

CONFORMED COPY

CREDIT NUMBER 3526 IND

Development Credit Agreement

(Library Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 30, 2001

CREDIT NUMBER 3526 IND

DEVELOPMENT CREDIT AGREEMENT

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

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 Association to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

as paragraphs 13 through 15:

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

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

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

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

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

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

(a) "CPMU" means the Central Project Management Unit established within the National Library on May 1, 2001, and maintained in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement, responsible, inter alia, for monitoring the Project.

(b) "District Library" means the district library in each Participating District.

(c) "Grant" means a grant made or proposed to be made by the Borrower under Part A.1 of the Project out of the proceeds of the Credit to a Project Library for purposes of financing Library Improvement Activities.

(d) "Grants Operational Manual" means the operational manual for grants referred to in paragraph 2 of Schedule 4 to this Agreement.

(e) "Library Improvement Activities" means the items and actions which are to be financed by a Grant and to be acquired or carried out, as the case may be, by a Project Library to enhance library services at the community and primary school levels, including (1) the provision of books, magazines, library materials, library furniture and minor remodeling of library premises; and (2) the development and implementation of reading promotion activities.

(f) "National Library" means the National Library established pursuant to Presidential Decree (Keppres) No. 178/2000.

(g) "Primary Schools" means public and private Sekolah Dasar and Madrasah Ibtidaiyah in the Project Districts.

(h) "Project Districts" means the following districts: Kabupaten Banyumas, Kabupaten Blora, Kabupaten Brebes, Kabupaten Grobogan, Kabupaten Jepara, Kabupaten

Karanganyar, Kabupaten Kebumen, Kabupaten Magelang, Kota Pekalongan and Kota Surakarta in the province of Central Java; Kabupaten Bima, Kabupaten Dompu, Kabupaten Lombok Barat, Kota Mataram, Kabupaten Lombok Tengah, Kabupaten Lombok Timur, and Kabupaten Sumbawa in the province of West Nusa Tenggara; Kota Palembang, Kabupaten Lahat, Kabupaten Muara Enim, Kabupaten Musi Rawas and Kabupaten Ogan Komering Ulu in the province of South Sumatera; and Kabupaten Bangka in the province of Bangka Belitung.

(i) "Project Library" means a library selected in accordance with the provisions of the Grants Operational Manual.

(j) "Project Provinces" means the Borrower's provinces of Central Java, West Nusa Tenggara, South Sumatera and Bangka Belitung.

(k) "Project Management Manual" means the manual for the management of the Project referred to in paragraph 2 of Schedule 4 to this Agreement.

(l) "PPIU" means the Provincial Project Implementation Unit established within the Provincial Library in each of the Borrower's provinces of Central Java, West Nusa Tenggara and South Sumatera.

(m) "Special Account" means the account referred to in Section 2.02(b) of 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 three million, two hundred seventy thousand Special Drawing Rights (SDR 3,270,000).

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 (i) for amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of Grants made under Part A.1 of the Project to meet the reasonable cost of books, magazines and other goods and services required for Library Improvement Activities and in respect of which withdrawals from the Credit Account are requested; and (ii) for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of books, goods and services required for Parts A. 2 and B of 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 7 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2004, 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 semiannually on January 1 and July 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 semiannual installments payable on each January 1 and July 1, commencing July 1, 2011 and ending January 1, 2036. Each installment to and including the installment payable on January 1, 2021, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first 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 objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall: (a) carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and educational practices, and (b) shall provide, promptly as needed, the funds, facilities, services and other resources

required for the Project.

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

Section 3.02. Except as the Association shall otherwise agree, procurement of the books and magazines, other 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 before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the 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 August 15, 2002, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

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

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

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

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

ARTICLE V

Effective Date; Termination

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

(a) the Borrower has adopted the Project Management Manual and the Grants Operational Manual pursuant to the provisions of paragraph 2 of Schedule 4 to this Agreement; and

(b) a Project management consultant and a procurement and financial management consultant have been engaged in accordance with the provisions of

Section II, Part B.2 of Schedule 3 to this Agreement, to assist the CPMU in the carrying out of its terms of reference.

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

Cable address:

FINMINISTRY
Jakarta

Telex:

45799 DJMLN-IA
44319 DEPKEU-IA

Facsimile:

(21) 381 2859

For the Association:

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

Cable address:

477-6391

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202)

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/ H. E. DR. Boediono

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mark Baird

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Grants under Part A.1 of the Project	1,960,000	100% of amount disbursed
(2) Books, magazines, other reading materials and other goods under Parts A.2 and B of the Project	80,000	80%
(3) Training	350,000	80%
(4) Incremental Project administration	350,000	80%
(5) Consultants' services	530,000	100%
TOTAL	3,270,000	

2. For the purposes of this Schedule:

(a) the term "Training" means expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including the travel costs and per diem of trainers and trainees, rental of facilities and training materials; and

(b) the term "Incremental Project administration" means reasonable expenditures on account of the Project incurred by the CPMU and the PPIUs for administrative costs, including the costs of office equipment and materials, office support, consumable materials, travel and per diems, but excluding salaries and honoraria.

