

CONFORMED COPY

LOAN NUMBER 4008 IND

Loan Agreement

(Kerinci-Seblat Integrated Conservation and Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated June 17, 1996

Loan No. 4008 IND

LOAN AGREEMENT

AGREEMENT, dated June 17, 1996, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 Bank to assist in the financing of the Project; and

WHEREAS (B) the Borrower has requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of the Project, the Bank has determined that such assistance would be in accordance with Resolution No. 94-2 of the Executive Directors dated May 24, 1994, establishing the GEF Trust Fund, and, by an agreement of even date herewith between the Borrower and the Bank, acting as an Implementing Agency of the GEF (the GEF Grant Agreement), GEF is agreeing to provide such assistance in an aggregate principal amount equivalent to ten million two hundred thousand Special Drawing Rights (SDR 10,200,000) (the GEF Grant); and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

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

- (c) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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) "Affected Person" means a person who, on account of the execution of the Project, has or would have his/her (i) standard of living, (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; and "Affected Persons" means collectively all persons who qualify as an Affected Person;

(b) "AMDAL" means Analisis Mengenai Dampak Lingkungan, an environmental impact assessment under the laws of the Borrower;

(c) "Grant" means a grant made or proposed to be made by the Borrower out of the proceeds of the Loan to selected villages for the carrying out of sub-projects under Part B.1 (b) of the Project, and "Grantee" means a village beneficiary of such Grant;

(d) "KSNP" means the Kerinci-Seblat National Park located in the Borrower's provinces of Bengkulu, Jambi, South Sumatra and West Sumatra;

(e) "Orang Rimba" means the traditional hunter-gatherers on the island of Sumatra, called the people of the forest;

(f) "Project area" means the Kerinci-Seblat National Park and surrounding areas;

(g) "Resettlement and Rehabilitation Action Plan" means the action plan for the carrying out of the resettlement and rehabilitation of Affected Persons under the Project referred to in paragraph 9 (c) of Schedule 5 to this Agreement;

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

(i) "Sub-project" means a specific project to be carried out by a village utilizing the proceeds of a Grant.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, various currencies that shall have an aggregate value equivalent to the amount of nineteen million one hundred thousand dollars (\$19,100,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank Indonesia or in a commercial bank on terms and conditions satisfactory to the Bank, including, in the case of a 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 8 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2002, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding

Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

### ARTICLE IV

#### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the

Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that:

- (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the GEF Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the GEF Grant Agreement.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the GEF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness, except only the effectiveness of this Agreement, have been fulfilled.

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

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:

FINMINISTRY  
Jakarta

Telex:

45799 DJMLN-IA  
44319 DEPKEU-IA

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

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

REPUBLIC OF INDONESIA

By /s/ Arifin M. Siregar, Ambassador  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Harold Messenger  
Acting Regional Vice President  
East Asia and Pacific

#### SCHEDULE 1

##### Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works under Part B.1 (b) of the Project	4,200,000	80%
(2) Equipment (except vehicles), furniture, and mapping materials under Parts B and C of the Project	600,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(3) Agricultural inputs (except fertilizers) and other inputs under Part B.1 (b) of the Project	1,000,000	80%
(4) Training under Parts B and C of the Project	1,000,000	60%
(5) Extension and planning activities under Parts B and C of the Project	3,700,000	80%
(6) Surveys under the Project	900,000	30%
(7) Studies under Parts A.4, A.5 and B.5 of the Project	700,000	90%
(8) Incremental operating expenditures under Part B of the Project	700,000	15%
(9) Consultants' services under Parts B and C of the Project	4,400,000	80%
(10) Unallocated	1,900,000	
TOTAL	19,100,000 =====	

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 "Extension and planning activities" means expenditures for wages of laborers under extension and planning activities, materials (other than mapping materials), and staff honoraria and

travel; and

(d) the term "incremental operating expenditures" means salaries of contract administrative support staff in the Project management units in the Project Area.

3. 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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) civil works under contracts costing less than \$500,000 equivalent, except for the first five contracts for civil works under Part B.1 (b) of the Project; (ii) goods under contracts costing less than \$200,000 equivalent, except the first contract for goods under the Project; (iii) agricultural and other inputs, training, extension and planning activities, and incremental operating expenditures; and (iv) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each, and contracts for the employment of individuals valued at less than \$50,000 equivalent each; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to assist the Borrower to secure the biodiversity of KSNP and stop further habitat fragmentation, through: (i) improvement of the protection and management of KSNP, including involvement of local communities; (ii) promotion of sustainable management and maintenance of permanent forest cover in the buffer zone, including logging concession areas; and (iii) development of an integrated conservation and development project model to reconcile conservation and regional and district development.

