

CONFORMED COPY

LOAN NUMBER 4330 IND

Loan Agreement

(Kecamatan Development Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated June 26, 1998

LOAN NUMBER 4330 IND

LOAN AGREEMENT

AGREEMENT, dated June 26, 1998, 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, as amended through December 2, 1997 (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Wherever used in this Agreement, 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) "Affected Person" means a person who, on account of the execution of Part A of the Project, has or would have his or her: (i) standard of living adversely affected; (ii) right, title or interest in any house, land (including premises, agricultural land and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) business, occupation, work, or place of residence or habitat adversely affected;

(b) "BAPPEDA Tk. I" means the Provincial Development Planning Agency established and operating within a province of the Borrower;

(c) "BAPPEDA Tk. II" means the Kabupaten Development Planning Agency established and operating within a Kabupaten;

(d) "BAPPENAS" means the National Development Planning Agency of the Borrower and includes any successor thereto;

(e) "Bupati" means the Head of a Kabupaten;

(f) "Camat" means the Head of a Kecamatan;

(g) "Fiscal Year" means the Borrower's fiscal year commencing April 1 and ending March 31;

(h) "Grant" means a grant made available by the Borrower out of the proceeds of the Loan and out of its own funds to an LKMD for a Sub-project under Part A.1 of the Project;

(i) "Guidelines for Compensation and Resettlement" means the guidelines prepared by the Borrower, in agreement with the Bank, for the provision of compensation to Affected Persons as set forth in paragraph 10 of Schedule 5 to this Agreement and in the Project Manual, and as such Guidelines may be amended from time to time in agreement with the Bank;

(j) "INPRES" means the Borrower's Presidential Instruction on Budget Transfers;

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

(l) "Kabupaten" means a district, an administrative division of the Borrower;

(m) "Kecamatan" means an administrative sub-district of a Kabupaten;

(n) "Kepala Desa" means the Head of a village;

(o) "LKMD" means a village community resilience council headed by the Kepala Desa;

(p) "P3DT Secretariat" means the Pembangunan Prasarana Pendukung Desa Tertinggal Secretariat, the Project Management Unit established and operating within BAPPENAS pursuant to Ministerial Decree (Kepmen) No.008/KET/2/1995, dated February 20, 1995, comprising representatives of, inter alia, the Borrower's Ministry of Finance, Ministry of Home Affairs and Ministry of Public Works;

(q) "PJOK" means a Project manager at the Kecamatan level;

(r) "PODES" means a Village Potential Survey, the Borrower's system of categorization of villages in accordance with their endowments, with emphasis on infrastructure;

(s) "Project Kecamatan" means a Kecamatan selected by the Borrower for participation in the Project in accordance with the criteria set forth in paragraph 1 of Schedule 5 to this Agreement;

(t) "Project Manual" means the Project Manual dated March 26, 1998, to assist Project Kecamatans, LKMDs and Sub-borrowers in the implementation of Sub-projects through the description of, inter alia, procurement procedures and standard documentation, reporting requirements, the Project Performance Indicators, Guidelines for Compensation and Resettlement, environmental criteria applicable to Sub-project design, maintenance provisions for works to be carried out under the Sub-project and

criteria for the selection of Sub-projects, as such Project Manual may be amended from time to time with the agreement of the Bank;

(u) "Project Performance Indicators" means those indicators designed to measure the Borrower's performance in achieving Project objectives as set forth in Schedule 6 to this Agreement;

(v) "Rupiah" or "Rp" means the currency of the Borrower;

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

(x) "Sub-borrower" and "Sub-borrowers" means a person and persons, respectively, responsible for the carrying out of a Sub-project under Part A.2 of the Project;

(y) "Sub-loan" means a loan made by an UPK to a Sub-borrower or Sub-borrowers for a Sub-project under Part A.2 of the Project out of funds made available by the Borrower out of the proceeds of the Loan and out of its own funds;

(z) "Sub-project" means a specific investment project carried out under Part A of the Project and utilizing the proceeds of a Grant or a Sub-loan;

(aa) "SUSENAS" means the Borrower's National Household Expenditure Survey; and

(bb) "UPK" means the Kecamatan Financial Management Unit.

