
LOAN NUMBER 2294-INO(SF)

LOAN AGREEMENT
(Special Operations)

(Madrasah Education Development Project)

between

REPUBLIC OF INDONESIA

and

ASIAN DEVELOPMENT BANK

DATED 15 MARCH 2007

LAS:INO 37475

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 15 March 2007 between the REPUBLIC OF INDONESIA (the "Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement; and

(B) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. The definitions set forth in the Loan Regulations are applicable to this Loan Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "BAPPENAS" means the Borrower's National Development Planning Agency and any successor thereto;

(b) "Consulting Guidelines" means ADB's "Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers" dated April 2006, as amended from time to time;

(c) "CPMU" means the Central Project Management Unit established within DGIE, as described in paragraph 4 of Schedule 5 to this Loan Agreement;

(d) "DCU" means the District Coordinating Unit established in each of the Project Districts, as described in paragraph 7 of Schedule 5 to this Loan Agreement;

(e) "DGIE" means the Directorate General of Islamic Education under the Borrower's MORA and any successor thereto;

(f) “DME” means the Directorate for Madrasah Education under the Borrower’s MORA and any successor’s thereto;

(g) “Goods” means equipment and materials to be financed out of the proceeds of the Loan; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(h) “MA” or “Madrasah Aliyah” means senior secondary school under the Borrower’s MORA and any successor thereto;

(i) “Madrasah” refers to a school or schools under the Borrower’s MORA and any successor thereto;

(j) “MDC” means the Madrasah Development Center;

(k) “MDF” means the Madrasah Development Forum;

(l) “MDP” means the Madrasah Development Plan;

(m) “MI” or “Madrasah Ibtidaiyah” means primary school under the Borrower’s MORA and any successor thereto;

(n) “MOF” means the Borrower’s Ministry of Finance and any successor thereto;

(o) “MONE” means the Borrower’s Ministry of National Education and any successor thereto;

(p) “MORA” means the Borrower’s Ministry of Religious Affairs and any successor thereto;

(q) “MT” or “Madrasah Tsanawiyah” means junior secondary school under MORA and any successor thereto;

(r) “NBES” means the National Board of Education Standards;

(s) “NBSMA” means the National Board of School-Madrasah Accreditation;

(t) “PCC” means the Provincial Coordinating Committee established in each of the Participating Provinces, as described in paragraph 5 of Schedule 5 to this Loan Agreement;

(u) “PCU” means the Provincial Coordinating Unit established in each of the Participating Provinces, as described in paragraph 6 of Schedule 5 to this Loan Agreement;

(v) “PMIS” means Project monitoring information system;

(w) "Procurement Guidelines" means ADB's "Procurement Guidelines" dated April 2006, as amended from time to time;

(x) "Procurement Plan" means the procurement plan for the Project dated 16 November 2006 and agreed between the Borrower and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(y) "Project Districts" means the 27 eligible districts located within the Project Provinces, as defined in item (bb) of this Section 1.02;

(z) "Project Executing Agency" for the purposes, and within the meaning, of the Loan Regulations means MORA, or any successor thereto acceptable to ADB, which is responsible for overall execution of the Project;

(aa) "Project facilities" means the facilities and equipment provided under the Project;

(bb) "Project Provinces" means Central Java, East Java and South Sulawesi;

(cc) "PSC" means the Project Steering Committee established in accordance with paragraph 2 of Schedule 5 to this Loan Agreement;

(dd) "PTC" means the Project Technical Committee established in accordance with paragraph 3 of Schedule 5 to this Loan Agreement; and

(ee) "Works" means construction or civil works to be financed out of the proceeds of the Loan.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to thirty three million six hundred thirty eight thousand Special Drawing Rights (SDR 33,638,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 1 March and 1 September in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The Goods, Works, and consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works, and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works, and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account in respect of Goods, Works, and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and consulting services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works, and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 September 2012 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 9 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Borrower pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.

Section 4.03. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works financed out of the proceeds of the Loan, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations:

(a) The Borrower shall have established a Central Project Management Unit (CPMU) in accordance with paragraph 4 of Schedule 5 to this Loan Agreement, and shall have appointed the Project Director (PD), Project Manager (PM) and all of the agreed key technical, accounting and financial staff; and

(b) The Borrower shall have established a Project Steering Committee (PSC), in accordance with paragraph 2 of Schedule 5 to this Loan Agreement.

