
LOAN NUMBER 2221-INO(SF)

LOAN AGREEMENT
(Special Operations)
(Rural Infrastructure Support Project)

between

REPUBLIC OF INDONESIA

and

ASIAN DEVELOPMENT BANK

DATED 29 March 2006

LAS:INO 39597

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 29 March 2006 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 May 2004 (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) "BAPPEDA" means the Borrower's Regional Development Planning Agency and any successor thereto;
- (b) "BAPPENAS" means the Borrower's National Development Planning Agency and any successor thereto;
- (c) "CIO" means community implementation organization;
- (d) "DGHS" means Directorate General of Human Settlements within MPW and any successor thereto;
- (e) "DPIU" means district level Project implementation unit;
- (f) "IRIP" means village level infrastructure, rehabilitation and improvement plan;

- (g) "MPW" means the Borrower's Ministry of Public Works and any successor thereto;
- (h) "NSC" means National Steering Committee;
- (i) "O&M" means operation and maintenance;
- (j) "Participating Districts" means those districts that have met all Project participation requirements, including committing funds to meet Project costs in accordance with the Borrower's requirements, and which are located in the Participating Provinces;
- (k) "Participating Provinces" means those four (4) provinces which will participate in the Project, namely East Java, Nusa Tenggara East, South Sulawesi, and South East Sulawesi;
- (l) "Participating Villages" means those villages that have met all Project participation requirements, including committing funds to meet Project costs in accordance with the Borrower's requirements, and which are located in the Participating Districts;
- (m) "PPIU" means provincial level Project implementation unit;
- (n) "Project facilities" means the facilities, equipment and vehicles provided under the Project;
- (o) "PCMU" means Project coordination and monitoring unit;
- (p) "PKPS-BBM" means the Borrower's Fuel Subsidy Reduction Compensation Program;
- (q) "PPMS" means Project Performance Monitoring System; and
- (r) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means DGHS which is responsible for the carrying out of the Project.

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-five million and seventy-nine thousand Special Drawing Rights (SDR 35,079,000).

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 June and 1 December 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.

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 and 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 and 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 and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to this Loan Agreement.

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

- (a) goods which are produced in and supplied from and 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 and 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 31 March 2009 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 6 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) hereinabove, 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 financed out of the proceeds of the Loan, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. 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 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 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 Treasury
Jln, Lapangan Banteng Timur No. 2-4
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) 636-2410

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 
MULIA P. NASUTION
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 improve welfare in rural communities with the immediate objective of improving access of the poor and near-poor in rural areas to basic rural infrastructure. The Project will cover selected provinces in Indonesia with a concentration on less developed districts. Approximately 1,800 villages in approximately 40 Participating Districts in four Participating Provinces will be covered by the Project.

2. The Project will have the following components.

Part A: Infrastructure Rehabilitation and Improvement

This component will target the poor and/or isolated villages that have not received any similar rehabilitation or infrastructure improvements assistance for the past two years. It will utilize a demand driven approach and provide villages with financial resources and technical assistance to meet priority village level infrastructure needs, including roads, bridges and culverts, irrigation schemes, water supply and sanitation, and drainage works.

Activities under this Component will include: (i) awareness campaign to introduce the Project to Participating Villages; (ii) capacity building and facilitation for villagers; (iii) develop CIOs and build skills in developing basic infrastructure; (iv) technical support to CIOs for survey and design of proposed infrastructure; (v) support for implementation of IRIPs; (vi) development of O&M mechanisms; and (vi) establishment of effective CIO monitoring and reporting mechanisms.

Part B: Implementation, Monitoring and Coordination Support

This component will support district and sub-district level implementation of activities carried out in Part A. The primary activities under this Component include: (i) establishment of Project management and coordination mechanisms; (ii) capacity building at the district and sub-district levels with regard to community-driven development; (iii) provision of technical assistance to Participating Districts and sub-districts in facilitating infrastructure works; (iv) establishment of effective monitoring and reporting mechanisms; (v) independent financial audits of Project and CIO accounts and finances; (vi) screening for social and environmental safeguards; and (vii) assessment of design and management systems of the ongoing PKPS-BBM.

