
LOAN NUMBER 2348-INO(SF)

LOAN AGREEMENT
(Special Operations)

(Nutrition Improvement through Community Empowerment Project)

between

REPUBLIC OF INDONESIA

and

ASIAN DEVELOPMENT BANK

DATED 5 OCTOBER 2007

LAS:INO 38117

LOAN AGREEMENT (Special Operations)

LOAN AGREEMENT dated 5 October 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 Board and any successor thereto;

(b) "BPOM" means the Borrower's National Agency for Food and Drug Control and any successor thereto;

(c) "CF" means community facilitator;

(d) "CNC" means community nutrition committee;

(e) "community nutrition package" includes assistance to improve nutrition and hygiene of nutritionally at-risk women and children at the community level;

(f) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2007, as amended from time to time);

(g) "CPMU" means Central Project Management Unit;

(h) "DGCH" means Directorate General of Community Health within MOH and any successor thereto;

(i) "DHO" means District Health Office;

(j) "DPIU" means District Project Implementation Unit;

(k) "DTT" means District Technical Team;

(l) "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;

(m) "Governing Laws" means Law No. 17/2003 concerning Public Finance and Government Regulation No. 2/2006 Procedure for Realization of Loans and/or Grants and Allocation of Foreign Loans and/or Grants, dated January 30, 2006;

(n) "madrasah" means primary level religious school(s);

(o) "MOF" means the Borrower's Ministry of Finance and any successor thereto;

(p) "MOH" means the Borrower's Ministry of Health and any successor thereto;

(q) "MOHA" means the Borrower's Ministry of Home Affairs and any successor thereto;

(r) "MONE" means the Borrower's Ministry of National Education and any successor thereto;

(s) "MORA" means the Borrower's Ministry of Religious Affairs and any successor thereto;

(t) "Participating Districts" means those districts or cities that have committed to conduct nutrition activities which support the Project and to replicate some Project activities in an additional 10% of villages or poor urban areas in accordance with the Borrower's requirements and which are located in the Participating Provinces;

(u) "Participating Provinces" means those six (6) provinces which will participate in the Project, namely (i) West Kalimantan, (ii) South Sulawesi, (iii) North Sumatra, (iv) South Sumatra, (v) East Nusa Tenggara and (vi) West Nusa Tenggara, or such other provinces as the Borrower and ADB may agree;

(v) "Participating Villages" means those villages or poor urban areas which have been found eligible to receive a community nutrition package and which are located within a Participating District;

(w) "*posyandu*" means integrated services post;

- (x) "PPCU" means Provincial Project Coordination Unit;
- (y) "PPMS" means Project performance monitoring system;
- (z) "Procurement Guidelines" means ADB's Procurement Guidelines (2007, as amended from time to time);
- (aa) "Procurement Plan" means the procurement plan for the Project dated July 24, 2007 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;
- (bb) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means the DGCH, or any legal successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;
- (cc) "Project facilities" means the facilities, equipment and vehicles provided under the Project; and
- (dd) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

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-two million five hundred and eighty-eight thousand Special Drawing Rights (SDR 32,588,000).

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 15 February and 15 August 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 U.S. 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 six (6) 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

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations: the Governing Laws or any provision thereof shall have been repealed, suspended or amended in any manner which in the reasonable opinion of ADB will or may adversely affect the carrying out of the Project or the operation of the Project facilities.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. 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 has established a Project Steering Committee as described in paragraph 2 of Schedule 5 to this Agreement; and

(b) the Borrower shall have certified to ADB that budget approval documents for the Loan and counterpart funds for the first year of Project implementation have been issued and all necessary budget approval documents for Loan proceeds to be granted to at least ten (10) Participating Districts have been approved and disseminated as needed for the Project to commence activities.

Section 6.02. 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 VII

Miscellaneous

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 7.02. 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) 636-2408

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.

9 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 overall purpose of the Project is to help the Borrower achieve the Millennium Development Goals (MDGs) of halving the number of underweight children under five years of age by the year 2015 and other related MDG goals regarding childhood nutrition. The Project aims to reduce the prevalence of underweight children under five years and assist pregnant and lactating women by assisting the Borrower in strengthening the capacity of the central and local governments to improve management of nutrition services, community-based services, and social mobilization for improved nutrition, hygiene and sanitation. Approximately 4,000 villages, including poor urban areas, in 24 Participating Districts in six Participating Provinces will be covered by the Project.
2. The Project will have the following components.