#### Part A: Park Management

1. Preparation and implementation of a management and zoning plan for KSNP, including:

(a) strengthening of KSNP protection, management, enforcement, and participatory planning, through: strengthening of relevant local government agencies, carrying out of extension activities and planning activities, and infrastructure support, including provision of equipment and furniture; and

(b) boundary rationalization activities, species inventory, ecological monitoring, and socioeconomic and other research necessary for KSNP and buffer zone planning and management, including provision of related equipment.

2. Carrying out of monitoring and evaluation to:

(a) monitor encroachment and poaching, the effectiveness of enforcement measures, and other development impacts within KSNP boundaries; and

(b) develop monitoring and performance indicators to assess the status of KSNP, including boundary stability, habitat conditions, and species survival and distribution.

3. Provision of training in the improvement of skills in the relevant fields of expertise for KSNP personnel, including management staff, field staff and community extension workers.

4. Carrying out of a study on the financing options for long-term sustainable protected areas management, including the feasibility of the establishment of a trust fund.

5. Carrying out of a study to assess the potentials and constraints on KSNP becoming an eco-tourism site.



## Part B: Area and Village Development

1. Improvement of land use planning and community resource management in about 134 selected villages in the inter-action zone surrounding KSNP, including villages adjoining, or within, logging concession areas bordering KSNP, through:

(a) situational assessment; design, implementation and monitoring, and review, evaluation and revision of design of village development plans; and establishment of village conservation agreements; and

(b) provision of Grants to about 134 selected villages surrounding KSNP to finance sub-projects for small-scale infrastructure, agriculture intensification, scholarships for children and other training, and business and enterprise activities.

2. Strengthening central and provincial institutional capabilities for analyzing the impact of rural development activities on KSNP, and facilitating the assessment of Project effectiveness in enhancing social and economic development for boundary communities through provision of technical assistance and related training to staff.

3. Provision of training for improvement of relevant skills for Project coordinators, community organizers, extension workers, and land use and regional planning staff, and provision of conservation awareness information to boundary villages, government agencies and the community at large.

4. Improvement of the regulatory guidelines for inter-provincial spatial planning and regional planning practices to assist the regional economic development of the greater Kerinci-Seblat area to become more conservation oriented, and preparation of a spatial plan covering the areas having an impact on KSNP.

5. Collection of baseline information on the Orang Rimba presence in and utilization of KSNP and the buffer zone, including ecological and socio-economic impact assessment.

## Part C: Integrating Biodiversity in Forest Concession Management

1. Strengthening of relevant institutions through training and workshops, and establishment of appropriate policies for the effective management of forested areas bordering KSNP to act as an effective buffer zone for biodiversity, including carrying out of extension activities.

2. Identification, monitoring and protection of high biodiversity sites of conservation value within the logging concessions bordering KSNP, including ecological and biodiversity survey of logging concessions areas, and carrying out of independent audits of forestry logging and conservation practices in selected logging concessions around KSNP, and provision of related equipment.

3. Strengthening the Borrower's management of logging concessions through the application of the overall regional land use priorities supported by the Project, including the spatial plan and the ecological and biodiversity survey results, to such concession management.

4. Establishment of a system for monitoring the integrity of KSNP and the logging concession boundaries, including the effectiveness of preserving biodiversity; and development of a capability to monitor and evaluate forest management practices within logging concession areas, including the success of conservation sites within logging concession boundaries.

5. Provision of training for staff of the Directorate General for Forest Utilization and other relevant agencies of the Ministry of Forestry, the provincial forestry departments, and relevant staff of the logging concessions in the Project area, in biodiversity conservation assessment and forest concession audits.

\* \* \*

The Project is expected to be completed by March 31, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
January 15, 2002	370,000
July 15, 2002	385,000
January 15, 2003	395,000
July 15, 2003	410,000
January 15, 2004	425,000
July 15, 2004	440,000
January 15, 2005	455,000
July 15, 2005	470,000
January 15, 2006	490,000
July 15, 2006	505,000
January 15, 2007	520,000
July 15, 2007	540,000
January 15, 2008	560,000
July 15, 2008	580,000
January 15, 2009	600,000
July 15, 2009	620,000
January 15, 2010	640,000
July 15, 2010	665,000
January 15, 2011	685,000
July 15, 2011	710,000
January 15, 2012	735,000
July 15, 2012	760,000
January 15, 2013	790,000
July 15, 2013	815,000
January 15, 2014	845,000
July 15, 2014	875,000
January 15, 2015	905,000
July 15, 2015	935,000
January 15, 2016	970,000
July 15, 2016	1,005,000

\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55

More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

#### SCHEDULE 4

##### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

##### Part A: General

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

##### Part B: Procurement Procedures

##### 1. National Competitive Bidding

Except as provided in paragraphs 2 through 5 of this Part, goods and works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

##### 2. National Shopping

Goods, other than agricultural inputs, estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$70,000 equivalent, and agricultural inputs, 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. Direct Contracting

Satellite imagery equipment which must be procured from a particular supplier because of limited source, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

##### 4. Procurement of Small Works

Works under Part B.1 (b) of the Project, estimated to cost less than \$40,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

##### 5. Community Participation

Works required for Part B.1 (b) of the Project may be procured in accordance with procedures acceptable to the Bank.