3. The Project also includes the provision of consulting services. The Project is expected to be completed by 30 September 2008.

SCHEDULE 2**Amortization Schedule
(Rural Infrastructure Support Project)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
01-Jun-2014	730,813.00
01-Dec-2014	730,813.00
01-Jun-2015	730,813.00
01-Dec-2015	730,813.00
01-Jun-2016	730,813.00
01-Dec-2016	730,813.00
01-Jun-2017	730,813.00
01-Dec-2017	730,813.00
01-Jun-2018	730,813.00
01-Dec-2018	730,813.00
01-Jun-2019	730,813.00
01-Dec-2019	730,813.00
01-Jun-2020	730,813.00
01-Dec-2020	730,813.00
01-Jun-2021	730,813.00
01-Dec-2021	730,813.00
01-Jun-2022	730,813.00
01-Dec-2022	730,813.00
01-Jun-2023	730,813.00
01-Dec-2023	730,813.00
01-Jun-2024	730,813.00
01-Dec-2024	730,813.00
01-Jun-2025	730,813.00
01-Dec-2025	730,813.00
01-Jun-2026	730,813.00
01-Dec-2026	730,813.00
01-Jun-2027	730,813.00
01-Dec-2027	730,813.00
01-Jun-2028	730,813.00
01-Dec-2028	730,813.00
01-Jun-2029	730,813.00
01-Dec-2029	730,813.00

* 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 2

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
01-Jun-2030	730,813.00
01-Dec-2030	730,813.00
01-Jun-2031	730,813.00
01-Dec-2031	730,813.00
01-Jun-2032	730,813.00
01-Dec-2032	730,813.00
01-Jun-2033	730,813.00
01-Dec-2033	730,813.00
01-Jun-2034	730,813.00
01-Dec-2034	730,813.00
01-Jun-2035	730,813.00
01-Dec-2035	730,813.00
01-Jun-2036	730,813.00
01-Dec-2036	730,813.00
01-Jun-2037	730,813.00
01-Dec-2037	730,789.00
Total	<u><u>35,079,000.00</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, 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.

Reallocation

3. 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.

Imprest Account; Statement of Expenditures

4. (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" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Borrower and ADB. The initial amount to be deposited into the imprest account shall not exceed the equivalent of \$5 million or the planned expenditures for the first six (6) months of the Project, whichever is less.

(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" dated January 2001, as amended from time to time, 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

5. Notwithstanding any other provision of this Loan Agreement, no withdrawals from the Loan Account shall be made:

(i) to a Participating Village until a CIO has been established, an IRIP has been approved and a contract between the CIO and the DPIU has been signed, as described in paragraphs 9 and 10 of Schedule 6 of this Loan Agreement; or

(ii) to a Participating District until a DPIU has been established and is staffed, as described in paragraph 7 of Schedule 6 to this Loan Agreement; or

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

(iv) to a Participating District if a misprocurement has occurred or other procurement action by the specified Participating District has been identified as irregular until such 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			
(Rural Infrastructure Support Project)			
CATEGORY			ADB FINANCING
Number	Item	Amount Allocated (SDR) Category	Percentage and Basis for Withdrawal from the Loan Account
1	Civil Works	34,003,000	100 percent of total expenditure
2	Consulting Services	115,000	100 percent of total expenditure*
3	Community Mobilization	351,000	100 percent of total expenditure*
4	Audits, Surveys and Studies	491,000	100 percent of total expenditure*
5	Unallocated	119,000	100 percent of amounts due
	Total	35,079,000	

* Excludes local taxes

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of goods and services to be financed out of the proceeds of the Loan. In this Schedule and the Attachment hereto, the term "goods" includes equipment and materials; the term "services" does not include consulting services.

2. Procurement of goods and services shall be subject to the provisions of the "*Guidelines for Procurement under Asian Development Bank Loans*" dated November 2004 (hereinafter called the *Guidelines for Procurement*), as amended from time to time, which have been furnished to the Borrower.

