

CONFORMED COPY

CREDIT NUMBER 3910-IND

Development Credit Agreement

(Coral Reef Rehabilitation and Management Project – Phase II)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 30, 2004

CREDIT NUMBER 3910-IND

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 30, 2004, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received letters from the Borrower, dated November 11, 1997, and January 21, 1998, describing a program designed to protect, rehabilitate and achieve sustainable use of coral reefs and associated ecosystems (COREMAP) and declaring the Borrower's commitment to the execution of such Program;

(B) the Borrower has requested that the Association support the Borrower's execution of COREMAP through a series of credits over a period of approximately 17 years to be utilized by the Borrower in the implementation of COREMAP;

(C) the Borrower has also requested that the International Bank for Reconstruction and Development (the Bank) support the Borrower's execution of COREMAP through a series of loans over a period of approximately 17 years to be utilized by the Borrower in the implementation of COREMAP and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is making a loan to the Borrower in the amount of thirty three million two hundred thousand Dollars (\$33,200,000) (the Loan);

(D) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Credit provided for in this Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made;

(E) the Borrower has also requested assistance from the resources of the Global Environment Facility Trust Fund for funding Part B.1, Part B.2 (e), Part B.4 (b), and Part B.5 of the Project and, said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2, and to be funded from contributions to the Global Environment Facility Trust Fund under Resolution No. 2002-0005, which may include funds carried over from the second replenishment of the Global Environment Facility Trust Fund under Resolution No. 98-2, the Bank acting as an implementing agency of the Global Environment Facility has agreed to extend a grant (the Grant) to the Borrower in an amount equivalent to seven million five hundred thousand Dollars (\$7,500,000) on the terms and conditions set forth in the Global

Environment Facility Grant Agreement between the Borrower and the Bank (the GEF Grant Agreement); and

(F) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

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

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

(a) "BMT" means *Baitul Mal wa Tamwil*, an Islamic faith-based credit and savings system in Indonesia;

(b) “BPKP” means *Badan Pengawas Keuangan dan Pembangunan*, the Borrower’s Financial and Development Supervisory Agency;

(c) “Coastal Community Empowerment Board” means *Dewan Pemberdayaan Masyarakat Pesisir* or *Dewan Maritim*, a Board established in accordance with paragraph 6 of Schedule 4 to this Agreement;

(d) “COREMAP” means the Borrower’s national coral reef rehabilitation and management program as set out in the letter from the Borrower referred to in the Preamble to this Agreement;

(e) “Dinas KP” means the District office of the Borrower’s Ministry of Marine Affairs and Fisheries;

(f) “Directorate General of Forest Protection and Nature Conservation” means the Directorate General within the Ministry of Forestry of the Borrower, and any successor thereto;

(g) “District” means a subdivision of a Province;

(h) “District Coral Reef Information and Training Center” means a Center established in accordance with paragraph 7 of Schedule 4 to this Agreement;

(i) “District Grant” means a grant to be made available by the Borrower out of the proceeds of the Credit and the Loan to a Participating District for the on-lending to small- and medium-sized enterprises in such Participating District as set out in Part B.3 (h) of the Project and in the District Grant Guidelines;

(j) “District Grant Guidelines” means the guidelines set out in the Community-based and Collaborative Management Manual, as such District Grant Guidelines may be amended from time to time with the agreement of the Association;

(k) “District Program Implementation Plan” means the Plan that sets out the design and implementation arrangements for the Project in such District;

(l) “Eligible Categories” means Categories (1) through (9) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(m) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(n) “Facilitator” means a technical or social specialist assigned to work with Participating Villages to facilitate their participation in the Project;

(o) “Financial Monitoring Report” and “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement;

(p) “Fiscal Year” means the fiscal year of the Borrower commencing January 1 and ending December 31;

(q) “Grantee” means an individual or an entity carrying out a Sub-project under Part B.3 (f) of the Project;

(r) “Indigenous 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;

(s) “LIPI” means *Lembaga Ilmu Pengetahuan Indonesia*, the Indonesian Institute of Sciences;

(t) “LKM” means *Lembaga Keuangan Mikro*, a community-based credit and savings system in Indonesia;

(u) “LKMD” means *Lembaga Ketahanan Masyarakat Desa*, a village community forum, or other village institution established under Keppres 49/2001;

(v) “Loan Agreement” means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time; and such term includes the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (the General Conditions), as applied to such agreement, and all schedules and agreements supplemental to the Loan Agreement;

(w) “National Coordination Unit” means the Unit established in accordance with paragraph 1 of Schedule 4 to this Agreement;

(x) “National Coral Reef Information and Training Center” means the Center established in accordance with paragraph 3 of Schedule 4 to this Agreement;

(y) “National Monitoring, Evaluation and Feedback Unit” means the Unit established in accordance with paragraph 4 of Schedule 4 to this Agreement;

(z) “National Program Implementation Unit” means the Unit established in accordance with paragraph 2 of Schedule 4 to this Agreement;

(aa) “Participating Districts” means the following districts of the Borrower: Sikka in the Province of Nusa Tenggara Timur; Biak and Raja Ampat in the Province of Papua; Pangkajene Kepulauan and Selayar in the Province of Sulawesi Selatan; and Buton in the Province of Sulawesi Tenggara;

(bb) “Participating Province” means the following provinces of the Borrower: Nusa Tenggara Timur, Papua, Sulawesi Selatan and Sulawesi Tenggara;