##### Part C: Review by the Bank of Procurement Decisions

##### 1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project

shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

## 2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more and the first contract for goods under the Project, and each contract for civil works estimated to cost the equivalent of \$500,000 or more and the first five contracts for civil works under Part B.1 (b) of the Project, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

## 3. Post Review

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

## Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Bank, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

## SCHEDULE 5

### Implementation Program

#### 1. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 1, 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 1, 1999, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the

efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank views on the matter.

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

(a) not later than March 31, 1997, complete the demarcation of the KSNP boundary; and

(b) not later than September 30, 1997, complete the gazettelement of KSNP.

3. In carrying out Parts A and C of the Project, the Borrower shall, not later than March 31, 1997, review measures to improve biodiversity management in logging concession areas adjacent to KSNP, including the possibility of excluding logging activities in certain areas, and, thereafter, cause the prompt implementation of any measures that are found to be feasible.

4. In carrying out Parts A and C of the Project, the Borrower shall take all steps necessary to ensure that existing logging permits for logging concessions in areas adjacent to KSNP are not renewed or extended without the inclusion of a biodiversity management zone for the areas adjacent to KSNP, such biodiversity management zone to remain in effect until biodiversity surveys have been carried out for purposes of identifying significant biodiversity sites to be protected. Thereafter, the identified biodiversity sites would remain as biodiversity management zones.

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

(a) take all measures necessary to ensure (i) that current mining exploration permits in KSNP are not renewed or extended after their expiration, and (ii) that, promptly upon the determination by the Borrower's Ministry of Mining that an area subject to a mining concession lacks significant economic potential, the applicable mining concession is terminated in accordance with applicable legislation;

(b) prior to the granting of exploration permits and exploitation or production licenses in KSNP, furnish to the Bank for comments, the full AMDAL evaluation by the Borrower's Sectoral AMDAL Commission, including the specifications of exploration, mining and extraction methods, and any other mitigation measures required to minimize any adverse impact on KSNP from the proposed activity;

(c) take all measures necessary to ensure that the exploration permit and the exploitation or production license, is granted solely on terms consistent with the findings and recommendations of the Borrower's Sectoral AMDAL Commission and the Bank's comments on the AMDAL evaluation; and

(d) thereafter, ensure that all recommended mitigation measures are promptly and fully carried out.

6. In carrying out Part B of the Project the Borrower shall:

(a) not later than September 30, 1998, prepare and carry out a land zoning plan for the Project area, including recommendations for the long-term management plan of KSNP, acceptable to the Bank; and

(b) not later than June 1, 1999, review the land zoning plan for the Project area, and, promptly thereafter, carry out the recommendations of such review, taking into account the comments of the Bank.

7. In carrying out Part B.1 (b) of the Project, the Borrower shall make Grants in accordance with the procedures and on the conditions set forth in Schedule 6 to this Agreement.

8. The Borrower shall:

(a) take all measures necessary to ensure that no roads shall be constructed or upgraded within KSNP until (i) the completion of the KSNP

management plan and the land zoning plan for the Project area referred to in paragraph 6 of this Schedule, and (ii) an AMDAL shall have been carried out; and

(b) ensure that any construction or upgrading shall be carried out in a manner consistent with the recommendations of the AMDAL, including recommendations for the carrying out of mitigating measures, and the requirements of the management plan and land zoning plan referred to in paragraph 6 of this Schedule.

9. The Borrower shall:

(a) until April 1, 1999, not cause or permit involuntary resettlement of persons residing within KSNP;

(b) thereafter, confine any involuntary resettlement to that required for purposes of protection of KSNP's biodiversity; and

(c) where involuntary resettlement is to be carried out, (i) furnish to the Bank for approval the Resettlement and Rehabilitation Action Plan, prepared on the basis of Schedule 7 to this Agreement, and (ii) thereafter, carry out the resettlement and rehabilitation of Affected Persons in accordance with the Resettlement and Rehabilitation Action Plan approved by the Bank.

10. In carrying out Part B.5 of the Project, the Borrower shall:

(a) not later than September 30, 1998, furnish to the Bank for comments, the results of the baseline study and the impact assessment;

(b) based on the results of the study and of the assessment, and taking into account the KSNP management plan, the land zoning plan for the Project area, and the comments of the Bank on the baseline study and impact assessment, prepare, not later than June 1, 1999, an action plan designed to ensure that the Orang Rimba do not suffer adverse effects as a result of the implementation of the above plans; and

(c) promptly thereafter, carry out such action plan in a manner satisfactory to the Bank.