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 Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: Grants; goods and works under contracts costing less than \$25,000 equivalent and \$50,000 equivalent, respectively, each; books, magazines and other reading materials; training; Incremental Project administration; individual consultant contracts costing less than \$25,000 equivalent each; and consulting firm contracts costing less than \$50,000 equivalent each; in each case 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 enhancing literacy in Indonesia through developing innovative approaches to increasing the use of reading materials in community libraries and primary school libraries, motivating students and communities to use, enjoy and value books for recreational and informational purposes; and developing a national strategy for community and primary school support involving

local community support, non-governmental organizations and local governments.

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

Part A: Support for Libraries

1. Carrying out of a program to enhance library services at the community and primary school levels by providing Grants to selected community and school libraries in the Project Districts for Library Improvement Activities.
2. Enhancing the availability of books at the district level through the provision of books, magazines and other reading materials to District Libraries.

Part B: Institutional Development

1. Training of library staff at the provincial and district library level of the Project Provinces in: (a) field survey techniques for purposes of selecting community and primary school libraries as beneficiaries of Grants under Part A. 1 of the Project and of training under Part B.1 of the Project; and (b) skills for monitoring and evaluating the impact of the Project on such beneficiaries.
2. Training of library staff in the Project Provinces at the provincial level and in the Project Libraries for purposes of strengthening skills in providing reader services.
3. Conducting book fairs in the District Libraries to provide Project Libraries with a wider access to books.
4. Carrying out a program in selected Project Libraries to introduce new approaches to improving reading habits and the participation of communities in library operations, through the provision of technical assistance.
5. Carrying out a program of reading habit promotion among users of Project Libraries.
6. Carrying out a program of information dissemination to the mass media, non-governmental organizations, provincial and district governmental authorities, the private sector and the general public about the Project and experiences gained thereunder.
7. Carrying out a program of studies to evaluate Project achievements and to develop a plan for the implementation of the Project's objectives on a nationwide and long-term basis, including recommending techniques for the financial sustainability of community and primary school libraries, through the provision of technical assistance.
8. Strengthening the institutional capacity of the National Library and the Provincial Libraries in Central Java, West Nusa Tenggara and South Sumatera, through the provision of technical assistance, training and office equipment and supplies.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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

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

Part B: Procurement Procedures

1. National Shopping

Except as otherwise agreed by the Association pursuant to the provisions of paragraph 2. of this Part B, goods, other than books and magazines, required for the Project shall 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.

2. Direct Contracting

Books and magazines required for Part A of the Project shall be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

3. Community Participation

Works required for Part A.1 of the Project shall 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

With respect to each contract for (a) goods, books or magazines required for the Project and estimated to cost \$25,000 equivalent or more, and (b) works required for the Project and estimated to cost \$50,000 or more, the following procedures shall apply:

- (i) prior to the selection of any supplier, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract, the Borrower shall provide to the Association a copy of the draft contract; and
- (iii) 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 C, 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, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

Part B: Procedures for the Selection of Consultants

1. Selection Based on Consultant's Qualifications

Except as otherwise provided in this Part B, consultants' services shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. 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 \$50,000 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 \$25,000 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.

(c) For all contracts for consultants not covered by sub-paragraphs (a) and (b) of this paragraph 2, the terms of reference of the consultants shall be furnished to the Association for its prior review and approval. Each such contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract covered by sub-paragraph (c) of 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, or cause to be maintained, as the case may be, until completion of the Project, a CPMU and PPIUs with such terms of reference, facilities and appropriately qualified staff as shall be required to assist in the carrying out of the Project and as shall be acceptable to the Association.

2. The Borrower, through the National Library, shall:

(a) adopt and thereafter apply until the completion of the Project: (i) a Grants Operational Manual acceptable to the Association for the purposes of carrying out Part A.1 of the Project and (ii) a Project Management Manual acceptable to the Association for the purposes of the overall carrying out of the Project; and

(b) not amend, abrogate or waive the provisions of said Grants Operational Manual and Project Management Manual without the Association's prior approval.

3. In carrying out Part A.1 of the Project, the Borrower undertakes that Grants will be provided in accordance with the procedures and on the conditions set forth or referred to in Schedule 5 to this Agreement.