Component 1: Institutional Development for Nutrition Policy, Programs and Surveillance

This component will strengthen institutional capacities of the central, provincial, district and sub-district level departments of health and related ministries that have a key role in formulating and implementing nutrition policy and programs. It will focus on:

- (i) At the central level, supporting and reviewing development of policies, protocols and guidelines necessary for effective service delivery and nutrition outcomes, as well as operations research and assessing the feasibility of establishing a National Institute of Nutrition; and
- (ii) Upgrading the Nutrition Surveillance System output of the Food and Nutrition Surveillance System to strengthen the impact of nutrition programs through targeting and timeliness.

Component 2: Integrated Nutrition Services

This component will strengthen key functions of public health services, identify competencies for each level and strengthen coordinating mechanisms and explore alternative approaches for nutrition service delivery in Participating Districts by focusing on:

- (i) Assisting the Borrower's strengthening of nutrition services delivery by provincial and district hospitals and health centers through improved case management and referral of severely malnourished children, expanding outreach and reinforcing quality of nutrition counseling;
- (ii) Developing and strengthening community based nutrition services by identifying alternative mechanisms for delivery of growth monitoring, promotion of breast feeding and complementary feeding practices where existing institutions are no longer adequate; and
- (iii) Upgrading nutrition service infrastructure and nutrition-related equipment, and provision of micronutrient supplements, for health centers.

Component 3: Community Empowerment for Nutrition

This component will finance:

- (i) CFs to build community awareness on nutrition and hygiene and training communities to identify locally appropriate interventions with regard to nutrition, hygiene and sanitation, preparation of community planning, and activities monitoring; and
- (ii) Community nutrition packages to about 1,800 villages, meeting agreed upon selection criteria, in order to strengthen community capabilities for improved nutrition and hygiene through strengthening posyandu services, child feeding and care, improved water, hygiene and sanitation for primary schools/madrasah, and other measures to prevent malnutrition

Component 4: Food Fortification and Communication

This component will support:

- (i) Expanding and institutionalizing the Borrower's national food fortification program, increasing demand for fortified food and food fortification through consumer education, increased technical capacity for regulatory enforcement of fortification laws, and including up-scaling new food fortification methods and the laboratory and staff skills at the Borrower's Food and Nutrition Development Center and BPOM; and
- (ii) Advocacy and communication for health and nutrition promotions and campaigns, supporting mass media communications, social marketing strategies to mobilize the private sector and communities to increase nutritional awareness and behavior, and curriculum development for academic institutions.

Component 5: Strengthening Nutrition Program, Planning and Management

This component will provide Project management to Project implementation by financing:

- (i) technical support to MOH, BPOM, MOHA, MONE, and Food and Nutrition Councils at the district level for institution building, nutrition surveillance, food fortification, communications and community mobilization;
- (ii) financial and technical monitoring and reporting oversight;
- (iii) monitoring and evaluation; and
- (iv) dissemination of Project progress and outcomes through workshops, publications and website news.

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
(Nutrition Improvement through Community Empowerment Project)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15-Feb-2016	678,917.00
15-Aug-2016	678,917.00
15-Feb-2017	678,917.00
15-Aug-2017	678,917.00
15-Feb-2018	678,917.00
15-Aug-2018	678,917.00
15-Feb-2019	678,917.00
15-Aug-2019	678,917.00
15-Feb-2020	678,917.00
15-Aug-2020	678,917.00
15-Feb-2021	678,917.00
15-Aug-2021	678,917.00
15-Feb-2022	678,917.00
15-Aug-2022	678,917.00
15-Feb-2023	678,917.00
15-Aug-2023	678,917.00
15-Feb-2024	678,917.00
15-Aug-2024	678,917.00
15-Feb-2025	678,917.00
15-Aug-2025	678,917.00
15-Feb-2026	678,917.00
15-Aug-2026	678,917.00
15-Feb-2027	678,917.00
15-Aug-2027	678,917.00
15-Feb-2028	678,917.00
15-Aug-2028	678,917.00
15-Feb-2029	678,917.00
15-Aug-2029	678,917.00
15-Feb-2030	678,917.00
15-Aug-2030	678,917.00
15-Feb-2031	678,917.00
15-Aug-2031	678,917.00
15-Feb-2032	678,917.00
15-Aug-2032	678,917.00
15-Feb-2033	678,917.00
15-Aug-2033	678,917.00
15-Feb-2034	678,917.00
15-Aug-2034	678,917.00