Section 5.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Ministry of Finance (MOF) of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

Ministry of Finance
Directorate General of Debt Management
P.O. Box 1139
Jakarta 10710, Indonesia

Facsimile Number:

(62-21) 381-2859.

For ADB


Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2228.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

REPUBLIC OF INDONESIA

By 

DR. RAHMAT WALUYANTO
Authorized Representative

ASIAN DEVELOPMENT BANK

By 

EDGAR A. CUA
Country Director
Indonesia Resident Mission

SCHEDULE 1

Description of the Project

1. The Project aims to ensure that Madrasah meet the national education standards in the critical areas of (i) teacher professionalism, including qualifications and performance; (ii) availability of approved standards for teaching and learning resources and facilities; (iii) improved internal efficiency, especially student progression and transition rates; and (iv) strengthened governance, management, and accountability. The Project focuses on community-based, poor Madrasah in rural areas within the Project Provinces. The Project will cover about 208 Madrasah Ibtidaiyah (MI), 233 Madrasah Tsanawiyah (MT) and 59 Madrasah Aliyah (MA).

2. The Project consists of the following components:

Component 1: Teacher Professionalism Improved According to National Standards

(a) Professional Qualifications Upgrading and Professional Certification

- Provision of in-country degree programs to about 800 teachers and 200 principals, focusing on Bahasa Indonesia, English, mathematics, and the sciences;
- Provision of training to about 1200 (degree) qualified teachers and principals for professional certification; and
- Provision of substitute teachers for madrasah to replace teachers undergoing the upgrading program.

(b) Subject Content Upgrading and Classroom Methodology Training

- Provision of short-term training activities that are demand and needs driven, focusing primarily on subject content in the sciences, mathematics, and English, and training in classroom methodologies;
- Provision of a programmed sequence of two three-week content training activities annually to about 5300 teachers over a period of 3 years;
- Provision of short training programs for teachers in core content areas on identification of learning objectives and lesson planning; and
- Provision of specific programs to support classroom competencies based on requests from the network of teacher learning groups.

(c) Ongoing Teacher Support and Mentoring

- Provision of block grants annually to teacher learning groups to support their establishment and development;

- Provision of 200 competitive block grants annually for the development of Madrasah-based teaching and learning innovations developed by individual teachers, teacher learning groups or school clusters.

(d) Competitions for Excellence

Provision of support to local excellence programs such as performance based teacher awards in each Project Province, including for schools that meet their Madrasah Development Plan (MDP) targets.

Component 2: Teaching-Learning Resources and Facilities Upgraded to National Standards

(a) Expanding Textbooks and Learning Support Materials

- Provision of block grants to Madrasah to purchase textbooks and learning materials in core subject areas, from a list of textbooks and learning materials approved by the Ministry of Religious Affairs (MORA); and
- Provision of instructional materials to all teachers completing degree programs.

(b) Upgrading of Facilities, Equipment, Software, and Furniture

Provision of block grants to Madrasah for the rehabilitation and/or construction of classrooms, libraries, laboratories, and health clinics as required by Madrasah, including appropriate equipment and furniture.

(c) Design and Application of a Preventive Maintenance Program

Provision of a design and a 3-day training program to Madrasah and MORA district office staff in preventive maintenance.

Component 3: Internal Efficiency Increased to National Standards

(a) Remedial Programs

Provision of block grants to Madrasah to facilitate the implementation of after-school student remedial programs in MI and MT.

(b) Transition Programs

Provision of scholarships to poor MI and MT graduates to support transition to, and completion of, the next level.

(c) Expand Physical Capacity

Provision of support for expansion of MIs and MTs to add new classrooms in areas where the demand for Madrasah education exceeds capacity, and where there are adequate teaching resources.

Component 4: Governance, Management, and Sustainability Strengthened to National Standard

(a) Governance Development

Establish and strengthen Madrasah committees through the provision of governance development training and strengthening of collaboration between MORA's district office and the district education office in planning for district education development.