4. The Borrower shall :

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, satisfactory to the Association, and in accordance with the indicators set forth in Schedule 6 to this Agreement and with the Project Management Manual, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by February 28 and August 31 of each year, commencing February, 2002, and until completion of the Project, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 4, on the progress achieved in the carrying out of the Project during the preceding six 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 six months following such date;

(c) review with the Association, on or about March 31 and September 30 of each year, commencing March 31, 2002, or such later date as the Association shall request, the report referred to in sub-paragraph (b) of this paragraph 4, and, thereafter, take all measures required to ensure the efficient carrying out 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 said report and the Association's views on the matter;

(d) by February 28, 2003, prepare under terms of reference satisfactory to the Association and furnish to the Association, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 4, on the progress achieved in carrying out 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

(e) review with the Association, on or about April 30, 2003, or such later date as the Association shall request, the report referred to in sub-paragraph (d) of this paragraph 4, 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 such report and the Association's views on the matter.

SCHEDULE 5

Procedures and Conditions for Grants

1. Grants as described in Part A.1 of Schedule 2 to this Agreement shall be made: (i) in accordance with the Grants Operational Manual, and (ii) on terms whereby the Borrower shall obtain, by written agreement with each Project Library or by other appropriate legal means, rights adequate to protect the interests of the Borrower and the Association, including the rights to:

(a) require that the books, magazines, other goods and services to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Schedule 3 to this Agreement;

(b) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such books, magazines, other goods and the works financed by the Grant, and any relevant records and documents; and

(c) suspend or terminate the right of such Project Library to use the proceeds of the Grant, upon failure by such Project Library to perform any of its obligations under its agreement with the Borrower.

2. The Borrower shall, for purposes of Part A.1 of the Project, select libraries on the basis of criteria acceptable to the Association, including book collection practices, adequacy of library space and facilities and standards of public service.

3. Grants shall be used exclusively for expenditures by Project Libraries for Library Improvement Activities. No less than 60% of each Grant shall be spent on books and magazines and no more than 20% of the initial installment of each Grant shall be spent on minor library remodeling.

4. Except as the Association may otherwise agree:

(a) the Grant per community library selected as a Project Library shall not be more than Rp. 6,000,000 as a first installment and Rp. 4,500,000 per subsequent installments;

(b) the Grant per primary school library selected as a Project Library shall not be more than Rp. 5,000,000 as a first installment and Rp. 3,500,000 per subsequent installments; and

(c) the Grant per multi-school library selected as a Project Library shall not be more than Rp. 7,000,000 as a first installment and Rp. 5,500,000 per subsequent installments.

SCHEDULE 6

Project Performance Indicators

A. Achievement of Project Development Objectives

1. Use of primary school library resources is integrated into classroom teaching and students use primary school resources for recreational reading outside school and take materials home.

2. Use of community library is integrated into community activities.

3. Students/community users demonstrate increase in reading and wider use of library services.

4. Improvements made in primary school and community libraries are sustainable after the Project is completed.

5. Dissemination to non-project sites.

- B. Outputs of each component
1. Usage of Libraries increases:
 - (a) Community libraries:

Number of books checked out increases by 25% on average per year per district per province.

Number of people visits increases by 15% on average per year, per district and per province.
 - (b) Primary school libraries:

At least 75% of teachers regularly check out books by the end of the project.

Number of books read/checked out increases by 25% on average per year per school.
 2. Appropriate library management:
 - (a) Community libraries:

Opening hours at least 3 hours/day, 6 hours/week for all libraries.

Clean, orderly library, variety of book titles and staffed adequately.
 - (b) Primary school libraries:

Opening hours at least 4 hours during school days (50% during and 50% outside class hours).

In multi-school libraries: all schools participate equally.

Clean, orderly library, variety of book titles and staffed adequately.
 3. Users representation reflects client group:
 - (a) Community libraries:

Substantial representation by age/gender within client group.
 - (b) Primary school libraries:

Students reading/checking out books are substantially represented by grade and gender.

Community involvement/participation for sustainability.

Increase in donation (labor, books, money from community to library 5% on average per year per district).
 4. Community involvement/participation for sustainability:
 - (a) Community libraries:

Increase of donations (labor, books, money from community to library 5% on average per year per districts).

New libraries are being established in district during project by community and local government.

Local government are allocating increased budget during project.
 - (b) Primary school libraries:

Students' participation in library operation.

Community actively involved/participation in library operation.

5. Provincial/District library institutional capacity is increased:

(a) Community libraries:

Province/District Libraries/local district government increase technical and financial supports to non-project libraries.

(b) Primary school libraries:

Province/District Libraries/government increase technical and financial supports to non-project libraries.

SCHEDULE 7

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 \$500,000, 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 \$250,000 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 \$1,000,000.

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.