(cc) “Participating Village” means a village selected in agreement between the Borrower and the Association for participation in the Project;

(dd) “Procurement Plan” means the Borrower’s procurement plan, dated April 13, 2004 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(ee) “Project Management Manual” means the Manual to assist in the implementation of the Project and which includes: the financial management manual, the procurement manual, the community-based and collaborative management manual, the environmental and social impact management framework, and the Sea Partnership Program manual, as such Project Management Manual may be amended from time to time with the agreement of the Association;

(ff) “Program Management Unit” means the Unit established in accordance with paragraph 5 of Schedule 4 to this Agreement;

(gg) “Project Performance Indicators” means those indicators designed to measure the achievement of the Project objectives as set forth in Schedule 5 to this Agreement;

(hh) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.4 of Schedule 1 to this Agreement;

(ii) “Rupiah” and “Rp” mean the currency of the Borrower;

(jj) “Sea Partnership Program” means the program established to assist in linking the technical departments of Indonesian universities with Dinas KP and the Program Management Units for the provision of assistance during Project implementation;

(kk) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(ll) “Sub-borrower” means an individual or an enterprise responsible for the carrying out of a Sub-project under Part B.3 (c) and (h) of the Project;

(mm) “Sub-loan” means a loan made by: (i) a village-level financial institution to a Sub-borrower or a group of Sub-borrowers for a Sub-project under Part B.3 (c) of the Project out of the proceeds of a Village Loan; and (ii) a Participating District to a Sub-borrower or Sub-borrowers for a Sub-project under Part B.3 (h) of the Project out of funds made available to the relevant Participating District by the Borrower out of the proceeds of the Credit and the Loan;

(nn) “Sub-project” means a specific investment project carried out by: (i) a Grantee under Part B.3 (f) of the Project and financed in part out of the proceeds of Village Grant; (ii) a Sub-borrower under Part B.3 (c) and (h) of the Project and financed in part out of the proceeds of a Sub-loan;

(oo) “Sub-project Agreement” means the agreement entered into between: (i) the LKMD and a Grantee for purposes of implementing and financing a Sub-project under Part B.3 (f) of the Project; (ii) a village financial institution and a Sub-borrower for purposes of implementing and financing a Sub-project under Part B.3 (c) of the Project; and (iii) District Program Implementation Unit and a Sub-borrower for purposes of implementing and financing a Sub-project under Part B.3 (h) of the Project;

(pp) “Third Phase of COREMAP” means such phase as described in the Borrower’s letter referred to in the Preamble to this Agreement;

(qq) “Village Grant” means a grant to be made available by the Borrower out of the proceeds of the Credit and the Loan to a Participating Village for the financing of one or more Sub-projects under Parts B.1 (e) and B.3 (f) of the Project as set out in the Village Grant Guidelines;

(rr) “Village Grant Guidelines” means the guidelines set out in the Community-based and Collaborative Management Manual, as such Village Grant Guidelines may be amended from time to time with the prior agreement of the Association;

(ss) “Village Lending Agreement” means an agreement entered into between a Participating Village and a village-level financial intermediary for a Village Loan made under Part B.3 (c) of the Project; and

(tt) “Village Loan” means a loan made available to a village-level financial institution under Part B.3 (c) of the Project out of funds made available to the relevant Participating Village by the Borrower out of the proceeds of the Credit and the Loan as set out in the Village Grant Guidelines.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fifteen million, six hundred and sixty thousand Special Drawing Rights (SDR15,660,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project (except Parts B.1 (e) and B.3 (c), (f), and (h) of the Project) described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of District Grants and Village Grants made under Parts B.1 (e) and B.3 (c), (f), and (h) of the Project and in respect of which the withdrawal from the Credit Account is requested.

Section 2.03. The Closing Date shall be December 31, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of

June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semi-annually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 15 and August 15 commencing August 15, 2014, and ending February 15, 2039. Each installment to and including the installment payable on February 15, 2024, shall be one and one-fourth percent ($1-1/4\%$) of such principal amount, and each installment thereafter shall be two and one-half percent ($2-1/2\%$) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that

the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the 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, engineering, financial, and social practices and with due regard to ecological and environmental factors, all acceptable to the Association, 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 Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association 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 Credit shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with terms of reference acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 20 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower shall make publicly available, and agrees that the Association may also make publicly available, each final audit report referred to in Section 4.01 of this Agreement, promptly after its issuance by the independent auditors referred to therein.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

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

(b) an event shall have occurred which shall make it improbable that the COREMAP or a significant part thereof will be carried out.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that each of the GEF Grant Agreement and the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness, except only the effectiveness of this Agreement, have been fulfilled;

(b) that the Project Management Manual, acceptable to the Association, has been adopted by the National Coordination Unit, by each of the District Program Management Units and by the National Program Implementation Unit;

(c) that the Borrower has provided to the Association evidence, acceptable to the Association, that each Participating Province and each Participating District has taken the necessary measures for allowing BPKP, as the Project auditor, to have unrestricted access to Project records and activities related to expenditures under the Project in such Participating Province and Participating District to enable BPKP to discharge its auditor's responsibilities; and

(d) that the Borrower has identified the financial management consultants in accordance with Section III of Schedule 3 to this Agreement and in accordance with terms of reference acceptable to the Association.