(b) Madrasah-Based Management and Accountability

- Provision of workshops to MORA's central, provincial, and district offices staff, Madrasah principals, Madrasah committee members and head of Madrasah foundations on Madrasah development planning and financial management, including modules on financial planning, financial reporting, accounting and auditing;
- Support the preparation of a 4-year Madrasah Development Plan (MDP) by each Madrasah;
- Provision of a financial management system for Madrasah; and
- Provision of training to MORA's provincial and district office staff in performance management systems, Madrasah based development and advocacy, and EMIS data input and report production.

(c) Improved Sector Management

- Provision of short courses in leadership development and management to MORA's central, provincial, and district office staff; district supervisors; Madrasah principals; and head of Madrasah foundations. Gender training for managers will be part of the training program; and
- Provision of six master degree programs (overseas) and two Ph.D. programs (overseas) in management and evaluation with an emphasis upon results-based management, performance based planning and budgeting, accountability and transparency, to selected MORA central, provincial or district office staff.

(d) Teaching Learning Assessment and Quality Assurance System Development

- Support the establishment of a Madrasah quality assurance (MQA) working group at provincial level to support the Madrasah Development Center (MDC) as a partner in Project implementation;
- Provision of a 10-day training program for MORA central, provincial and district staff and Madrasah managers; and
- Support the establishment of a MORA liaison office for the National Board of School-Madrasah Accreditation and the National Board of Education

Standards to strengthen the partnership between MORA and Ministry of National Education (MONE) in establishing and implementing the new accreditation process.

(e) Advocacy and Public Information Programs.

- Support the establishment of Madrasah Development Forums (MDF) in Project Provinces and Project Districts, consisting of head of the Madrasah foundations, principals, teachers or other community members. The MDF will lobby for Madrasah concerns and promote appreciation of their positive contributions;
- Provision of advocacy training programs, including information on government resources available to Madrasah, lobbying strategies, and techniques for utilizing the media;
- Establish a national Madrasah linkages website; and
- Provision of support for MDF meetings, development and delivery of media materials.

3. The Project also includes the provision of consulting services. The Project is expected to be completed by 31 March 2012.

SCHEDULE 2
Amortization Schedule
(Madrasah Education Development Project)

Date Payment Due	Payment of Principal (expressed in Special Drawing Rights)*
01-Mar-2015	SDR 700,792
01-Sep-2015	700,792
01-Mar-2016	700,792
01-Sep-2016	700,792
01-Mar-2017	700,792
01-Sep-2017	700,792
01-Mar-2018	700,792
01-Sep-2018	700,792
01-Mar-2019	700,792
01-Sep-2019	700,792
01-Mar-2020	700,792
01-Sep-2020	700,792
01-Mar-2021	700,792
01-Sep-2021	700,792
01-Mar-2022	700,792
01-Sep-2022	700,792
01-Mar-2023	700,792
01-Sep-2023	700,792
01-Mar-2024	700,792
01-Sep-2024	700,792
01-Mar-2025	700,792
01-Sep-2025	700,792
01-Mar-2026	700,792
01-Sep-2026	700,792
01-Mar-2027	700,792
01-Sep-2027	700,792
01-Mar-2028	700,792
01-Sep-2028	700,792
01-Mar-2029	700,792
01-Sep-2029	700,792
01-Mar-2030	700,792
01-Sep-2030	700,792
01-Mar-2031	700,792
01-Sep-2031	700,792
01-Mar-2032	700,792
01-Sep-2032	700,792
01-Mar-2033	700,792

*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

Date Payment Due	Payment of Principal (expressed in Special Drawing Rights)*	
01-Sep-2033		700,792
01-Mar-2034		700,792
01-Sep-2034		700,792
01-Mar-2035		700,792
01-Sep-2035		700,792
01-Mar-2036		700,792
01-Sep-2036		700,792
01-Mar-2037		700,792
01-Sep-2037		700,792
01-Mar-2038		700,792
01-Sep-2038		<u>700,776</u>
	TOTAL	SDR
		<u><u>33,638,000</u></u>

*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Interest Charge

3. The amount allocated to Category 7 is for financing the interest charge on the Loan during the implementation period of the Project.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the Loan proceeds shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2001 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Account; Statement of Expenditures