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 two hundred twenty five million dollars (\$225,000,000).

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 amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of a Grant or a Sub-loan made under Part A of the Project to meet the reasonable cost of goods and services required for a Sub-project and in respect of which the withdrawal from the Loan Account is requested; and (ii) 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 Parts B and C of the Project and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank Indonesia or in a state commercial bank acceptable to the 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 7 to this Agreement.

Section 2.03. The Closing Date shall be October 1, 2001, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. 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 January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the 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 with due diligence and efficiency and in conformity with appropriate administrative, agriculture, engineering, environmental, financial and social 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 and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The 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/ Dorodjatun Kuntjoro-Jakti, Ambassador
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jean-Michel Severino

Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Grants and Sub-loans:	189,000,000	
(a) FY 1998/1999 and FY 1999/2000		90%
(b) FY 2000/2001 and thereafter		80%
(2) Service delivery contractors	24,000,000	100%
(3) Consultants' services	10,000,000	100%
(4) Unallocated	2,000,000	
TOTAL	225,000,000	

2. For the purposes of this Schedule, the term "Service delivery contractors" means expenditures for the Kecamatan facilitators under Part B.2 of the Project.

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

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

(b) in respect of a Grant or a Sub-loan unless a Sub-project agreement has been entered into in accordance with paragraph 6 (e) of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditures for expenditures for (i) Grants and Sub-loans, (ii) service delivery contractors; and (iii) 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; 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) raising rural incomes, (ii) strengthening local government and community institutions, and (iii) improving public infrastructure, in Indonesia.

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: Infrastructure and Income-Generating Activities

1. Carrying out of infrastructure investment projects in villages, through the provision of Grants to LKMDS.

2. Carrying out of income-generating investment projects in villages, through the provision of Sub-loans to Sub-borrowers.

Part B: Project Implementation and Monitoring

1. Strengthening the capacity of the P3DT Secretariat in Project supervision, training, targeting, and monitoring through the provision of consultants' services.
2. Strengthening the capacity of Project Kecamatan and villages in the planning and implementation of Sub-projects through the provision of consultants' services.
3. Monitoring the impact of the Project on poverty in the Project Kecamatan, including provision of consultants' services.

Part C: Local Governance

Improvement of the administration and the environment for economic growth for community development through the undertaking of studies on:

1. methods to increase local revenues at the community level;
2. Kabupaten procurement reforms relating to the participation of villagers in the carrying out of government contracts at the village level; and
3. the Borrower's spatial targeting tools relating to poverty alleviation.

* * *

The Project is expected to be completed by March 31, 2001.

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 January 15 and July 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 January , 15, 2014, 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 and September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: Procurement Procedures

1. National Shopping

Except as provided in paragraph 3 below, goods 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. Procurement of Small Works

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

3. Community Participation Goods and works required for Part A of the Project may be procured in accordance with procedures acceptable to the Bank.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to 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 works and goods estimated to cost the equivalent of \$100,000 or more, and the first contract for works and goods in each Project Kabupaten estimated to cost the equivalent of \$10,000 or more, the following procedures shall apply:

(a) prior to the selection of any supplier or execution of any contract under small works or shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received; and

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

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the

procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with 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 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, 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 Parts B and C of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services under Part B.1 of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services under Part B.3 of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Service Delivery Contractors

Services to be provided by Kecamatan facilitators under Part B.2 of the Project shall be procured in accordance with procedures acceptable to the Bank.