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

ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

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

| Cable address: | Telex: | Facsimile: |
|------------------------|-----------------------------------|---------------|
| FINMINISTRY Jakarta | 45799 DJMLN-IA 44319 DEPKEU-IA | (21) 381 2859 |

For the Association:

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

| Cable address: | Telex: | Facsimile: |
|-----------------------------|--------------------------------|----------------|
| INDEVAS Washington, D.C. | 248423 (MCI) or 64145 (MCI) | (202) 477-6391 |

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

REPUBLIC OF INDONESIA

By /s/ Achmad Rochjadi

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Andrew Steer

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

| <u>Category</u> | <u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u> | <u>Amount of the Loan Allocated (Expressed in Dollars)</u> | <u>% of Expenditures to be Financed</u> |
|--|---|--|---|
| (1) Goods: | | | |
| (a) under Part B.1(e) and (f), B.2(g), B.4(b) of the Project | 750,000 | 1,300,000 | 80% of foreign expenditures, 80% of local expenditures (ex- factory cost), and 60% of local expenditures for other items procured locally |
| (b) under other Parts of the Project (except Part B.5) | 480,000 | 900,000 | 100% of foreign expenditures, 100% of local expenditures (ex- factory cost), and 80% of local expenditures for other items procured locally |
| (2) Community Support Services | 1,700,000 | 4,000,000 | 80% |

| <u>Category</u> | <u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u> | <u>Amount of the Loan Allocated (Expressed in Dollars)</u> | <u>% of Expenditures to be Financed</u> |
|--|---|--|---|
| (3) Workshops and Training: | | | |
| (a) under Part B.1 (a), (b) and (c) of the Project | 750,000 | 1,900,000 | 80% |
| (b) under other Parts of the Project (except Part B.5) | 1,900,000 | 2,900,000 | 100% |
| (4) Consultants' Services: | | | |
| (a) under Part B.4 (b) of the Project | 750,000 | 2,100,000 | 80% |
| (b) under other Parts of the Project (except Part B.5) | 1,840,000 | 3,700,000 | 100% |
| (5) Studies and Surveys (except Part B.5 of the Project) | 950,000 | 1,800,000 | 100% |
| (6) Incremental Operating costs (except Part B.5 of the Project) | 2,110,000 | 4,500,000 | 100% in FY 2004, FY 2005 and FY 2006, 80% in FY 2007 and FY 2008, and 60% thereafter |
| (7) Fellowships and Scholarships | 820,000 | 1,300,000 | 100% |
| (8) Awareness and Educational Services | 1,840,000 | 3,800,000 | 100% |
| (9) District and Village Grants | 1,770,000 | 3,700,000 | 100% of Grant amount disbursed |
| (10) Front-end Fee | - | 332,000 | Amount due under Section 2.04 of the Loan Agreement |
| (11) Unallocated | - | 968,000 | |
| TOTAL | 15,660,000 | 33,200,000 | |

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “Awareness services” means services, publications, and distribution of materials under Part C. 1 and C.2 of the Project;

(d) the term “Community Support Services” means services by non-governmental organizations and universities; and

(e) the term “Incremental Operating Costs” means reasonable expenditures directly related to the Project, incurred by the National Coordination Unit, the Program Implementation Unit, the Participating Districts’ Program Management Units, the Coastal Community Empowerment Boards, and the Participating Villages under the Project (which expenditures would not have been incurred absent the Project), including expenditures for office supplies, utilities, communications, incidental workshop expenses, per diems for meeting attendance and incidentals, fuel, maintenance, and operation costs of surveillance and enforcement boats, and travel of Project staff, but excluding salaries of government staff.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) for services of individual consultants costing less than \$50,000 equivalent per contract; (c) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (d) Grants; (e) community support services; (f) training and workshops; (g) fellowships and scholarships; (h) awareness and educational services; (i) studies and surveys; and (j) incremental operating costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the

Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in Bank Indonesia or in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports

required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.

**ANNEX A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$5,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts

remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**ANNEX B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in implementing the second phase of COREMAP, in particular, enhancing the welfare of coastal communities through the establishment of viable coral reef management systems consisting of a program aimed at empowering and supporting coastal communities to co-manage, in a sustainable manner, the use of coral reefs and associated ecosystem resources.

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

Part A: Institutional Strengthening

1. Program Coordination, Monitoring and Evaluation, and Training

Strengthening of the institutional structures for the Borrower's national coordination and the decentralized management of COREMAP, including:

(a) strengthening the National Coordination Unit and the National Monitoring, Evaluation and Feedback Unit within such National Coordination Unit, including provision of equipment, technical assistance and training;

(b) strengthening the National Coordination Unit's training team, including provision of technical assistance;

(c) carrying out of workshops for staff of Program Management Units for capacity building in COREMAP management; and

(d) carrying out of a national level workshop to assist in the identification of additional Districts interested in participating in the third phase of COREMAP.

2. Coral Reef Research and Monitoring

(a) Strengthening the National Coral Reef Information and Training Center, including:

- (i) establishment of an office in charge of the international outreach program;
- (ii) production and distribution of coral reef ecosystem materials created by the Center;
- (iii) development of a coral reef management information system;
- (iv) establishment of a satellite communication system for the Center with connections in District Coral Reef Information and Training Centers;
- (v) carrying out of baseline and initial rapid resource inventory surveys in the Participating Districts, including assisting District monitoring teams in carrying out annual rapid resource inventory surveys and line-intersect transect monitoring;
- (vi) carrying out of marine conservation areas monitoring;
- (vii) carrying out of research on the benefits of marine conservation areas for reef fisheries production and management;
- (viii) carrying out of training for the staff of District Coral Reef Information and Training Centers;
- (ix) provision of training to the National Coral Reef Information and Training Center staff through attendance at relevant international conferences, workshops and overseas training centers;
- (x) carrying out of scientific research on applied topics related to co-management of coral reefs; and
- (xi) provision of technical assistance.