3. Procurement of goods and services shall be made without any restriction against, or preference for, any particular supplier or contractor or any particular class of suppliers or contractors, except as otherwise provided in paragraphs 5, 6, 7 and 8 below.

4. (a) Each supply contract for equipment or materials estimated to cost the equivalent of \$500,000 or less (other than minor items) shall be awarded on the basis of international shopping as described in Chapter III of the Guidelines for Procurement.

(b) Each draft invitation to bid and related bid document shall be submitted to ADB for approval before they are issued.

(c) Notwithstanding paragraph 3.03(b) of the Guidelines for Procurement, any award of contract shall be subject to prior Bank approval.

5. Civil works contracts for less than \$500,000 may be awarded on the basis of local competitive bidding among prequalified contractors in accordance with the standard procurement procedures of the Borrower and acceptable to ADB.

(a) For the first contract to be awarded on the basis of local competitive bidding, the first draft English language version of the bidding documents, as well as prequalification, selection and engagement of contractors shall be subject to the approval of ADB. As soon as the bids received have been evaluated, the proposal for award of contract shall be submitted to ADB for approval. For this purpose, ADB shall be furnished with three copies of (i) an account of the public opening of bids; (ii) a summary and evaluation of the bids; (iii) the proposal for award; and (iv) a draft contract or a draft letter of acceptance. Promptly after each contract is awarded, ADB shall be furnished with three copies of the contract as executed.

(b) For the subsequent contracts, bid evaluation and award of contracts shall be subject to post review by ADB.

6. Civil works contracts estimated to cost the equivalent of \$25,000 or less may be awarded on the basis of ADB's *Guide on Implementing Small Projects with Community Participation*, as amended from time to time, a copy of which has been furnished to the Borrower. The CIO shall act as the Managing Committee described in the *Guide*. The first two civil works contracts to be awarded in each Participating Province shall be subject to prior ADB approval. Thereafter, the DPIU shall maintain all relevant documents for each contract awarded and which documents shall be available for review by ADB. These required documents include the IRIP, detailed cost estimates, design plans, approval document, and the signed contract. Upon prior approval of ADB, a civil works contract for an amount in excess of \$25,000 may be awarded on the basis of ADB's *Guide on Implementing Small Projects with Community Participation*, as amended from time to time.

7. Equipment estimated to cost the equivalent of \$200,000 or less required for the Project may be procured locally in accordance with procedures acceptable to ADB.

(a) Selection and engagement of suppliers shall be subject to the approval of ADB for the first procurement exercise. After award, three copies of each contract for such items shall be furnished to ADB.

(b) Subsequent procurements shall be subject to post review by ADB.

8. Equipment estimated to cost, in the aggregate, the equivalent \$50,000 or less, may be procured directly using three quotations in accordance with procedures acceptable to ADB.

9. (a) The Borrower shall ensure that all Bank-financed goods and services 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 Bank-financed contracts for the procurement of goods and services 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. Notwithstanding any other provision in this Schedule and except as the Bank may otherwise agree, the Borrower shall ensure that no civil works are commenced in a Participating Village until, where necessary, all compensation and resettlement or relocation activities have been satisfactorily completed and income restoration measures are in place in the Participating Village, pursuant to the requirements of paragraph 26 of Schedule 6 to this Loan Agreement.

SCHEDULE 5**Consultants**

1. The services of consultants shall be utilized in the carrying out of the Project, particularly with regard to:

- (a) Project management;
- (b) District-level implementation support;
- (c) Financial and Project management services performance;
- (d) Social safeguards;
- (e) Environment;
- (f) Civil engineering;
- (g) Community development; and
- (h) Procurement.

The terms of reference of the consultants shall be as determined by agreement between ADB and DGHS.

2. The selection, engagement and services of the consultants shall be subject to the provisions of this Schedule and the provisions of the "Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers" dated January 2005 (hereinafter called the Guidelines on the Use of Consultants), as amended from time to time, which have been furnished to DGHS and the Borrower.