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15-Feb-2035	678,917.00
15-Aug-2035	678,917.00
15-Feb-2036	678,917.00
15-Aug-2036	678,917.00
15-Feb-2037	678,917.00
15-Aug-2037	678,917.00
15-Feb-2038	678,917.00
15-Aug-2038	678,917.00
15-Feb-2039	678,917.00
15-Aug-2039	<u>678,901.00</u>
Total	<u>32,588,000.00</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 8 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, the Loan proceeds for financing Goods, Works, consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" (2007, as amended from time to time) (ADB's Loan Disbursement Handbook).

Imprest Account: Statement of Expenditures

6. (a) Except as ADB may otherwise agree, the Borrower shall establish an imprest account at Bank Indonesia or another commercial bank acceptable to ADB. 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 be \$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.

Condition of Withdrawals from Loan Account

7. The Borrower shall ensure that no disbursement of Loan proceeds is made:

(i) to a Participating Village until (a) the CNC has appointed a treasurer to manage the bank account and (b) the CNC and the DPIU have executed a letter of community nutrition package agreement, as described in paragraphs 14 and 15 of Schedule 5 of this Loan Agreement; or

(ii) to a Participating Village if a misuse or misprocurement has occurred, or other procurement action by that Participating Village has been identified as irregular, until such misuse, misprocurement or other irregularity has been corrected by the concerned Participating Village to the satisfaction of the Borrower and ADB; or

(iii) to a Participating District if a misuse or misprocurement has occurred, or other procurement action by that Participating District has been identified as irregular, until such misuse, misprocurement or other irregularity has been corrected by the concerned Participating District to the satisfaction of the Borrower and ADB.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Nutrition Improvement through Community Empowerment Project)			
CATEGORY			ADB FINANCING BASIS
Number	Item	Total Amount Allocated for ADB Financing SDR Category	Percentage of ADB Financing from the Loan Account
1	Vehicles and Equipment	1,479,000	54 percent of total expenditure claimed
2	Human Resources Development	1,160,000	28 percent of total expenditure claimed
3	Community Nutrition Package	21,838,000	92 percent of total expenditure claimed
4	Operational Research and Policy Development	951,000	56 percent of total expenditure claimed
5	Advocacy and Communications	1,616,000	61 percent of total expenditure claimed
6	Consulting Services	3,499,000	100 percent of total expenditure claimed *
7	Project Management Support	182,000	58 percent of total expenditure claimed
8	Interest Charge	756,000	100 percent of amount due
9	Unallocated	1,107,000	
	Total	32,588,000	

* Exclusive of taxes and duties imposed within the territory of the Borrower.

SCHEDULE 4

Procurement of Goods and Works, 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:

International Competitive Bidding
Limited International Bidding
National Competitive Bidding
Shopping
Direct Contracting
Community Participation

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 Republic of Indonesia, 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 small scale water and sanitation systems in primary schools/madrasah and for equipment for nutrition-related activities, in accordance with the agreed procedures set out in the Procurement Plan and as below.

- i. The Participating Village shall indicate its willingness to participate with in-kind contributions (such as labor) and shall organize recurrent operations and maintenance works, if required.
- ii. The CNC shall designate the individual authorized to sign a contract for procurement purposes and shall follow approved procurement procedures.

- iii. The DTT shall assess the feasibility, viability and applicability of the community nutrition package as submitted by the CNC and shall make recommendations to the DPIU which shall make the final assessment of the proposal.
- iv. The DPIU shall: (i) allocate funds for each Works contract; (ii) monitor progress and quality of the Works; (iii) release funds to the CNC as per the tranches described in paragraph 16 of Schedule 5 to this Agreement; (iv) provide regular progress reports; (v) prepare relevant financial reports; and (vi) provide advice to the Participating Villages.
- v. The CNC shall be responsible for procurement of Works in the Participating Villages receiving community nutrition packages. To the extent possible, the CNC shall purchase construction materials through direct purchase procedures by inviting at least three quotations, preferably from local suppliers.
- vi. In exceptional cases, if sufficient contractors are not available, the contract may be awarded on a direct-assignment basis, after ascertaining the capability of the proposed contractor and the reasonableness of rates. To the extent possible, members of the Participating Village should be employed as laborers.
- vii. The CNC shall be responsible for Works implementation, including contractors' performance. The CNC shall submit monthly progress reports to the DPIU.

