

CONFORMED COPY

LOAN NUMBER 3888-IND

Loan Agreement
(Village Infrastructure Project for Java)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 29, 1995

LOAN NUMBER 3888-IND

LOAN AGREEMENT

AGREEMENT, dated June 29, 1985, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: 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 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, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (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) "BAPPENAS" means the National Development Planning Agency of the Borrower and includes any successor or successors thereto;
- (b) "BAPPEDAs (Level I) and (Level II)" mean the development planning agencies of the Borrower at the provincial and Kabupaten levels, respectively;
- (c) "Bupati" means Head of Kabupaten;
- (d) "Camat" means Head of Kecamatan;
- (e) "Kabupaten" means district, an administrative division of the Borrower;
- (f) "DPUK" and "DPUKs" mean singularly the Office of Public Works of a Kabupaten and collectively the Offices of Public Works of Kabupatens;
- (g) "Grant" and "Grants" mean singularly the grant and collectively the grants to be made available by the Borrower to the Project Villages out of its own resources and the proceeds of the Loan in accordance with in Section 3.01 (b) (ii) of this Agreement;
- (h) "IDT Program" means Inpres Desa Tertinggal Program, one of the Borrower's poverty reduction programs;
- (i) "Kepala Desa" means elected Head of village;
- (j) "Kecamatan" means an administrative Sub-district of

the Kabupaten;

(k) "LKMD" means a village community group headed by the Kepala Desa;

(l) "MHA" means the Ministry of Home Affairs of the Borrower;

(m) "MPW" means the Ministry of Public Works of the Borrower;

(n) "Project Village" and "Project Villages" mean singularly a village, and collectively the villages selected for participation in the Project by the Borrower as set forth in Part A.1 of Schedule 5 to this Agreement;

(o) "PMU" means the project management unit established and operating within BAPPENAS pursuant to Ministerial Decree (Kepmen), No. 008/KET/2/1995, dated February 20, 1995;

(p) "Project year" means each period of twelve months, beginning the first Project year, on April 1, 1995;

(q) "Compensation Guidelines" means the framework prepared by the Borrower in agreement with the Bank for carrying out the compensation of Affected Persons as set forth in Part C of Schedule 5 to this Agreement and in the Project Manual, and as such Guide-lines may be amended from time to time in agreement with the Bank;

(r) "Affected Person" or "AP" means a person who, on account of the execution of Part A of the Project, has or would have his/her:

- (i) standard of living adversely affected;
- (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or
- (iii) business, occupation, work or place of residence or habitat adversely affected.

(s) "Project Performance Indicators" means those indicators designed to measure the Borrower's performance in achieving Project objectives and agreed to between the Borrower and the Bank;

(t) "Project Manual" means the manual prepared by the Borrower, in consultation with the Bank, to assist the Project Villages in the implementation of the Project through the description of, inter alia, procurement procedures and standard documentation, reporting requirements, Project Performance Indicators, Guide-lines for Compensation and Resettlement, environmental criteria applicable to sub-project design, maintenance provisions for works carried out under the Project and criteria for the selection of sub-projects;

(u) "Rupiah" or "Rp" means Indonesian Rupiah, the currency of the Borrower;

(v) "Sub-project" and "Sub-projects" mean singularly a sub-project and collectively the public infrastructure sub-projects referred to in Part A of the Project;

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

(x) "Fiscal year" means the Borrower's fiscal year which

runs from April 1 to March 31.

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 the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of seventy two million five hundred thousand dollars (\$72,500,000), 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 on terms and conditions satisfactory to the Bank. 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 September 30, 1998 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 February 1 and August 1 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 engineering, financial, social 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 Bank; and
- (ii) make available an amount up to one hundred and twenty million Rupiah (Rp.120,000,000) to each Project Village on a grant basis.

(c) 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. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

- (a) prepare and furnish to the Bank 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 Bank, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the Project;
- (b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and
- (c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

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, commencing on October 30, 1996, 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 or payment out of the Special 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

Termination

Section 5.01. 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 Ministry 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:

Minister of Finance
Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P. O. Box 139
Jakarta 10710, Indonesia

Cable address:

Telex:

FINMINISTRY
Jakarta

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:

Telex:

INTBAFRAD

248423 (RCA)
28987 (FTCC)
64145 (WUI) or
197688 (TRT)

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
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Russell Cheetham
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. Goods, works and services under Grants	59,000,000	90%
2. Consultants' services	10,000,000	100%
3. Unallocated	3,500,000	
TOTAL	ÄÄÄÄÄÄÄÄÄÄÄÄ \$72,500,000 =====	

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; and

(c) the term "goods, works and services under Grants" means expenditures incurred by the Project Villages to carry out approved Sub-projects.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$7,200,000, may be made in respect of Categories (1) and (2) on account of payments made for expenditures before that date but after January 31, 1995.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts under such terms and conditions as the Bank shall specify by notice to the Borrower for:

(a) goods, works and services under Category (1) of Paragraph 1 of this Schedule;

(b) the employment of consulting firms estimated to cost less than \$100,000; and

(c) the employment of individual consultants, estimated to cost less than \$50,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in the implementation on Java of a pilot program aimed at:

(a) improving the standard of living, and access of selected Project Villages to public infrastructure;

(b) promoting job creation through community participation in the construction of public works; and

(c) supporting the Borrower's decentralization policies, including the review of non-infrastructure constraints to trade and transport in the rural areas.