Part D: 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 estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 5

Implementation Program

1. The Borrower shall select Project Kecamatan that meet the following criteria:
 - (a) each selected Kecamatan shall be among the Borrower's 35% poorest Kecamatan based on the SUSENAS and PODES data; and
 - (b) each selected Kecamatan shall have 15,000 or more inhabitants, except for: (i) selected Kecamatan in the Borrower's province of Timor Timur, which may have less than 15,000 inhabitants but shall have at least 5,000 inhabitants; and (ii) selected Kecamatan in the Borrower's provinces of East Java, Central Java, West Java and Yogyakarta which shall have at least 25,000 inhabitants.
2. The Borrower shall cause the Bupati in each Project Kecamatan to appoint a PJOK for purposes of the Project by not later than May 15 in each year until completion of the Project.
3. The Borrower shall ensure that:
 - (a) each BAPPEDA Tk. I shall, in consultation with the relevant Bupati, annually select proposed Project Kecamatan from a list provided by the P3DT Secretariat of Kecamatan meeting the criteria set forth in paragraph 1 of this Schedule;
 - (b) each BAPPEDA Tk. I shall furnish the annual consolidated list of proposed Project Kecamatan to the P3DT Secretariat and the Bank for approval, by not later than December 15, 1998, for Fiscal Year 1999/2000, and December 15, 1999, for Fiscal Year 2000/2001; and
 - (c) not later than March 31, 1999, for Fiscal Year 1999/2000, and March 31, 2000, for Fiscal Year 2000/2001, the approved annual consolidated list of Project Kecamatan is made freely available by the P3DT Secretariat.
4. The Borrower shall ensure that the relevant Bupatis and Camat shall:
 - (a) issue to the Project Kecamatan, by not later than January 31, 1999, for Fiscal Year 1999/2000 and January 31, 2000, for Fiscal Year 2000/2001, public information aimed at disclosing to villagers and their representatives, all administrative, financial, environmental, procedural and technical aspects pertaining to the selection, design, preparation and implementation of Sub-projects; and
 - (b) make such information, including the Project Manual, freely available for consultation at the Kecamatan office.
5. The Borrower shall select Sub-projects in Project Kecamatan in accordance with the following criteria:
 - (a) each Sub-project proposed under Part A.1 of the Project shall be a public infrastructure investment project which is technically, financially and environmentally viable, and economically justified by the number of people benefiting from it;
 - (b) each Sub-project proposed under Part A.2 of the Project shall be an income-generating investment project which is technically, financially and environmentally viable, and economically justified;
 - (c) the estimated cost of a proposed Sub-project shall be not less than Rp. 50,000,000 but not more than Rp. 150,000,000;
 - (d) the estimated cost of the proposed Sub-project when added to the amount of Grants and Sub-loans approved in the relevant Project Kecamatan does not exceed in the aggregate:
 - (i) Rp. 250,000,000 in Project Kecamatan in Timor Timur with 5,000 or more inhabitants but less than 15,000 inhabitants;

(ii) Rp. 500,000,000: (A) in Project Kecamatan with 15,000 or more inhabitants but less than 25,000 inhabitants in all of the Borrower's provinces except DKI Jakarta, East Java, Central Java, West Java and Yogyakarta, and (B) in Project Kecamatan with 25,000 or more inhabitants but less than 50,000 inhabitants in the Borrower's provinces of East Java, Central Java, West Java and Yogyakarta; and

(iii) Rp. 750,000,000: (A) in Project Kecamatan with 25,000 or more inhabitants in all of the Borrower's provinces except DKI Jakarta, East Java, Central Java, West Java and Yogyakarta, and (B) in Project Kecamatan with 50,000 inhabitants or more in the Borrower's provinces of East Java, Central Java, West Java and Yogyakarta; and

(e) no Sub-project shall: (i) include expenditures intended for a military or paramilitary purpose; (ii) include civil works for government administration or religious purposes, (iii) relate to the manufacture or use of environmentally hazardous goods (including asbestos and pesticides), arms or drugs, (iv) relate to the manufacture or use of fishing boats of 10 or more tons, tackle or dynamite; or (v) include the financing of government salaries.