(b) Establishment of a Coral Reef Information and Training Center in each of the Participating Districts, including provision of related equipment, technical assistance, training and study tours, for the carrying out of reef health monitoring in Participating Districts and dissemination of information to stakeholders.

(c) Carrying out of community-based reef fisheries monitoring to track catch of reef fish per unit of fishing effort (CPUE), including provision of relevant training to Dinas KP staff, extension and training officers, community facilitators, village motivators and volunteer village fishers.

(d) Collection, analyses and dissemination of socio-economic data in Participating Districts, including survey of the impact of COREMAP on community welfare and public awareness of coral reef ecosystem conservation needs.

(e) Carrying out of applied research through the District Coral Reef Information and Training Centers relevant to sustainable co-management of coral reef ecosystems, including piloting of alternative income generation projects.

(f) Development of new technology and techniques for sustainable fishing livelihood opportunities as alternatives to coral reef exploitation, through the carrying out of relevant research and studies.

3. Legal, Policy and Strategy Assistance

(a) Establishment of the legal structures for the co-management of coral reef ecosystems in the Participating Districts, including establishment of Coastal Community Empowerment Boards, committees for coastal management, and Participating Districts reef health monitoring teams, including provision of technical assistance.

(b) Carrying out of workshops by the National Coordination Unit on national policies for coral reef fisheries management, including provision of technical assistance.

(c) (i) Preparation of District-level legislation to enable communities to collaborate with local governments in the management of reef resources, including preparation of legislation on live reef species trade and use of cyanide in reef fisheries, and provision of relevant technical assistance to Coastal Community Empowerment Boards and Program Management Units.

(ii) Preparation of village-level legislation to formalize community management plans and related measures, including village marine conservation areas, and provision of relevant technical assistance to coastal communities in Participating Districts.

(d) Carrying out of workshops on, and dissemination of, the enhanced national coral reef management strategy, and preparation of policies and strategies for

regional coral reef management and sustainable reef fisheries, including provision of relevant technical assistance to the Ministry of Marine Affairs and Fisheries.

- (e) (i) Preparation of a strategy for live reef fish trade as part of the reef fish management strategy.
- (ii) Carrying out of a study to change the incentive structure of live reef food fish trade.
- (iii) Carrying out of a study on the dangers of consuming fish caught through cyanide poisoning.

Part B: Community-Based and Collaborative Management

1. Community Empowerment

(a) Carrying out of training and workshops by District Program Management Units for District Project staff in sustainable coral reef fisheries management.

(b) Carrying out of: (i) workshops to develop locally appropriate approaches for sustainable coral reef management; (ii) awareness raising activities on sustainable reef fisheries management, and (iii) rapid rural appraisals by the District Program Management Units and field teams.

(c) Provision of study tours and cross visits for stakeholders in Participating Villages to sites implementing appropriate coral reef management, and preparation of documentation of such study tours for dissemination in the Participating Villages.

(d) Provision of facilitation, training and technical assistance in coral reef ecosystem community-based management to Participating Villages.

(e) Rehabilitation of appropriate community buildings in Participating Villages for the housing of the village information center for coral reef management activities, including provision of Village Grants to Village Grantees.

(f) Strengthening the communication between adjacent Participating Villages, community facilitation teams and Program Management Units through the establishment of radio communication networks and facilities.

2. Community-Based Coral Reef Management

(a) Provision of training to Participating Villages in underwater mapping and land-based participatory resource assessments.

(b) Preparation of scientifically-supported village coral reef management plans and inter-village plans for the establishment of local marine conservation areas that maximize fisheries benefits and fishery management requirements, and contribute to critical biodiversity conservation, including provision of technical assistance to Participating Villages.

(c) Establishment of village marine conservation areas that support District sustainable reef management, including installation of marker buoys, mooring buoys and dissemination of the coordinates of marine conservation areas.

(d) Strengthening the capacity of Dinas KP in Participating Districts to support sustainable co-management of coral reef ecosystems and to register small-scale fishing vessels, including provision of technical assistance and training.

(e) Carrying out of a study on decommissioning of destructive fishing gear and carrying out of a pilot program of decommissioning destructive fishing gears in selected Participating Villages.

(f) Establishment and training of teams of volunteers in Participating Villages for the monitoring of reefs and associated ecosystems.

(g) Strengthening village surveillance of reefs through the establishment of a village and District communication network and rapid response service in Participating Villages with marine conservation areas, including provision of related equipment.

(h) Strengthening, and expansion of, existing community-based coral reef management areas in Participating Villages, including provision of technical assistance and equipment.

3. Community Development

(a) Strengthening of the Participating Villages' financial management systems, including provision of training to community financial managers and bookkeepers and other selected community members, such training to include training in micro-finance management systems.

(b) Strengthening the capacity of District level credit and savings institutions, including BMTs and LKMs, to establish village-level credit and savings facilities in Participating Villages, through the provision of technical assistance.

(c) Financing of income-generating Sub-projects through the provision of Sub-loans to selected micro-enterprises at the village level.

(d) Establishment of a partial credit guarantee program for purposes of guaranteeing loans by village-based credit and savings institutions to village-based micro-enterprises in Participating Villages, for the financing of income generating activities.