6. (a) Except as ADB may otherwise agree, the Borrower shall establish immediately after the Effective Date, an imprest account at Bank Indonesia. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. The currency of the imprest account shall be in Dollars. The initial amount to be deposited into the imprest account shall not exceed \$5,000,000.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$100,000.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS			
(Madrasah Education Development Project)			
CATEGORY			ADB FINANCING
			(Percentage and Basis for Withdrawal from the Loan Account)
Number	Item	Amount Allocated	
		[SDR]	
1	Furniture, Equipment and Vehicles	594,000	70 percent of total expenditure
2	Human Resources Development	3,687,000	25 percent of total expenditure
3	Madrasah Development Program	23,719,000	95 percent of total expenditure
4	Surveys and Testing	227,000	100 percent of total expenditure*
5	Consulting Services	1,384,000	100 percent of total expenditure*
6	Project Management Support	1,473,000	100 percent of total expenditure*
7	Interest Charge	845,000	100 percent of amount due
8	Unallocated	1,709,000	
	Total	33,638,000	

* exclusive of local taxes

SCHEDULE 4

Provisions on Procurement and Consulting Services

A. General

1. All Goods and Works, and consulting services, to be financed out of the proceeds of the Loan shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

National Competitive Bidding
Shopping
Direct Contracting
Community Participation in Procurement

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. National Competitive Bidding. The procedures to be followed for national competitive bidding shall be those set forth in Presidential Decree No.80/2003 of the Borrower, dated 3 November 2003, with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the Procurement Guidelines:

- i. Registration (a) Bidding shall not be restricted to pre-registered firms and such registration 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.

- ii. Prequalification Post qualification shall be used unless prequalification is explicitly provided for in the loan agreement/procurement plan. Irrespective of whether post qualification or prequalification is used, eligible bidders (both national and foreign) shall be allowed to participate.

iii. 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 the supply of goods as a condition of award of the contract.

iv. Preferences (a) No preference of any kind shall be given to domestic bidders or for domestically manufactured goods.

(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.

v. Advertising (a) Invitations to bid (or prequalify, where prequalification is used) shall be advertised in at least one widely circulated national daily newspaper or freely accessible, nationally-known website allowing a minimum of twenty-eight (28) days for the preparation and submission of bids and allowing potential bidders to purchase bidding documents up to at least twenty-four (24) hours prior the deadline for the submission of bids. Bidding of NCB contracts estimated at \$500,000 or more for goods and related services or \$1,000,000 or more for civil works shall be advertised concurrently with the general procurement notices on ADB's website.

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

(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 from ADB member countries shall not be precluded from bidding.

vi. Bid Security Where required, bid security shall be in the form of a bank guarantee from a reputable bank.

vii. Bid Opening and Bid Evaluation (a) Bids shall be opened in public, immediately after the deadline for submission of bids.

(b) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents.

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

(d) No bid shall be rejected on the basis of a comparison with the owner's estimate or budget ceiling without the ADB's prior concurrence.

(e) The contract shall be awarded to the technically responsive bid that offers the lowest evaluated price.

viii. Rejection of All Bids and Rebidding (a) Bids shall not be rejected and new bids solicited without the ADB's prior concurrence.

(b) When the number of responsive bids is less than three (3), re-bidding shall not be carried out without the ADB's prior concurrence.

ix. ADB Member Country Restrictions Bidders must be nationals of member countries of ADB, and offered goods and services must be produced in and supplied from member countries of ADB.

5. Community Participation in Procurement. The Borrower may use community participation in procurement for Works contracts for rehabilitation or construction of classrooms, libraries, computer and science laboratories, which are expected to cost less than the equivalent of \$30,000 in accordance with the agreed procedures set out in the Procurement Plan.

C. Selection of Consulting Services

6. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall apply quality- and cost-based selection for selecting and engaging consulting services.

7. The Borrower shall apply the following methods for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures, threshold values and circumstances set forth in the Procurement Plan:

Consultants' Qualification Selection for Monitoring and Evaluation Studies and Training Programs
Single Source Selection for Monitoring and Evaluation Studies and Training Programs

8. The Borrower shall recruit individual consultants for training, quality assurance, monitoring and evaluation, Works and Information and Communication Technology (ICT) to assist the CPMU and the Project Provinces, in accordance with ADB's procedures for recruiting individual consultants.