6. In carrying out Part A of the Project the Borrower shall, through the relevant PJOK, ensure that, prior to the carrying out of works under a Sub-project, the Kabupaten engineer shall have completed a technical review of such Sub-project and shall have confirmed the following:

(a) the criteria described in paragraph 5 of this Schedule have been complied with;

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

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

(d) the Guidelines for Compensation and Resettlement have been complied with, and, if applicable, appropriate compensation arrangements have been completed and are satisfactory to the Affected Persons as set forth under the Guidelines for Compensation and Resettlement and paragraph 10 of this Schedule;

(e) a Sub-project agreement has been entered into and an implementation plan for the Sub-project has been prepared in accordance with the provisions of the Project Manual; and

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

7. In carrying out Part A.2 of the Project, the Borrower shall ensure that:

(a) Sub-loans are made on terms and conditions agreed with the Bank and set forth in the Project Manual;

(b) a revolving fund is established and maintained by the UPK in the Project Kecamatan in accordance with procedures agreed with the Bank and set forth in the Project Manual; and

(c) Sub-loans are repaid into the respective Kecamatan account established for such revolving funds.

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

(a) cause LKMDs and Sub-borrowers to carry out the Sub-projects selected in accordance with paragraph 3 of this Schedule in accordance with the Project Manual and the respective Sub-project agreements;

(b) ensure that, until completion of the Project, the Project Manual is made available to the Kecamatan facilitators and the Kabupaten engineers and applied in the carrying out of Sub-projects; and

(c) periodically update the Project Manual, if needed, in agreement with the Bank.

9. The Borrower shall ensure that:

(a) each Sub-project is reviewed by the Kabupaten engineer upon completion and that a certificate of Sub-project completion shall be issued by the Kabupaten engineer upon a finding of satisfactory Sub-project completion in accordance with the Project Manual and approved designs; and

(b) if there is a finding of unsatisfactory completion of a Sub-project, except for cases of force majeure under Grants, the UPK shall recover the amounts disbursed under the respective Grant or Sub-loan in accordance with community procedures acceptable to the Bank.

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

(a) take measures to avoid or minimize the acquisition of land or assets of villagers and to avoid the displacement of said villagers;

(b) where the acquisition of land or assets or the displacement of villagers is unavoidable under a proposed Sub-project, ensure that the village shall, before carrying out the works which would result in such acquisition or displacement, make available to such villagers, compensation in accordance with the Guidelines for Compensation and Resettlement; and

(c) in the event that two hundred or more villagers are adversely affected by a Sub-project:

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

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

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

(a) avoid adverse effects on Isolated Vulnerable People caused or likely to be caused by the Project; and

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

12. In carrying out Part C of the Project, the Borrower shall:

(a) carry out the studies in accordance with terms of reference acceptable to the Bank;

(b) not later than May 31, 1999, furnish to the Bank for comments the recommendations of said studies;

(c) not later than September 30, 1999, prepare action plans for the implementation of the recommendations of said studies taking into account the comments of the Bank on such recommendations; and

(d) promptly thereafter, carry out each of such action plans.

13. 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 6 to this Agreement, the carrying out of the Project and the achievement of the

objectives thereof;

(b) cause the P3DT Secretariat to prepare, under terms of reference acceptable to the Bank, and furnish to the Bank: (i) reports on the implementation of Part A of the Project covering the preceding calendar quarter, not later than January 31, April 30 and October 31 in each year, starting October 31, 1998, and until the completion of the Project; and (ii) annual reports, not later than July 31 in each year, commencing July 31, 1999, and until completion of the Project, on the carrying out of Part A of the Project during the year ended June 30 in that year, including a detailed evaluation of the monitoring and evaluation activities carried out to avoid adverse effects on Isolated Vulnerable People caused or likely to be caused by the Project; (c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about July 31 in each year, commencing July 31, 1999, and until completion of the Project, 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

(d) review with the Bank, by August 31 in each year, commencing August 31, 1999, or such later date as the Bank shall request, and until completion of the Project, the reports referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 6

Project Performance Indicators

**(PLEASE SEE ORIGINAL FOR PERFORMANCE INDICATORS TABLE,
THE FORMAT IS TOO BIG)**

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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 \$22,500,000 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 \$11,250,000 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 \$45,000,000.

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.