(e) Provision of technical assistance to Participating Villages in the preparation and implementation of income generating activities that are an alternative to fishing and extractive use of coral reef ecosystems.

(f) Carrying out of Sub-projects in Participating Villages through the provision of Village Grants to Village Grantees.

(g) Carrying out of a pilot program of visits by employment agents from Participating Districts and Provincial capitals to Participating Villages in remote areas to evaluate work opportunities for fishers and reef gleaners outside the Participating Village.

(h) Carrying out of pilot alternative income generating Sub-projects that reduce the pressure on coral reefs and associated ecosystems in Participating Districts through the provision of Sub-loans to small- and medium-sized enterprises.

4. District Marine Conservation Area Management

(a) Establishment of a Coastal Community Empowerment Board in each Participating District, including provision of technical assistance.

(b) Establishment of a Program Management Unit in each Participating District, including provision of equipment and technical assistance.

(c) Development of a District marine resources strategic plan in each Participating District as a guide to Participating Villages in the selection of marine conservation areas.

- (d) (i) Carrying out of an in-depth assessment of the live reef food fish trade in the Districts of Buton and Pangkajene Kepulauan, as part of the development of a program to change the incentive structure of the live reef food fish trade.
- (ii) Creation of an enabling environment in the Districts of Buton and Pangkajene Kepulauan for fishers and collectors to produce certified live aquarium products for premium prices, including: printing and distribution of certification education materials; training of fishers and collectors in sustainable harvesting, handling and transportation methods; and carrying out a cyanide detection methodology survey.

5. Marine Park Support

(a) Strengthening the capacity of the Directorate General of Forest Protection and Nature Conservation to support the implementation of a national policy for co-management of marine protected areas, including provision of related equipment and technical assistance.

(b) Provision to managers of national marine parks and marine protected areas in the Participating Districts of study tours to national marine parks that have successfully implemented co-management systems for the coral reef ecosystems within the park.

(c) Strengthening the capacity of park management authorities of national marine parks and of marine protected areas in the Participating Districts, to manage, in a sustainable manner, coral reef ecosystems within such park or area in collaboration with local communities and stakeholders, including: establishment of advisory forums; provision of training; provision of technology and collaborative enforcement; and review and dissemination to local communities of park management plans.

Part C: Public Awareness, Education and Sea Partnership

1. Public Awareness Campaigns

(a) Reproduction and/or modification, and distribution of existing public awareness materials on coral reef health and sustainable fisheries production to Participating Provinces, Participating Districts and Participating Villages and at the national level.

(b) Creation and dissemination of awareness materials on co-management of coral reef ecosystems and its reef fisheries benefits to targeted groups, including fishers, resource users and decision makers in Participating Districts and Participating Villages and at the national level.

(c) Design and implementation of awareness and advocacy programs and national campaigns on coral reef conservation and sustainable use in Participating Provinces, Participating Districts and Participating Villages and at the national level.

(d) Production of news and general interest stories relating to sustainable management of coral reefs and related ecosystems for the local media.

2. Education Programs

(a) Development and production of coral reef education materials for inclusion in the formal primary and secondary education curriculum in the Participating Districts.

(b) Carrying out of training and workshops for District teachers in the use of the coral reef education materials and its methodology.

(c) Carrying out of national reef education events for children and youth.

3. Sea Partnership Program

(a) Establishment of a Sea Partnership Office in the Ministry of Marine Affairs and Fisheries and provision of technical assistance for the dissemination of information to Participating Districts on the programs and services available under the Sea Partnership Program.

(b) Preparation of detailed design and an operational manual for the execution of the Sea Partnership Program, through the provision of technical assistance to the National Coordination Unit and the Ministry for Marine Affairs and Fisheries.

(c) Strengthening government agencies in Participating Districts in coral reef ecosystems management, including provision of technical assistance by university faculty through the Sea Partnership Program.

(d) Provision of scholarships on specialization in coral reef and related ecosystems management and related topics to secondary school students, university

students and graduate students and provision of placement opportunities in Participating Villages, Participating Districts and central government agencies.

(e) Development at about five universities or research centers in eastern Indonesia of the capability of carrying out responsive marine related research programs.

(f) Expansion of the Borrower's university-based practical field training program to include practical field training in support of sustainable coral reef management in Participating Villages, including provision of fellowships to university students assigned to Participating Villages.

4. Program Support Communication

(a) Development of communication methodologies, protocols, and systems, including information kits and press releases, relating to the second phase of COREMAP.

(b) Provision of media training related to the second phase of COREMAP to District and national level managers responsible for COREMAP.

(c) Preparation of communication protocols and materials, including information kits and press releases relating to the second phase of COREMAP, for the National Coordination Unit, the Program Implementation Unit and the Program Management Units to generate a common understanding of the second phase of COREMAP.

(d) Production and dissemination of information sheets and newsletters relating to COREMAP.

(e) Preparation of a public relations program to targeted audiences to generate a common understanding of the second phase of COREMAP.

* * *

The Project is expected to be completed by June 30, 2009.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), the provisions of this Schedule and the provisions of Annex A to this Schedule. If the Borrower employs any procurement or inspection agent, it shall ensure that the requirements of paragraphs 3.10 and 3.11 of the Procurement Guidelines are met.