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

Part A: Construction of Public Works

Provision of Grants to about 1200 Project Villages on Java to carry out public infrastructure Sub-projects.

Part B: Strengthening Project Implementation Capabilities

1. Strengthening the implementation and administration capabilities of Project Villages to, inter alia, design, procure and construct public works and ensure the quality and sustainability of such works.

2. Strengthening the management, supervision, and socio-economic monitoring and evaluation capabilities of PMU.

* * * *

The Project is expected to be completed by March 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
February 1, 2001	1,395,000
August 1, 2001	1,445,000

February 1, 2002	1,495,000
August 1, 2002	1,550,000
February 1, 2003	1,600,000
August 1, 2003	1,660,000
February 1, 2004	1,720,000
August 1, 2004	1,780,000
February 1, 2005	1,840,000
August 1, 2005	1,905,000
February 1, 2006	1,975,000
August 1, 2006	2,045,000
February 1, 2007	2,120,000
August 1, 2007	2,195,000
February 1, 2008	2,270,000
August 1, 2008	2,350,000
February 1, 2009	2,435,000
August 1, 2009	2,520,000
February 1, 2010	2,610,000
August 1, 2010	2,700,000
February 1, 2011	2,800,000
August 1, 2011	2,895,000
February 1, 2012	3,000,000
August 1, 2012	3,105,000
February 1, 2013	3,215,000
August 1, 2013	3,330,000
February 1, 2014	3,450,000
August 1, 2014	3,570,000
February 1, 2015	3,695,000
August 1, 2015	3,830,000

* 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 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before	1.00

maturity

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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. National Shopping

Goods estimated to cost fifty-five thousand dollars (\$55,000) equivalent or less per contract, and five million dollars (\$5,000,000) equivalent or less in the aggregate, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraph 3.5 and 3.6 of the Guidelines.

2. Procurement of Small Works

Works estimated to cost fifty-five thousand dollars (\$55,000) equivalent or less per contract, and not to exceed five million (\$5,000,000) in the aggregate, shall be procured under lumpsum, 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 successfully complete the contract.

3. Direct Contracting

Goods and works necessary to carry out the Sub-projects referred to under Part A of the Project estimated to cost ten thousand dollars (\$10,000) equivalent, or less per contract, and costing ten million dollars (\$10,000,000) equivalent, or less in the aggregate, may be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Community Participation

Works required for Part A of the Project costing sixty-five million dollars (\$65,000,000) equivalent in the aggregate shall be procured in accordance with a procurement plan and procedures acceptable to the Bank and described in the Project Manual.

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

With respect to contracts for goods and works, 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 one hundred thousand dollars (\$100,000) equivalent each; or

(b) contracts for the employment of individual consultants estimated to cost less than fifty thousand dollars (\$50,000) equivalent each. However, said exceptions to prior Bank review shall not apply to:

- (i) the terms of reference for such contracts;
- (ii) single-source selection of consulting firms;
- (iii) assignments of a critical nature, as reasonably determined by the Bank;
- (iv) amendments to contracts for the employment of consulting firms raising the contract value to one hundred thousand dollars (\$100,000) equivalent or above; or
- (v) amendments to contracts for the employment of individual consultants raising the contract value to fifty thousand dollars (\$50,000) equivalent or above.

SCHEDULE 5

Implementation Program

Part A: Implementation Actions

Except as the Bank and the Borrower shall otherwise agree, the Borrower shall select Project Villages and sub-projects in accordance, inter alia, with the following provisions.

1. Selection of Project Villages

(a) A village of the Borrower shall qualify as a Project Village if the Borrower has selected such village, on the basis of criteria satisfactory to the Bank including, inter alia:

- (i) the village is located in the provinces of Java;
- (ii) the village has been included in the Borrower's IDT Program; and
- (iii) the village has at least 700 inhabitants.

(b) The Borrower shall, throughout Project implementation, ensure that the selection of Project Villages is carried out in accordance with the following procedures:

- (i) Bupatis, in consultation with the Camats, shall select the Project Villages taking into account the criteria described under Paragraph (a) above;

- (ii) Bupatis shall prepare by not later than September 30, 1995, and furnish to the PMU and the Bank for approval, by not later than December 31, 1995, a list of proposed Project Villages to be included in the second and eventual third Project years; and
- (iii) Bupatis and Camats shall have issued to the Project Villages, by not later than April 1, in each Project year, public information aimed at disclosing to villagers and their representatives, all procedural, technical, administrative, financial and environmental aspects pertaining to the selection, design, preparation and implementation of Sub-projects.

2. Selection and Implementation of Sub-projects

(a) A Sub-project shall qualify as eligible for financing out of the proceeds of the Loan only if:

- (i) the Sub-project is a public infrastructure and is technically, environmentally viable, and economically justified by the number of users;
- (ii) the Sub-project proposal has been publicly discussed among, and agreed to by the villagers in all Project Villages under the coordination of the Kepala Desa/LKMD;
- (iii) the Sub-project proposal has been submitted to the respective Camat for review and comments; and
- (iv) the Sub-project proposal has been submitted to the Bupatis for information.

