participation, the Borrower shall involve concerned Isolated Vulnerable People in the design and implementation of Sub-projects so as to ensure that the benefits received by the Isolated Vulnerable People under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights;

(c) the Borrower shall take measures to avoid or minimize the acquisition of land or assets of any person and to avoid the displacement of said persons;

(d) where the acquisition of land or assets or the displacement of any person is unavoidable under a proposed Sub-project, the Borrower shall, before carrying out the works which would result in such acquisition or displacement, make available to all such persons, compensation in accordance with the Guidelines for

compensation and Resettlement; and

(e) in the event that one hundred or more people are adversely affected by a Sub-project, the Borrower shall:

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

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

13. The Borrower shall:

(a) maintain adequate policies and procedures satisfactory to the Association, to enable the Borrower to monitor and evaluate on an ongoing basis the carrying out of the Project and the achievement of the objectives thereof in accordance with the indicators set forth in Schedule 5 to this Agreement and with the Operations Manual;

(b) furnish to the Association and make available to the public, by March 31, 2001 and every three months thereafter, a project management report in a form acceptable to the Association and in accordance with the Operations Manual;

(c) furnish to the Association, by June 30 of each year, commencing June 30, 2001, and until completion of the Project, a report, prepared by independent auditors acceptable to the Association under terms of reference satisfactory to the Association, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this paragraph 13, on the progress achieved in the carrying out of the Project during the preceding twelve months and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the twelve months following such date;

(d) review with the Association, on or about July 30 of each year, commencing July 31, 2001, or such later date as the Association shall request, the report referred to in paragraph (c) of this paragraph 13, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof during the twelve months following the date of such report, based on the conclusions and recommendations of the said report and the Association's views on the matter;

(e) by July 31, 2003, prepare under terms of reference satisfactory to the Association and furnish to the Association, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 13, 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 remainder of the Project; and

(f) review with the Association, by August 31, 2003, or such later date as the Association shall request, the report referred to in sub-paragraph (e) of this paragraph 13 and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof during the period following the date of such report, based on the conclusions and recommendations of such report and the views of the Association

thereon.

## SCHEDULE 6

### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement

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

(c) the term "Authorized Allocation" means an amount equivalent to \$10,000,000, 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 \$5,000,000 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 \$20,000,000.

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

3. After the 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 paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the 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 Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the 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 Categories, 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 Categories 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.