B. All consultants' services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding

Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of international competitive bidding in accordance with the provisions of Section II and paragraphs 3.14 and 3.15 of the Procurement Guidelines, and the following additional procedures:

1. Domestic Preference

The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding

Goods and works estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded on the basis of national competitive bidding in

accordance with the provisions of paragraphs 3.1, 3.3, 3.4, 3.14 and 3.15 of the Procurement Guidelines and in accordance with the provisions of Annex B to this Schedule.

2. Shopping

Goods, works and services (other than consultants' services) estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines.

3. Direct Contracting

Goods and services (other than consultants' services) which meet the requirements for direct contracting referred to in paragraphs 3.1, 3.6 and 3.7 of the Procurement Guidelines may, with the Association's prior agreement, be procured in accordance with the provisions of said paragraphs.

4. Community Participation

Goods, works and services (other than consultants' services) required for Part B.1 (e) and B.3 (f) of the Project, may be procured on the basis of community participation in accordance with procedures acceptable to the Association.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection

Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of quality and cost in accordance with the provisions of Section II of the Consultant Guidelines and the following provision: for purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$400,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection

Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection

Services estimated to cost less than \$200,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis in accordance with the provisions of paragraph 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

A. Prior Review

Except as the Association shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods, Works and Services (other than Consultants' Services)

The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Procurement Guidelines shall apply to: (i) each contract for goods, works and services (other than consultants' services) estimated to cost the equivalent of \$100,000 or more; and (ii) the first contract for goods, works and services (other than consultants' services) estimated to cost the equivalent of \$50,000 or more and to be awarded in accordance with Section II B. 1 of this Schedule by each of the Ministry for Marine Affairs and Fisheries, the National Coordination Unit, the Indonesian Institute of Sciences, the National Marine Parks, and the Participating Districts.

2. Consultants' Services Provided by Firms

The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more.

3. Consultants' Services Provided by Individual Consultants

(a) The following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

(b) The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

B. Post Review

1. With respect to each contract for goods, works or services (other than consultants' services) not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants' services not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

ANNEX A
to
SCHEDULE 3

Without limitation on the provisions of Schedule 3 to this Agreement and of the Procurement Guidelines and the Consultant Guidelines (as such terms are defined in said Schedule and referred to hereafter as “the Guidelines”), the following provisions shall apply in respect of goods, works and consultants’ services to be procured under the Project:

1. To ensure end-user participation in the procurement of goods, works and consultants’ services under the Project, the requestor/user of such goods, works or consultants’ services (as the case may be) to be acquired, shall be represented on the relevant procurement/selection committee. The criteria for the selection of procurement committee/selection members shall in all cases be consistent with the provisions of the Guidelines and the Project Management Manual (provided, however, that in the event of any inconsistency between the Project Management Manual and the Guidelines, the provisions of the Guidelines shall apply).
2. The Procurement Plan, including all updates thereof; shall be made publicly available promptly after their finalization.
3. All bidding documents and requests for proposal documents issued in accordance with Schedule 3 of this Agreement, shall be made available to any member of the public promptly upon request, subject only to payment of a reasonable fee to cover the cost of printing and delivery. In the case of requests for proposals, the relevant documents will only be made available after notification of award to the successful firm. Each such document will continue to be made publicly available until a year after completion of the contract entered into for the goods, works or consultants’ services in question.
4. All short lists of consultants and, in cases of pre-qualification, lists of pre-qualified contractors and suppliers shall be made available to any member of the public promptly upon request.
5. A summary of the evaluation of all bids and proposals for specific contracts shall be disclosed to all bidders and parties submitting proposals therefor, promptly after the notification of award to the successful bidder/consultant. Information in such summaries will be limited to a list of bidders/consultants, all bid prices and financial proposals as read out at public openings for bids and financial proposals, all bids and proposals declared non responsive (together with reasons for such an assessment), the name of winning bidder/consultant and the contract price. Such summaries will be made available to any member of the public promptly upon request.

6. Contract award information for all contracts for goods, works and services (other than consultants' services) of \$100,000 equivalent or more and all contracts for consultants of \$50,000 equivalent or more shall be made publicly available and published widely, and be made available to any member of the public upon request, promptly after such award.

7. A list of all contracts awarded in the three months preceding the date of such request, including, with respect to each such contract, the name of the contractor/consultant selected, the contract amount, the number of bidders/makers of proposals in respect thereof, the procurement method followed and the purpose of such contract shall be made available, promptly upon request by member of the public.

8. Representatives of the end-users of goods or works being procured shall be permitted to attend public bid openings in respect thereof.

ANNEX B
to
SCHEDULE 3

1. General

Subject to the provisions of Part B.1 of Section II of Schedule 3 to this Agreement, the procedures to be followed for national competitive bidding shall be those set forth in Presidential Decree No. 80/2003 of the Republic of Indonesia with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the “Guidelines for Procurement under IBRD Loans and IDA Credits” dated May 2004 (the “Guidelines”).

2. Registration

(a) Bidding shall not be restricted to pre-registered firms and shall not be a condition for participation in the bidding process.

(b) Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

3. Pre-qualification

Pre-qualification shall not be used for simple goods and works. Normally, post-qualification shall be used. Pre-qualification shall be required only for large or complex works with the prior ‘no objection’ of the Association. When pre-qualification shall be required:

(a) eligible bidders (both national and foreign) shall not be denied pre-qualification, and

(b) invitations to pre-qualify for bidding shall be advertised in at least one widely circulated national daily newspaper a minimum of 30 days prior to the deadline for the submission of pre-qualification applications.

