

CONFORMED COPY

LOAN NUMBER 4193 IND

Loan Agreement

(Quality of Undergraduate Education Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated August 4, 1997

LOAN NUMBER 4193 IND

LOAN AGREEMENT

AGREEMENT, dated August 4, 1997, 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 for Single Currency Loans" of the Bank, dated May 30, 1995, with the modification of Section 6.03 set forth below (the General Conditions) constitute an integral part of this Agreement:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with

respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

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

(a) "CPCU" means the Central Project Coordination Unit maintained in accordance with paragraph 1 of Schedule 5 to this Agreement, responsible for monitoring the Project and providing training and technical assistance to department heads and deans participating in a QUE Sub-project (as hereinafter defined);

(b) "DGHE" means the Directorate General of Higher Education in the Borrower's Ministry of Education and Culture;

(c) "DPT" means Dewan Pendidikan Tinggi, the Borrower's Board of Higher Education (BHE) established by Ministerial Decree No. 0121/U/1996 and responsible for evaluating Project implementation and overseeing the selection of QUE and DSC Sub-projects;

(d) "DSCs" means the Discipline Service Centers established at the following universities and for the following disciplines: Universitas Gadjah Mada (basic sciences, social sciences and economics); Institut Keguruan dan Ilmu Pendidikan Bandung (education); Universitas Indonesia (law, letters and computer sciences); Institut Pertanian Bogor (agriculture and biology); Institut Teknologi Bandung (engineering); Universitas Airlangga (medical sciences); Institut Teknologi Sepuluh Nopember (marine sciences); and Institut Seni Indonesia (arts and humanities), and at such other universities and for such other disciplines as may be agreed between the Borrower and the Bank; and "DSC" means any one of such DSCs;

(e) "DSC Grant" means a grant made or proposed to be made by the Borrower partly out of the proceeds of the Loan to a DSC Grantee for a DSC Sub-project (as hereinafter defined);

(f) "DSC Grantee" means a DSC to which the Borrower proposes to make or has made a DSC Grant;

(g) "DSC Sub-project" means a specific research, education or technical support project to be carried out by a DSC Grantee under Part B.3 of the Project;

(h) "Fiscal Year" and "FY" mean the Borrower's fiscal year commencing April 1 and ending March 31;

(i) "QUE" means quality of undergraduate education;

(j) "QUE Grant" means a grant made or proposed to be made by the Borrower, partly out of the proceeds of the Loan to a QUE Grantee for a QUE Sub-project (both as hereinafter defined);

(k) "QUE Grantee" means a S1 level degree granting institution to which the Borrower proposes to make or has made a QUE Grant;

(l) "QUE Sub-project" means a specific development program to improve the quality of undergraduate education and the relevance of the study program offered, to be carried out by a QUE Grantee under Part A.1 of the Project;

(m) "S1 level" degree means the first academic degree given by a higher education institution in Indonesia after at least eight semesters of study beyond high school; and

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

## 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, an amount equal to seventy one million two hundred thousand dollars (\$71,200,000).

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: (i) 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 (other than Parts A.1 and B.3 of the Project) described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan; and (ii) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of QUE Grants made under Part A.1 of the Project and DSC Grants made under Part B.3 of the Project and in respect of which the withdrawal from the Loan Account is requested.

(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 on terms and conditions satisfactory to the Bank, including, in the case of a state commercial bank, appropriate protection against set-off, seizure and 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 March 31, 2004, 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 ( $\frac{3}{4}$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable in arrears on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of 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 through DGHE with due diligence and efficiency and in conformity with appropriate administrative, educational 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 (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 designed to ensure the continued achievement of the Project's objectives; 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  
their preparation, can be relied upon to  
withdrawals.

and internal controls involved in  
support the related

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 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

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:

248423 (MCI) or  
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in 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/ Javad Khalilzadeh-Shirazi

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 Dollars)	% of Expenditures to be Financed
(1) Goods under Part B.1 and B.2 of the Project and for the CPCU	700,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost), and 65% of local expenditures for other items procured locally
(2) Training under Part A.2 of the Project:		
(a) In-country	600,000	50%
(b) Overseas	500,000	100%
(3) QUE Grants	58,500,000	65% of Grant amount
(4) DSC Grants	6,700,000	70% of Grant amount
(5) Project management:		50%
(a) CPCU Activities	1,300,000	
(b) DPT Activities	400,000	
(6) Consultants' services for Parts A.2, B.1 and B.4 of the Project	2,000,000	70%
(7) Unallocated	500,000	
TOTAL	<u>71,200,000</u>	

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 "Project management" means expenditures on account of the Project by the CPCU and DPT for consumables, travel expenditures, and honoraria for CPCU and DPT staff.