D. Industrial or Intellectual Property Rights

9. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

10. The Borrower shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

E. ADB's Review of Procurement Decisions

11. All contracts procured under national competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

Project Executing Agency (EA)

1. MORA shall be the EA and, with the support of the Directorate General of Islamic Education (DGIE), shall be responsible for the overall management of the Project.

Project Steering Committee (PSC)

2. A PSC shall be established prior to the Effective Date. The PSC shall provide guidance to the CPMU on general policy directions, inter-sectoral coordination and strategic directions. The PSC shall be chaired by the Secretary General of MORA and shall consist of representatives from MORA, MOF, the National Development Planning Agency (BAPPENAS), and MONE. The Director of the Directorate for Madrasah Education (DME) shall be PSC Secretary.

Project Technical Committee (PTC)

3. A PTC shall be established and shall be chaired by the Director of Religious Affairs and Education of BAPPENAS and shall provide guidance to the CPMU on the overall Project implementation. Members of the PTC shall include representatives from MORA, MOF and MONE.

Central Project Management Unit (CPMU)

4. A CPMU shall be established within DGIE prior to the Effective Date. The Director General of DGIE shall be the Project Director (PD) and shall be responsible for providing guidance to the CPMU. The CPMU shall be responsible for (i) day-to-day Project implementation, (ii) planning and budgeting, (iii) procurement, (iv) disbursement, (v) monitoring and supervision, (vi) overseeing Project implementation at province, district and Madrasah levels, and (vi) submitting reports to the Borrower and ADB. The CPMU shall have about 15 staff, including MORA staff and consultants working together on each project component, supported by finance and administrative staff. CPMU shall receive support from contractual staff hired as specialists in training, quality assurance, monitoring and evaluation, civil works and ICT.

Provincial Coordinating Committee (PCC)

5. A PCC shall be established in each of the Project Provinces to oversee the Project implementation at the province level. The PCC shall be chaired by the Head of the Regional Development Planning Office (BAPPEDA) and consists of representatives from the provincial Office of Education (Dinas Pendidikan), MORA provincial office (Kanwil Depag), MDC and the Madrasah Development and Empowerment Council (MP3A).

Provincial Coordinating Unit (PCU)

6. A PCU shall be established within each MORA provincial office to manage, coordinate, monitor, evaluate and consolidate activities at the provincial and district levels. The PCU shall be headed by a staff member of the provincial MORA education division (Kepala Bidang Mapenda), assisted by finance and accounting, procurement and works and monitoring and evaluation staff and supported by consultants.

District Coordinating Unit (DCU)

7. A DCU shall be established within each MORA district office in each of the Project Districts. The DCUs shall oversee implementation at Madrasah level, particularly the MDP block grants. Each of the DCUs shall be headed by a staff member of the district MORA education section (Kepala Seksi) and assisted by supervisors, facilitators and finance and administrative staff.

Counterpart Funds

8. The Borrower shall provide counterpart funds for the Project implementation in a timely manner. The Borrower shall make timely submission of annual budgetary appropriation request and ensure prompt disbursement of appropriated funds during each year of Project implementation.

Funds Flow

9. The Borrower shall ensure the smooth transfer of loan proceeds and counterpart funds from central level to the Project Provinces, Project Districts and the Madrasah, in accordance with the flow of funds mechanism agreed between the Borrower and ADB.

Block Grants

10. Madrasah within the Project Districts shall be selected for eligibility for funding under the block grant based on the following criteria:

- (a) school size;
- (b) student poverty level;
- (c) teacher qualifications; and
- (d) geographical proximity.

11. To be eligible for a block grant, a Madrasah shall be required to develop a four-year MDP and submit the MDP to the DCU for review, evaluation and further processing. Approval of the submitted MDP shall be given by CPMU.

12. Upon approval of the MDP, a Madrasah shall receive one block grant. The block grant shall be used to implement and support the activities proposed under the MDP. The MDP may cover various activities within the scope of the Project components.