4. Joint Ventures

A bidder declared the lowest evaluated responsive bidder shall not be required to form a joint venture or to sub-contract part of work or part of the supply of goods as a condition of award of the contract.

5. Preferences

(a) No preference of any kind shall be given to national bidders.

(b) Regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers shall not be applicable to procurement procedures under the Development Credit Agreement.

6. Advertising

(a) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper allowing a minimum of 30 days for the preparation and submission of bids and allowing potential bidders to purchase bidding documents up to 24 hours prior the deadline for the submission of bids.

(b) Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee.

(c) Bidders domiciled outside the area/district/province of the unit responsible for procurement shall be allowed to participate regardless of the estimated value of the contract.

(d) Foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign firm declared the lowest evaluated bidder shall be given a reasonable opportunity for registering.

7. Bid Security

Bid security, at the bidder's option, shall be in the form of a letter of credit or bank guarantee from a reputable bank.

8. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids, and if bids are invited in two envelopes, both envelopes (technical and price) shall be opened at the same time.

(b) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated bidder.

(c) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.

(d) No bidder shall be rejected merely on the basis of a comparison with the owner's estimate and budget ceiling without the Association's prior concurrence.

9. Rejection of Bids

(a) All bids shall not be rejected and new bids solicited without the Association's prior concurrence.

(b) When the number of responsive bids is less than three, re-bidding shall not be carried out without the Association's prior concurrence.

SCHEDULE 4

Implementation Program

1. The Borrower shall maintain until completion of the Project the National Coordination Unit, in the Ministry of Marine Affairs and Fisheries, said Unit to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its objectives, such staff to include: a Director; an Executive Secretary (whose responsibilities include the Sea Partnership Program); a Project Manager; from the Ministry of Marine Affairs and Fisheries an Assistant Director for Institutional Strengthening, an Assistant Director for Surveillance and Enforcement, an Assistant Director for Community-based and Collaborative Management, and an Assistant Director for Public Awareness; from LIPI an Assistant Director for Research and Monitoring, and Education; and from the Directorate General of Forest Protection and Nature Conservation an Assistant Director for Marine Park Support.
2. The Borrower shall maintain until completion of the Project the National Program Implementation Unit in LIPI, said Unit to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its objectives, such staff to include a Head; from the National Coral Reef Information and Training Center an Assistant Head for Research and Monitoring, and an Assistant Head for Education; and a Project Manager.
3. The Borrower shall establish by not later than November 30, 2004, and, thereafter maintain until completion of the Project, the National Coral Reef Information and Training Center, said Center to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its objectives.
4. The Borrower shall establish by not later than November 30, 2004, and, thereafter maintain until completion of the Project, the National Monitoring, Evaluation and Feedback Unit and a Training Coordination Units, said Units to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish their objectives.
5. Each Participating District shall maintain until completion of the Project a Program Management Unit, said Unit to be provided at all times with adequate funds and other resources and staffed by qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its objectives, such staff to include aHead, a Secretary, a Program Unit Manager, a representative from the Dinas KP from such Participating District, and a representative from each of the National Marine Park or marine protected area and the Bappeda in such Participating District.

6. Each Participating District shall maintain, in accordance with the provisions of the District Program Implementation Plan, a Coastal Community Empowerment Board, with representatives from the Borrower and from civil society and with terms of reference acceptable to the Association.

7. Each Participating District shall establish, by June 30, 2005, and, thereafter, maintain until completion of the Project a District Coral Reef Information and Training Center, said Center to be provided at all times with adequate funds and other resources and staffed by qualified personnel in adequate numbers as shall be necessary to accomplish its objectives.

8. The Borrower shall adopt and, thereafter apply in the implementation of the Project, the Project Management Manual, acceptable to the Association, which shall include the description of: (i) implementation arrangements; (ii) the procurement procedures set forth in Schedule 3 to this Agreement and standard procurement documentation; (iii) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of this Agreement; (iv) the Project Performance Indicators set forth in Schedule 5 to this Agreement; (v) the environmental criteria applicable to Sub-project design including environmental impact mitigation, (vi) maintenance provisions for works to be carried out under a Sub-project, and (vii) the criteria for the selection of Sub-projects and terms and conditions of Sub-loans and Grants.

9. In carrying out the Project the Borrower shall:

(a) by June 1, 2008, establish an independent evaluation panel with terms of reference and members acceptable to the Association;

(b) cause such independent panel to carry out an evaluation of the Project by not later than March 1, 2009; and

(c) furnish the results of the evaluation to the Association for comments.

10. The Borrower shall take all measures necessary to ensure that any development project proposed to be carried out in, or in the vicinity of, national marine parks, regional parks or District marine conservation areas in Participating Districts, shall only be carried out if a satisfactory environmental study of said proposed project shall have been completed and shall have established that any potential adverse effect on the Project site will be avoided or mitigated in compliance with the Borrower's applicable legislation.

11. In carrying out Part B.1 (e) of the Project, the Borrower shall: (a) make Grants available to Participating Villages up to an aggregate amount not to exceed Rp.

10,000,000; and (b) shall ensure that the works are carried out in accordance with the provisions of this Agreement and the provisions of the Village Grant Guidelines.