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

(a) in respect of a QUE Grant or a DSC Grant, as the case may be, unless such QUE Grant or such DSC Grant has been made in accordance with the procedures and on the conditions set forth or referred to in Schedule 6 to this Agreement; and

(b) 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) DSC Grants and QUE Grants; (ii) goods under contracts costing less than \$250,000 equivalent each; (iii) training and Project management; and (iv) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each, and contracts for the employment of individuals 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 objective of the Project is to assist the Borrower in (i) improving the quality of undergraduate study programs in national priority fields, and (ii) promoting a more cost-effective allocation of public funds through resource allocation to high priority fields at public and private universities.

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: Improving the Quality of Undergraduate Study Programs

1. Financing, through provision of QUE Grants to S1 level degree granting institutions, of specific sub-projects consisting of development programs to improve the quality of undergraduate education and the relevance of the study programs offered.

2. Strengthening the capacity of DPT to carry out QUE Sub-project appraisal activities through the provision of technical assistance, the carrying out by DPT of workshops and training, and preparation of publications.

#### Part B: Expansion of the Services Provided by Discipline Service Centers

1. Strengthening the capacity of the DSCs to deliver on-line services, through:

- (a) the establishment of hardware connections to Internet access providers;
- (b) the preparation and maintenance of World Wide Web sites, and Internet subscriber services; and
- (c) provision of related software.

2. Provision of relevant books and journals to DSCs.

3. Financing, through the provision of DSC Grants to DSCs, of specific research, education and technical support sub-projects, including the integration of the DSCs' materials into coursework and its services into academic research.

4. Strengthening the capacity of DPT to carry out DSC Sub-project appraisal activities through the provision of technical assistance.

\* \* \*

The Project is expected to be completed by September 30, 2003.

## SCHEDULE 3

### Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

(i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

(i) one half of one percent (1/2 of 1%);

(ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period; as reasonably determined by the Bank and expressed as a percentage per annum.



(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

(i) one-half of one percent (1/2 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount; as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

#### C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each May 15 and November 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the eighteenth (18th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-twelfth (1/12) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after November, 15, 2012, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

### SCHEDULE 4

#### Procurement

##### 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 and August 1996 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

(a) Goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$100,000 equivalent for goods (other than those procured under DSC Grants and QUE Grants), may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 equivalent for goods (other than those procured under DSC Grants and QUE Grants), 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.

4. Direct Contracting

Goods (including books, journals and software) which should be procured as an extension of an existing contract, must be purchased from the original supplier to be compatible with existing equipment, or are of a proprietary nature, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: 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 \$250,000 or more, and the first contract for works under each DSC Grant and each QUE Grant, 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

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under QUE Sub-projects and DSC Sub-projects under Parts A.1 and B.3 of the Project, respectively, and for services for QUE and DSC Sub-project appraisal activities under Parts A.2 and B.4 of the Project, respectively, estimated to cost less than \$50,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Review by the Bank 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 Bank 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 Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms under QUE Sub-projects and DSC Sub-projects estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$250,000, the procedures set forth in paragraphs 1, 2 (other than the second 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 consulting firms under QUE Sub-projects and DSC Sub-projects estimated to cost the equivalent of \$250,000 or more, and each contract for the employment of individual consultants 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.

3. Post Review

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

SCHEDULE 5

Implementation Program

1. The Borrower shall, until completion of the Project, maintain (i) DPT; and (ii) the CPCU in accordance with terms of reference, staffing and resources acceptable to the Bank.

2. The Borrower shall:

(a) not later than February 28, 1998, January 31, 2000, and January 31, 2002, prepare and furnish to the Bank for comments, the terms of reference for the carrying out of the respective technical audits of Project implementation;

(b) by July 31, 1998, July 31, 2000, and July 31, 2002, cause technical audits to be carried out in accordance with terms of reference acceptable to the Bank; and

(c) promptly thereafter, furnish to the Bank for comments a copy of each such technical audit.

3. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, QUE Grants and DSC Grants will be made in accordance with the procedures and on the conditions set forth or referred to in Schedule 6 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each QUE Sub-project and each DSC Sub-project in such manner as to: (i) protect the interests of the Borrower and the Bank; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

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 indicators set forth in Schedule 7 to this Agreement, 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 June 30, 2001 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 September 30, 2001, 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.

5. In carrying out Part A.2 of the Project, the Borrower shall carry out the training in accordance with training programs acceptable to the Bank.

6. In carrying out Part B.3 of the Project, the Borrower shall, not later than June 30, 1998, furnish to the Bank the criteria, procedures, guidelines and model draft contract for DSC Grants for the Bank's review and approval.