C. Conditions for Award of Contract

6. The Borrower shall not award any Loan-financed Works contracts in Participating Villages until:
- (a) The proposal for a community nutrition package has been approved by the DPIU;
 - (b) A signed letter of community nutrition package agreement has been entered into between the CNC and the DPIU; and
 - (c) A bank account has been established as described in paragraph 15 of Schedule 5 to this Agreement.

D. Selection of Consulting Services

7. 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.

E. Industrial or Intellectual Property Rights

8. (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.

9. 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.

F. ADB's Review of Procurement Decisions

10. All contracts procured under international competitive bidding procedures and national competitive bidding procedures, and contracts for consulting services funded by the Loan 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

Executing Agency

1. DGCH shall be the Executing Agency for the Project responsible for overall Project implementation and achievement of Project outcomes, specifically (i) oversight for Project implementation, (ii) disbursements, and (iii) policy direction.

Project Implementation and Coordination

A. Central Level

2. A Project Steering Committee (SC), chaired by the Deputy for Human Resources and Cultural Affairs, BAPPENAS, and including senior officials from Ministry of Agriculture, MOF, MOHA, Ministry of Industry, MONE, MORA, Ministry of Social Affairs, BPOM, and the National Family Planning Board, shall (i) advise the Project Director, (ii) provide guidance to ensure timely and effective performance of the project and (iii) supervise strategic planning and review and propose modifications and changes to Project implementation as necessary.
3. A CPMU shall be established at the EA. The CPMU shall be responsible for overall planning, administration, finance, procurement, training activities, accounting and disbursements, and shall coordinate national and provincial activities, and act as liaison between the provinces, MOH and ADB. The Project Director will be the Director General of Community Health and the Project Manager will be the Director of Community Nutrition. The CPMU shall be headed by the Project Manager and shall be assisted by a full-time Executive Secretary, and at least five (5) additional full-time staff with adequate expertise to provide support in the areas of technical coordination, planning, finance, procurement, and monitoring and evaluation.
4. BAPPENAS shall establish a Central Technical Team (CTT) chaired by the Director of Health and Community Nutrition, BAPPENAS, and composed of interministerial staff to provide technical advice to the Project and support cross-sector coordination.

B. Provincial Level

5. Each Participating Province shall establish a Provincial Project Coordination Unit (PPCU) composed of at least three full-time staff (technical, finance, procurement and administration) and located within the provincial Health Office (PHO). The Head of the provincial planning office (BAPPEDA) shall be the Provincial Project Coordinator and the Head of the PHO shall be the Provincial Project Manager.
6. The PPCU shall be responsible for (i) liaison with CPMU, (ii) support to Participating Districts in the preparation of all monitoring reports related to community nutrition package activities, (iii) support to Participating Districts and sub-districts in the Project progress and financial reporting process, (iv) coordination and analysis of nutrition

surveillance data and support to Participating District and sub-district data collection systems, and (v) monitoring and evaluating Project outcomes. The PPCU shall also be responsible for coordinating and facilitating collaboration among related agencies, such as the Food and Nutrition Council, provincial level offices of Education, and other institutions or government agencies, to synchronize and implement Project activities. Quarterly progress reports shall be submitted to the CPMU within fifteen (15) days after the end of each quarter.