12. In carrying out Part B.3 (c) of the Project, the Borrower shall:

(a) make Grants available to a Participating Village up to an aggregate amount not to exceed Rp. 100,000,000 upon completion of the activities under Part B.3 (a) and (b) of the Project in such Participating Village and the adoption of a village plan for alternative income generation activities, in accordance with the provisions of the Village Grant Guidelines; and

(b) ensure that a Village Lending Agreement, acceptable to the Association, is entered into between the relevant Participating Village and the selected village financial institution for the provision of a Village Loan to such a financial institution; such Village Lending Agreement to include terms and conditions of the Village Loan, term and conditions of Sub-loans and criteria for Sub-project eligibility, all in accordance with the provisions of this Agreement and of the Village Grant Guidelines.

13. In carrying out Part B.3 (f) of the Project, the Borrower shall:

(a) make Grants available to a Participating Village up to an aggregate amount not to exceed Rp. 50,000,000 upon the adoption by such Participating Village of a draft coral reef management plan; and

(b) shall ensure that the Sub-projects are carried out in accordance with the provisions of this Agreement and the provisions of the Village Grant Guidelines.

14. A Sub-project selected by a Participating Village under Part B.3 (f) of the Project shall qualify as eligible for financing out of the proceeds of the Credit and the Loan only if the Sub-project is an investment project, is technically, socially and environmentally viable, has been designed in accordance with the criteria and procedures set forth in the Village Grant Guidelines, and the Sub-project proposal has been publicly discussed among, and agreed to by, the villagers in the Participating Village under the coordination of the LKMD or equivalent village institution.

15. A Sub-project selected by a Participating District under Part B.3 (h) of the Project shall qualify as eligible for financing out of the proceeds of the Credit and the Loan only if the Sub-project is an investment project, is technically, socially and environmentally viable, and has been designed in accordance with the criteria and procedures set forth in the District Grant Guidelines.

16. In accordance with the Borrower's commitment to the protection of the interests of Indigenous People, the Borrower shall take measures acceptable to the Association:

- (a) to protect customary user rights of Indigenous People;
- (b) to ensure that the benefits received by the Indigenous People under the Project are in harmony with their economic, social and cultural preferences;
- (c) through a process of informed participation, to involve concerned Indigenous People in the design and implementation of coral reef management plans; and
- (d) to mitigate or avoid adverse effects on Indigenous People caused or likely to be caused by the Project.

17. For purposes of the carrying out Part B.3 (d) of the Project, the Borrower shall:

- (a) furnish to the Association for comments, by November 30, 2006, a draft plan for the establishment and implementation of the partial credit guarantee program, including the description of specific policies and procedures for the program, and the reporting requirements and accounting procedures for the banking institution selected for the guarantee reserve account; and
- (b) thereafter, carry out Part B.3 (d) of the Project in accordance with the plan agreed with the Association.

18. In carrying out the studies under the Project, the Borrower shall:

- (a) carry out the studies in accordance with terms of reference acceptable to the Association;
- (b) not later than March 1 in each year, commencing March 1, 2006, furnish to the Association for comments the recommendations of the studies carried out in the preceding year;
- (c) not later than September 30 in each year, commencing September 30, 2006, prepare action plans for the implementation of the recommendations of the studies carried out in the preceding year, taking into account the comments of the Association on such recommendations; and
- (d) promptly thereafter, carry out each of such action plans.

19. The Borrower shall carry out Parts B.1 (a), (b) and (c) and B.5 (b) of the Project in accordance with a training plan acceptable to the Association.

20. 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 5 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 Association, and furnish to the Association, on or about April 30, 2007, 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 Association, by June 30, 2007, or such later date as the Association 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 Association's views on the matter.

SCHEDULE 5

Performance Indicators

| INDICATOR | Mid-term | Project Completion |
|---|--|--|
| Baselines established for management and empowerment indicators; biophysical indicators; socio-economic and poverty indicators in all Participating Districts | Completed | --- |
| Senior Extension and Training Officers and Community Facilitators have been deployed to support Participating Villages | Completed | --- |
| Village financial management systems and financial intermediaries (BMTs/LKMs) are established and operating in Participating Villages | Completed in each village selected to participate in the Project by mid-term | Completed in each village selected to participate in the Project by project completion |
| Village coral reef co-management plans implemented satisfactorily according to program indicators | In no less than 5% of sites | In more than 60% of sites |
| Effectively and collaboratively managed fully-protected marine conservation areas (i.e. 'no-take zones') | Cover at least 0.5% of reefs in Participating Districts | Cover at least 10% of reefs in Participating Districts |
| Operating costs of Program activities fully integrated into Participating District Government programs and funded independent of COREMAP II | --- | 70% |
| Awareness baseline about the importance of coral reefs | Completed | --- |

Awareness about the importance of coral reefs

Increases to
and/or is
maintained at
at least 70 % in
all
Participating
Districts

| INDICATOR | Mid-term | Project Completion |
|--|----------------------|---------------------------------------|
| % of live coral cover in program districts | Baseline established | Increase by 5% annually from baseline |
| Average catch-per-unit-effort (CPUE) for early-breeding indicator species harvested by each of the main sustainable fishing techniques in Participating Districts | Baseline established | Increased by 35% |
| Average CPUE for medium-size indicator species harvested by each of the main sustainable fishing techniques in Participating Districts | Baseline established | Increased by 10% |
| Total income received from, and the total number of people receiving their income from, sustainable reef-based and reef-substitute activities in Participating Districts | Baseline established | Increased by 10% |
| Fishers/beneficiaries in coastal communities in Participating Districts perceive the program has had a positive impact on their welfare and economic status | At least 5% | At least 70% |