11. The Borrower shall provide the vehicles and the fertilizers required under the Project in accordance with a schedule and timetable agreed with the Bank.

#### SCHEDULE 6

##### Procedures and Conditions of Grants

Except as the Bank shall otherwise agree, the following procedures and conditions shall apply for purposes of paragraph 7 of Schedule 5 to this Agreement.

1. The district head (Bupati) shall be responsible for the final selection of sub-projects in his district, and shall take into account the recommendations of the relevant sub-district head (Camat) and therelevant Village Community Resilience Institute (Lembaga Ketahanan Masyarakat Desa).

2. Each Grant shall be made only to a Grantee which shall have established to the satisfaction of the Borrower that:

(a) the sub-project for which the Grant is proposed to be made:

(i) is technically feasible, environmentally viable (including conservation of biodiversity), and economically justified; and, in the case of public infrastructure, economically justified;

(ii) is estimated to cost \$40,000 equivalent or less; and

(iii) targets the most disadvantaged common interest groups;

(b) necessary funding to fully finance the sub-project has been obtained, including the Grant and any voluntary contributions to be made by the villagers;

(c) an implementation plan for the completion of such sub-project has been prepared; and

(d) the Grant, when added to any prior Grant obtained, does not exceed the maximum of \$75,000 equivalent.

3. Grants shall be made on terms whereby the Borrower shall obtain, by written contract with each of the Grantees or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including the right, as applicable, to:

(a) require the Grantee to carry out and operate the sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement, and (ii) such goods and services shall be used exclusively in the carrying out of the sub-project;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the sub-project, the operation thereof, and any relevant records and documents;

(d) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the benefits to be derived from the sub-project; and

(e) suspend or terminate the right of the Grantee to the use of the proceeds of the Loan upon failure by such Grantee to perform its obligations under its contract with the Borrower.

#### SCHEDULE 7

##### Terms of Reference for the Resettlement and Rehabilitation Action Plan

#### 1. Objectives

(a) Affected Persons shall be:

(i) compensated for their losses at full replacement cost prior to the actual move;

(ii) assisted with the move and supported during the transition period in the resettlement site; and

(iii) assisted in their efforts to improve their former living standards, income earning capacity, and production levels, or a least to restore them.

(b) Affected Persons shall participate and be consulted in the planning and the implementation of the resettlement through community participation.

(c) Affected Persons shall be integrated socially and economically into the host communities so that adverse impacts on host communities are minimized.

(d) Compensation for land, housing, infrastructure, and other assets shall be provided to the Affected Persons. Lack of legal title to the land and other assets as well as usufruct or customary rights thereto shall not be a bar to the provision of compensation.

(e) Compensation for land shall be provided in land of equivalent potential productive purpose. Compensation for houses and other assets shall be provided in cash at full replacement cost.

(f) Compensation for civic amenities, community grazing land and other community assets shall be provided in equivalent assets.

## 2. Content of Action Plan

The Resettlement and Rehabilitation Action Plan shall provide for:

- (a) eligibility criteria for determining Affected Persons in accordance with the definition set forth in Section 1.02 (a) of this Agreement;
- (b) entitlements for compensation and rehabilitation;
- (c) organizational responsibilities;
- (d) costs and budgets;
- (e) community participation and integration with host populations;
- (f) socioeconomic survey;
- (g) legal framework of resettlement, including applicable legal and administrative procedures;
- (h) identification of alternative sites and of selected sites;
- (i) valuation of and compensation for lost assets at replacement cost in accordance with paragraph 1 (d), (e) and (f) of this Schedule;
- (j) review of land tenure and transfer systems;
- (k) provision of access to training, employment and credit for Affected Persons;
- (l) provision of adequate resources for shelter, infrastructure and social services;
- (m) environmental impact of resettlement on host communities and environmental management;
- (n) implementation schedule of resettlement, and monitoring and evaluation of resettlement;
- (o) grievance mechanisms to adequately address compensation issues of Affected Persons;
- (p) monitoring of the impact of the Resettlement and Rehabilitation Action Plan by an independent agency; and
- (q) reporting procedures to the Bank.

### SCHEDULE 8

#### Special Account

## 1. For the purposes of this Schedule:

- (a) the term "eligible Categories" means Categories (1) through (9) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
- (c) the term "Authorized Allocation" means an amount equivalent to \$1,800,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the



Authorized Allocation shall be limited to an amount equivalent to \$900,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$4,000,000.

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 Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

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

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

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02

of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

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

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

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