13. To ensure the smooth transfer of the block grants to each of the selected Madrasah, immediately upon approval of a block grant, each Madrasah will establish a bank account at a local branch of a commercial bank acceptable to ADB.

National Board of Education Standard and National Board of School - Madrasah Accreditation

14. Not later than 9 months after the Effective Date, MORA shall establish a liaison office for the National Board of Education Standard (NBES) and the National Board of School-Madrasah Accreditation (NBSMA) within the Secretary General or Director General's Office of MORA and the liaison office shall prepare a position paper on the strategic implications of implementing NSB and BSA regulations for Madrasah three months of its establishment.

Strategic Plan

15. Not later than the end of the year 2007, the Borrower and MORA shall complete a draft 5-year strategic plan for implementing government education policies in Madrasah, which shall form the basis for dialogue on a harmonized MONE and MORA strategic plan as directed by Parliament.

Project Monitoring Information System

16. Not later than 12 months after the Effective Date, MORA shall design and standardize a comprehensive Project Monitoring Information System (PMIS) for the different levels of management including the central Directorate of Madrasah Education, MDC, districts, and Madrasah and develop a users' manual.

Project Review

17. A joint review shall be conducted by ADB and the Borrower at least twice a year. A midterm review shall be carried out during the third year of the Project. The reviews shall include (i) review of the project scope, design, implementation arrangements, institutional development and capacity building; (ii) assessment of project implementation against projections and performance indicators; (iii) review of compliance with loan covenants; (iv) identification on critical issues, problems, and constraints; and (v) recommendation for changes in project design or implementation as needed. One month before the review takes place, the CPMU shall submit to ADB a comprehensive report on each of these issues.

Gender

18. To ensure that women benefit equally from the Project, the Borrower and MORA shall ensure that the Project is carried out in accordance with ADB's *Policy on Gender and Development (1998)* and the gender strategy contained in the Gender Action Plan that has been prepared and agreed between the Borrower and ADB. Specifically, the Borrower and MORA shall ensure that:

- (a) under Component 1 (a), at the national level, at least 30% of the participants in degree upgrading, and 40% for professional certification, are women;
- (b) under Component 1 (b), at the district level, female participation in the short-term training will be in accordance with the proportion of eligible female teachers for each subject, at each level;

- (c) under Component 3 (b), at the district level, at least 50% of the students receiving the scholarship shall be girls; and
- (d) under Component 4 (c), at least three candidates for the master degree and the doctoral programs shall be women.

Project Website

19. MORA shall create a Project website to disclose information about various matters on the Project, including procurement related to the Project. With regard to procurement, the website shall include information on, among others, the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of contract awarded, and the list of goods/services procured.

Complaints and Action Task Force

20. Within 9 months after the Effective Date, MORA shall establish within the CPMU a Complaints and Action Task Force to receive and resolve complaints/grievances or act upon reports from stakeholders on misuse of funds or other irregularities. The Task Force shall (a) review and address grievances of stakeholders of the Project, in relation to either the Project, any of the service providers, or any person responsible for carrying out any aspect of the Project; and (b) set the threshold criteria and procedures for handling such grievances, for proactively and constructively responding to them, and for providing the stakeholders with notice of such mechanism.

Environment

21. Although no significant environmental impacts have been identified, the siting, design, construction and operation of school facility rehabilitation work undertaken under the project will be implemented in line with the Government's environmental laws and regulations and ADB's *Environment Policy* (2002).

Resettlement

22. The Borrower and MORA shall ensure that no block grant is approved if the rehabilitation or construction of new school facilities will involve involuntary resettlement according to ADB's *Policy on Involuntary Resettlement* (1995). To be eligible for block grants the Madrasah are required to confirm that no land acquisition or resettlement is required under the Project. Construction of new classrooms shall be added to existing Madrasah on unoccupied land already owned by the Madrasah.

Construction Quality

23. MORA shall ensure that the construction of two-storey buildings complies with construction safety standards and is confirmed by a qualified engineer. Madrasah shall not be allowed to construct a new classroom above an existing classroom without first obtaining confirmation from a qualified engineer that the existing classroom and its foundation is strong and solid enough for the additional upper level classroom.