C. District Level

7. The District Health Office (DHO) within each Participating District shall establish a District Project Implementation Unit (DPIU) within the DHO. The Head of the district planning office (BAPPEDA) shall be District Project Coordinator and the Head of the DHO shall be District Project Manager. The DPIU shall be responsible for providing technical guidance to Participating Villages.
8. The DPIU shall have at least three full-time staff, composed of officers responsible for technical expertise, finance, administration, planning and procurement. The DPIU shall be responsible for (i) liaison with the PPCU, (ii) supporting the development and implementation of community nutrition package proposals, including selection of beneficiary villages eligible to apply for community nutrition packages, (iii) development of program planning and financial management capacity for nutrition services at the sub-district and village levels, (iv) selection of CFs, (v) support to Participating Villages to prepare monitoring reports related to community nutrition package activities; (vi) coordination of nutrition surveillance data and support to data collection systems; (vii) oversight of community nutrition package-funded activities, including authorization of community nutrition package disbursement, and (viii) supervising and monitoring Project implementation.
9. Each Participating District shall establish a District Technical Team (DTT), chaired by the DHO, and composed of representatives from the district level offices of Community/Village Empowerment Office, Agriculture, Education and Health with responsibility to evaluate proposals for, and oversee the use of, community nutrition packages, assisted by the DTT technical coordinator from the DHO.

D. Sub-District and Village Level

10. CFs, in coordination with the relevant health center, shall be responsible for facilitating all aspects of community empowerment, including implementation, facilitating the establishment of a CNC, situation analyses, preparation of community nutrition package proposals, growth monitoring, hygiene and sanitation promotion, nutrition education, and monitoring and evaluation. Each CF shall assist approximately two villages.

Community Nutrition Packages

11. Each Participating District shall assign the DTT to potential participating villages and poor urban areas to ensure that intended beneficiaries in eligible villages and poor urban areas: (i) understand the overall Project objectives and the importance to

improve nutrition status, hygiene and sanitation, (ii) are informed of the possibility of receiving a community nutrition package to improve nutrition, hygiene and sanitation, and to strengthen *posyandu* activities, and (iii) understand the community nutrition package application mechanism as well as selection process and complaint mechanism.

12. Unless otherwise agreed with ADB, the head of the DHO shall nominate villages and poor urban areas eligible for community nutrition packages based on the following criteria: (i) at least one active cadre per *posyandu*, (ii) lack of community water and sanitation in primary schools/madrasah, and (iii) commitment of the village or poor urban area to the Project with priority given to villages or poor urban areas having health care personnel.
13. Within six months of notification of eligibility for a community nutrition package pursuant to paragraph 12 of this Schedule, the CF shall facilitate preparation of a proposal for a community nutrition package. Proposals shall meet the following criteria: (i) demonstrates that activities reach key target beneficiaries, especially children under two years of age and pregnant or lactating women, (ii) enhances and expands the services of the *posyandu*, and/or (iii) provides small-scale water and sanitation for primary schools/madrasah.
14. The village head of a village eligible to apply for a community nutrition package shall have a village meeting in which a ten (10) member CNC is elected by the village. At least 60% of the CNC members shall be women. The CNC shall select from among its members a chair, a secretary and a treasurer. In addition, the CNC shall select one of its members to assist with data collection and performance monitoring, in the event it is selected as a Participating Village. The CNC shall work with the CF, in coordination with the relevant health center, to formulate a proposal for a community nutrition package. In the event the CNC is not able to submit a proposal within six months of notification of eligibility, an alternative village or poor urban area will be selected by the local government as eligible for assistance by a CF. A long list of potentially eligible villages or poor urban areas, as developed by the Borrower, shall be used as the basis for identifying an alternative village or poor urban area.
15. The application for a community nutrition package shall be reviewed by the DTT, assisted by the technical coordinator, within fifteen (15) working days of submission and, with the recommendations of the DTT, it shall then be submitted to the DPIU for final review and approval or denial. The DTT may request a revision of the community nutrition package proposal prior to its final approval or denial. No more than one revised proposal shall be allowed. The DPIU shall have no right of veto to the proposed activities provided they meet the criteria as described in paragraph 13 to this Schedule. For those proposals that are approved, a letter of community nutrition package agreement shall be signed by the CNC and the DPIU. Subsequent to signing, the CNC shall establish a bank account which requires the joint signatures of the CNC chair and the treasurer in order to make a withdrawal.
16. Funds shall be released to Participating Villages in three tranches. The first tranche shall be 40% of the approved community nutrition package amount and which shall be released upon approval of the application for a community nutrition package and

the opening of the requisite bank account. A second tranche of 30% of the approved community nutrition package amount shall be released upon at least 75% of first tranche funds having been expended and upon verification of actual implementation progress by the relevant DPIU and CNC. A third and final tranche of 30% of the approved community nutrition package amount shall be released upon at least 75% of first and second tranche funds having been expended and upon verification of actual implementation progress by the relevant DPIU and CNC.