3. The consultants shall be engaged in five packages:

Package No. 1: Project Management consisting of consultants with expertise in management, PPMS, quality assurance, social development, media, training, and social and environmental safeguards;

Package No. 2: District Implementation Support consisting of consultants with expertise in community development, public information, civil engineering, quality assurance, financial and Project management and monitoring, and social and environmental safeguards;

Package No. 3: Financial Management Services and Project Performance Management consisting of consultants with expertise in management, PPMS, finance, database systems design, programs analysis and training;

Package No. 4: Assessment of PKPS-BBM Financial Management consisting of consultants with expertise in financial management and auditing; and

Schedule 5

Package 5: Advance Team consisting of consultants with expertise in management, program planning, procurement, engineering and village development.

4. For the services described in Package Nos. 1, 2 and 3 as described in paragraph 3 of this Schedule, and which are being funded by the Loan proceeds, the consultants shall be selected and engaged as a firm by DGHS using the quality-based selection (QBS) method in accordance with the following procedures.

(a) Invitation for proposals. The invitation to submit proposals and all related documents shall be approved by ADB before they are issued. For this purpose, three copies of the draft invitation to submit proposals, a list of consultants to be invited, the proposed criteria for evaluation of proposals, a draft consultancy contract, and other related documents shall be submitted to ADB. A period of at least 35 days shall be allowed for submission of simplified technical proposals. A copy of the final invitation as issued, together with all related documents, shall be furnished to ADB for information promptly after issuance.

(b) Proposal for selection. After the proposals received have been evaluated and before negotiations are started with the consultants selected for negotiations, approval of ADB shall be obtained to the selection made. For this purpose, ADB shall, promptly after the evaluation of proposals, be furnished with three copies of (i) an evaluation of the proposals and (ii) justification for the selection.

(c) Execution of contract. After the conclusion of negotiations but before the signing of the contract, ADB shall be furnished with the contract as negotiated for approval and the evaluation of the proposals. Promptly after the contract is signed, ADB shall be furnished with three copies of the signed contract. If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

5. For the services provided in Package Nos. 4 and 5 as described in paragraph 3 to this Schedule, and which are being funded by the Loan proceeds, the consultants shall be selected and engaged by DGHS in accordance with the following procedures.

(a) A list of the candidates together with their qualifications and their ranking and a draft contract shall be furnished to ADB for approval before the selection of consultants.

(b) Promptly after the contract is signed, ADB shall be furnished with the evaluation of the candidates and a brief justification for the selection, together with three copies of the signed contract.

(c) If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.

6. 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.

SCHEDULE 6**Project Implementation and Coordination; Financial Matters****I. Project Executing Agency**

1. DGHS shall be the Executing Agency for the Project.

II. Project Implementation and Coordination**A. Central Level**

2. The existing PKPS-BBM National Coordination Team (chaired jointly by the Coordinating Ministers for the Coordinating Ministry for Economic Affairs and the Coordinating Ministry for People's Welfare) and the existing National Rural Infrastructure PKPS-BBM Steering Committee (NSC) (chaired by the Minister of Public Works with members including the Ministers of Finance, Home Affairs, Information and Communications, Labor and Transmigration, and Agriculture, and the heads of BAPPENAS, State Ministry for Less Developed Regions, National Statistics Agency and the National Audit Agency) shall provide policy directives, guidance, monitoring and managerial oversight for the implementation of the Project. NSC shall periodically (no less than two times each year) report to the PKPS-BBM National Coordination Team on Project progress. The PKPS-BBM National Coordination Team and the NSC shall each meet as necessary but not less than two times each year.

3. The PCMU, established within the DGHS, shall work closely with the PKPS-BBM multi-agency provincial and district project coordination teams and shall be responsible for: (i) providing secretariat assistance to NSC; (ii) multi-stakeholder coordination; (iii) preparing managerial, technical, and social implementation guidance notes; (iv) undertaking a public information campaign and the training of provincial and district stakeholders in Project procedures; (v) annual work activity and budgetary planning and programming; (vi) selection of Participating Villages; (vii) design of technical quality assurance programs; (viii) assisting in the implementation of the Borrower's Fiduciary Control, Fraud, and Anti-Corruption Action Plan; (ix) recruiting consultants; (x) technical and financial audits; and (xi) monitoring, evaluation and reporting.