(b) The Borrower shall ensure that, prior to the carrying out of works under proposed Sub-projects, the field engineers shall have completed a technical review of such Sub-project prior to its approval or replacement by an alternative Sub-project, if necessary. The field engineer shall confirm the following:

- (i) all selection criteria described under paragraph 2 (a) above have been complied with;
- (ii) all necessary measures have been taken to avoid or minimize land acquisition and displacement of Affected Persons under the proposed Sub-project;
- (iii) necessary funding to fully finance the proposed Sub-project has been obtained including availability of the Grant and any voluntary contributions to be made by the respective Project Village;
- (iv) appropriate engineering and environmental standards and practices that would minimize any land acquisition and avoid involuntary resettlement of Affected Persons have been considered to design the Sub-project;
- (v) Compensation Guidelines have been complied with, and, if applicable, appropriate compensation arrangements have been completed and are satisfactory to the Affected Persons as set forth under such Guidelines and Part C of this Schedule;
- (vi) contractual arrangements to procure civil works

and goods, in accordance with the provisions of Part B.4 of Section I of Schedule 4 to this Agreement have been finalized in accordance with the provisions of the Project Manual;

- (vii) an implementation plan for the completion of the Sub-project has been prepared in accordance with the provisions of the Project Manual; and
- (viii) a maintenance program for the works to be carried out under the Sub-project has been prepared in accordance with terms satisfactory to the Bank, which shall include, inter alia, assignment of maintenance responsibilities in the respective Project 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.

(c) The Borrower shall cause the Project Villages to carry out the Sub-projects approved for the respective Project year, in accordance with a timetable and guidelines agreed between the Borrower and the Bank and described in the Project Manual.

3. Without limitation upon the provision of Section 9.07 of the General Conditions, the Borrower shall cause the PMU to prepare and submit to the Bank for its review:

(a) starting September 30, 1995, and until the completion of the Project, quarterly progress reports; and

(b) an annual report by March 31 of each Project year.

4. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank on or about January 1, 1996, 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 February 1, 1996, 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's views on the matter.

6. The Borrower shall:

(a) carry out every year during the implementation of the Project, annual technical audits, in a manner acceptable to the Bank, for Project quality assurance, including, inter alia, performance of civil works, consultants' contracts, procurement of goods and completion of Sub-projects; and

(b) promptly after completing said audits, furnish to the Bank the recommendations submitted as part of said audits.

Part B: Agencies and Institutions responsible for Project implementation

1. BAPPENAS, through its PMU, as hereinafter defined, shall be responsible for the overall coordination of the Project.
2. The Project Management Unit (PMU) established within BAPPENAS to oversee Project implementation, comprising representatives of, inter alia, MOF, MHA and MPW, shall be maintained through Project implementation with staffing in adequate numbers and qualifications as agreed between the Borrower and the Bank.
3. BAPPEDAs (Level I) shall appoint, and thereafter maintain throughout Project implementation, qualified counterpart staff to work closely with the senior engineering staff employed under the Project.
4. BAPPEDA (Level II) shall be responsible in each Kabupaten for the coordination of all Project-related activities with other relevant agencies and departments of the Borrower.
5. DPUK shall be the executing agency at the Kabupaten level.
6. The Borrower shall, by not later than March 31 in every Project year, cause the DPUKs overseeing Project Villages to select and employ, and thereafter maintain, until the completion of the Project, qualified and experienced Project Managers (Pimpros), in adequate numbers. The Pimpros shall be responsible for assisting their respective DPUKs in the record keeping of expenditures incurred by the Borrower during the implementation of the Project.
7. The LKMD in each Project Village shall be responsible for the implementation of Sub-projects approved for such Village.
8. The Borrower shall ensure, throughout Project implementation:
 - (a) that the Project Manual is made available to Project Villages; and
 - (b) that such Manual is periodically updated, if needed, in consultation with the Bank.

Part C: Compensation for Affected Persons

In carrying out Part A of the Project:

- (a) The Borrower shall take measures to avoid or minimize the acquisition of land or assets of villagers and to avoid the displacement of said villagers.
- (b) Where the acquisition of land or assets or the displacement of villagers 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 such villagers, compensation in accordance with the Compensation Guidelines agreed between the Borrower and the Bank.
- (c) In the event that two hundred (200) or more villagers are negatively affected by a Sub-Project, the Borrower shall:
 - (i) prepare and furnish to the Bank a resettlement plan satisfactory to the Bank and in accordance with the Compensation Guidelines; and
 - (ii) prior to approving the Sub-project, ensure that

all Affected Persons shall be compensated in accordance with the provisions of said plan.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project 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 ten million dollars (\$10,000,000) 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 seven million two hundred thousand dollars (\$7,200,000) 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 twenty five million dollars (\$25,000,000).

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 a deposit or deposits 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 in 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, less the amount of any outstanding special commitment 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.