17. Unless otherwise agreed with ADB, the ceiling for the value of each community nutrition package shall be \$15,000 with the exact amount based upon the following factors: population size, geographic area and transport costs.
18. The community nutrition packages may be used in the Participating Villages for the following activities: (i) upgrading the facilities of the *posyandu*, (ii) child growth and development monitoring (such as weighing, nutrition counseling, etc.), (iii) nutrition promotion and education, i.e., feeding of infants and young children, (iv) mother's classes engaged in child care, breast feeding, toys/books, cooking demonstrations, (v) small scale water, hygiene and sanitation in primary schools/madrasah, (vi) training school canteen staff and/or food vendors on food hygiene and safety, (vii) purchase of impregnated bed nets, and (viii) a maximum of 5% (five per cent) of the value of the community nutrition package may be used to support CNC operational costs, e.g., transport costs to bank, office supplies and stationery.
19. Ineligible expenditures for community nutrition packages include: (i) labor costs, (ii) transport costs, (iii) salaries for CNC and health workers, (iv) complementary food financed under the national complementary feeding program (MPASI), (v) *posyandu* operational costs, and (vi) *posyandu* scales.

Gender

20. At least 50% of the CFs shall be women.
21. At least 50% of the recipients of fellowships shall be women. .
22. The percentage of women trained in BPOM under the Project shall be the same as the percentage of women in the BPOM workforce who are at the required service level to be eligible for training.

Counterpart Contribution and Funds

23. The Borrower shall ensure that all necessary counterpart funds for Project implementation at the national level are provided in a timely manner and, to such end, the Borrower will make timely submissions of annual budgetary appropriation requests and take all other measures necessary or appropriate for prompt disbursement of appropriated funds to the Participating Provinces and Participating Districts during each year of Project implementation.
24. Within three years after Project implementation commences, Participating Districts shall replicate selected Project activities in at least 10% of the villages or poor urban

areas in the Participating Districts which did not receive community nutrition packages.

Use of Earmarked Funds

25. Except as ADB may otherwise agree, the Borrower shall ensure that, throughout the period of Project implementation, the proceeds of the Loan, and the corresponding amount of necessary counterpart funds, shall be disbursed to Participating Provinces and Participating Districts by budgetary transfers of funds earmarked for such purpose.
26. For approved community nutrition packages as described in paragraph 15 of this Schedule the Borrower shall utilize its funds flow mechanisms to disburse funds to the provincial level Treasury Office and the Borrower shall then ensure that Loan proceeds are disbursed from the provincial level Treasury Office to the CNC bank account.
27. Each Participating District shall establish a separate Project bank account for District-level activities funded by the Project. The Borrower shall utilize its funds flow mechanisms to disburse funds to the provincial level Treasury Office for disbursement to the DPIU for district-level expenditures.

Indigenous Peoples

28. The Borrower shall ensure that measures are undertaken to promote full participation of indigenous peoples (as that term is used in ADB's *Policy on Indigenous Peoples* (1998)) in Project activities including, inter alia, developing mechanisms to include indigenous peoples in capacity building and training under the Project. The Borrower shall ensure that Project activities are carried out in accordance with ADB's *Policy on Indigenous Peoples* (1998) and communication and advocacy materials are adapted to reach indigenous peoples or ethnic minorities in their native language. In addition, CFs shall be recruited from the communities of ethnic minorities or indigenous peoples with whom they will be working.

Environment

29. The Borrower shall ensure that all Works are carried out in accordance with ADB's *Environment Policy* (2002).

Resettlement

30. The Borrower shall ensure that no resettlement, as defined by ADB's policy on *Involuntary Resettlement* (1995), is required as a result of Project activities.

Procurement

31. MOH shall ensure that bidding documents for procurement of medical equipment, computers, and/or motorcycles or vehicles are consolidated on a provincial or central basis, as appropriate.