SCHEDULE 6

Procedures and Conditions for QUE Grants under Part A.1

of the Project and DSC Grants under Part B.3 of the Project

1. QUE Grants and DSC Grants, as described in Schedule 2 to this Agreement, shall be made on terms whereby the Borrower shall obtain, by written contract with each of the QUE Grantees and DSC Grantees or by other appropriate legal means, rights adequate to protect the interests of the Borrower and the Bank, including the right to:

(a) require the QUE Grantee or DSC Grantee to carry out the QUE Sub-project or DSC Sub-project, respectively, with due diligence and efficiency and in accordance with sound educational, technical, financial and managerial standards and practices, and to maintain adequate records;

(b) require that: (i) the goods, works and consultants' 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 QUE Sub-project or DSC Sub-project, as the case may be;

(c) require the QUE Grantee or DSC Grantee, as the case may be, to 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 QUE Sub-project or DSC Sub-project, respectively, and the achievement of the objectives thereof;

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

(e) require that: (i) the QUE Grantee or DSC Grantee, as the case may be, shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the QUE Grantee or DSC Grantee, as the case may be, to replace or repair such goods;

(f) obtain all such information as the Borrower or the Bank shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the QUE Grantee or DSC Grantee, as the case may be, and to the benefits to be derived from the QUE Sub-project or DSC Sub-project, as the case may be; and

(g) suspend or terminate the right of the QUE Grantee or DSC Grantee, as the case may be, to the use of the proceeds of the QUE Grant or the DSC Grant, respectively, upon failure by such QUE Grantee or DSC Grantee to perform its obligations under its contract with the Borrower.

2. Each Grant under Part A.1 of the Project shall be made by the Borrower only:

(a) to a QUE Grantee which shall have established, to the satisfaction of the Borrower, acting through DPT, on the basis of criteria and procedures acceptable to the Bank, that said Grantee has (i) the organization, management, staffing and other resources required for the efficient carrying out of the QUE Sub-project, and (ii) has prepared an acceptable plan for the carrying out of the QUE Sub-project; and

(b) for a QUE Sub-project which is determined by the Borrower, acting through DPT, on the basis of guidelines acceptable to the Bank: (i) to be technically feasible and cost-effective, and (ii) to have been designed in accordance with appropriate educational standards.

3. Each DSC Grant under Part B.3 of the Project shall be made by the Borrower only:

(a) to a DSC Grantee which shall have established, to the satisfaction of the Borrower, acting through DPT, on the basis of criteria and procedures acceptable to the Bank, that said Grantee has (i) the organization, management, staffing and other resources required for the efficient carrying out of the DSC Sub-project, and (ii) has

prepared an acceptable plan for the carrying out of the DSC Sub-project; and

(b) for a DSC Sub-project which is determined by the Borrower, acting through DPT, on the basis of guidelines acceptable to the Bank: (i) to be technically feasible and cost-effective, and (ii) to have been designed in accordance with appropriate educational standards.

4. No expenditures for goods or services required for a QUE Sub-project or a DSC Sub-project shall be eligible for financing out of the proceeds of the Loan unless the QUE Sub-project or DSC Sub-project, as the case may be, shall have been approved by the Bank. When presenting a QUE Sub-project or DSC Sub-project to the Bank for review, the Borrower shall furnish to the Bank a draft QUE Grant agreement or DSC Grant agreement, as the case may be, in form satisfactory to the Bank, together with a description of the QUE Sub-project or DSC Sub-project, as the case may be, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, and such other information as the Bank shall reasonably request.

#### SCHEDULE 7

##### Project Performance Indicators

###### 1. QUE Grants under Part A.1 of the Project

(a) Percentage of top students who rate the selected study programs as their first or second choice:

(i) 10% increase over baseline at Project mid-term

(ii) 20% increase over baseline at Project completion

(b) Percentage of selected study program Grants rated as successful or highly successful by DPT in follow-up site visit:

(i) 75% at Project mid-term

(ii) 90% at Project completion

(c) Percentage of selected study program Grants rated by DPT as highly successful in follow-up site visit:

(i) 10% at Project mid-term

(ii) 15% at Project completion

###### 2. DSC Grants under Part B.3 of the Project

(a) Percentage of academic faculty, within related discipline, aware of services offered at Discipline Service Centers:

(i) 50% at Project mid-term

(ii) 75% at Project completion

(b) Percentage of targeted users, within related discipline, that has made use of the services offered by Discipline Service Centers:

(i) 20% at Project mid-term

(ii) 40% at Project completion

###### 3. Funding for Higher Education

Percentage of DGHE's yearly development budget (Daftar Isian Proyek) for supporting universities, which is allocated competitively and on the basis of performance:

(i) 12% at Project mid-term

(ii) 15% at Project completion

SCHEDULE 8

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) 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 \$5,000,000 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 \$2,500,000 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 \$10,000,000.

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.