Governance

32. The Borrower shall ensure that all Project staff are fully knowledgeable of and comply with the Borrower's and ADB's procedures, including, but not limited to, procedures for (i) implementation, (ii) procurement, (iii) use of consultants, (iv) disbursement, (v) reporting, (vi) monitoring, and (vii) prevention of fraud and corruption.
33. The Borrower shall ensure: (i) establishment of a complaint mechanism to ensure that complaints made by intended beneficiaries are adequately addressed, and (ii) the use of information technology to increase transparency, accountability and efficiency in procurement. Public documents related to the Project shall be made available on the Directorate of Nutrition's internet website dedicated to the Project. MOH shall publicly disclose on the referenced website information on how Loan proceeds are being used, presenting procurement awards and updated information on Project activities.
34. MOH shall ensure that notice boards at health facilities in the Participating Districts contain information on (i) the process of application and approval of community nutrition packages, (ii) the community nutrition packages which have been received and either approved or declined, including the reason for such decline, and (iii) the redress mechanism for complaints.
35. MOH shall ensure that all contracts financed by the Loan proceeds in connection with the Project include provisions specifying the right of ADB to audit and examine records and accounts of MOH and all contractors, suppliers, consultants and other service providers as they relate to the Project.

Auditing and Financial Recordkeeping

36. Without prejudice to the generality of Section 4.02(a) of this Loan Agreement, for purpose of audit of accounts and financial statements of the Project carried out pursuant thereto, the Borrower shall ensure that any independent auditors financed from proceeds of the Loan shall be selected and engaged in accordance with competitive selection procedures acceptable to ADB.
37. Without prejudice to the generality of Section 4.02(a) of this Loan Agreement, the Borrower shall ensure that all Participating Provinces and all Participating Districts, and national level DGCH, maintain a separate accounting system for Project expenditures in accordance with sound accounting principles. All Project accounts, including financial statements, statements of expenditures and account records, shall be audited annually as part of the regular audit accounts and financial statements. District accounts shall be audited by auditors acceptable to ADB and consolidated at the provincial level. The audit opinion shall include (i) an assessment of the adequacy of accounting and internal control systems with respect to Project expenditures and other financial transactions, specifically including the use of the imprest accounts; (ii) a determination as to whether the Borrower and DGCH have maintained adequate documentation for the imprest account procedures; and (iii) confirmation of compliance with this Loan Agreement's financial covenants and ADB requirements for Project management. The consolidated audit reports (in English and with six provincial audit reports and one for DGCH at the national level) shall be

submitted to ADB in accordance with the requirements and within the deadlines stated in Section 4.02(a) of this Loan Agreement.

38. Each Participating Village shall record the receipt and spending of the community nutrition package into a general cash book. At the end of each month the CNC chair and treasurer shall prepare a summary of the cash book and bank reconciliation. These documents, together with supporting documents, i.e., invoices and receipts, work plans and other relevant community nutrition package expenditure documents shall be reported to the DPIU as part of the quarterly reports required under para. 39 of this Schedule. Failure to submit the required financial reports may result in suspension of a Participating Village's eligibility to receive further funds. Based on community nutrition package reports from the DPIUs, and non-community nutrition package expenditures as recorded by the DPIUs, PPCUs and CPMU, MOH shall maintain an accounting system showing a clear link between activities and expenditures related to the Project as the basis for preparation of the financial statements. The DPIUs shall monitor Participating Districts' and Participating Villages' bank accounts and provide the CPMU with bank account statements and supporting documents for consolidation within fifteen (15) days after the end of every quarter.

Reporting

39. All Participating Villages shall submit to the DPIU a quarterly progress report within ten (10) days of the end of each quarter. Based on these reports, the DPIU shall submit to the CPMU Project Manager a synthesized progress report of Participating Villages' activities within fifteen (15) days of the end of each quarter.
40. MOH shall submit to ADB, within thirty (30) days of the end of each calendar quarter period, consolidated progress reports in a form agreed upon by MOH and ADB and which reports summarize (i) progress made against established targets, (ii) delays and problems encountered, (iii) compliance with loan covenants, (iv) proposed Project activities for the next six (6) months, (v) expected progress during the succeeding period, and (vi) status of activities.

Project Performance and Monitoring System (PPMS)

41. The Borrower shall ensure that the PPMS, as agreed upon by the Borrower and ADB, is implemented and managed effectively. Data collection for the PPMS shall be performed by the DPIUs and the relevant CF, with the CF taking responsibility for data collection and analysis related to community-level activities.