B. Provincial Level

4. The governor of each Participating Province shall appoint a multi-agency provincial Steering Committee chaired by the provincial BAPPEDA with the provincial Public Works Agency as secretary, and members including the Agency for People's Welfare and other provincial agencies as considered appropriate by the provincial governor. Community and non-government stakeholders (e.g., local parliaments, local public organizations, non-government organizations, university, press, prominent community leaders, and the general public) shall form a minimum 25 per cent of the membership. The Provincial Steering Committee shall meet as necessary but not less than two times each year.

5. A PPIU shall be established in each Participating Province and shall be responsible for: (i) providing secretariat assistance to the Provincial Steering Committee; (ii) training of district level stakeholders; (iii) village selection screening and making recommendations to the PCMU; (iv) annual work activity and budgetary planning and programming; (v) screening of IRIP proposals for environmental and social safeguards; (vi) managing the complaints procedures; and (viii) coordination of district level activities, monitoring, and reporting.

C. District Level

6. The district head (Bupati) of each Participating District shall appoint a multi-agency district Steering Committee chaired by the head of the district BAPPEDA and with the district Public Works Agency as secretary, and members including the Agency for People's Welfare and other district level agencies as considered appropriate by the district head. Community and non-government stakeholders (i.e., local parliaments, local public organizations, non-governmental organizations, universities, media, public leaders and the general public) shall form a minimum 25 per cent of the membership. The District Steering Committee shall meet as necessary and not less than two times each year.

7. A DPIU shall be established in each Participating District with responsibilities for: (i) providing secretariat assistance to the District Steering Committee; (ii) ranking of potential Participating Villages and submittal to PPIU; (iii) training of sub-district and village level stakeholders; (iv) annual work activity and budgetary planning and programming; (v) reviewing and approving IRIPs; (vi) providing technical guidance and implementation control; (vii) supporting CIOs; (viii) ensuring fully inclusive implementation of Project activities; (ix) ensuring Project gender and pro-poor features are disseminated to Participating Villages and adequately included in IRIPs; (x) providing technical and social facilitation support to CIOs; (xi) maintaining comprehensive technical and accounting records; (xii) investigating all complaints and sending a formal report within 10 (ten) days to the PPIU; and (xiii) coordinating village level activities, monitoring, evaluation and reporting.

8. Sub-district teams shall be responsible for: (i) disseminating information regarding the Project to villages that may wish to participate in the Project; (ii) assisting with selection or formation of CIOs and community representatives; (iii) approving CIOs; (iv) explaining Project implementation guidelines to Participating Villages; and (v) monitoring construction reporting by the Participating Villages.

D. Village Level

9. Each Participating Village shall establish a CIO which shall have a Representative Committee which includes a designated head, treasurer, secretary and technical facilitator. The Representative Committee shall have five (5) members, of which at least one (1) shall be female and, if minority groups are present in the village, then one member from the minority group.

10. The CIO shall be legalized by the village head so as to enable the CIO to open a bank account. The CIO shall be responsible for: (i) identifying social and infrastructure constraints in the village; (ii) preparing an IRIP proposal; (iii) implementing the approved IRIP; (iv) opening a bank account and making a contract for infrastructure works with the DPIU; (v) daily monitoring of construction works and reporting progress to the DPIU, utilizing the PPMS; (vi) preparing invoices and cash management; (vii) holding weekly meetings open to the public and in the village demonstrating physical progress and financial expenditures, accompanied by public posting of daily records on village information boards; (viii) maintenance of a complaints system; and (ix) monitoring and reporting.

11. The CIO shall either (i) confirm that the Representative Committee shall supervise rural infrastructure construction activities and rural infrastructure management (including O&M) programs, or (ii) establish a new committee which shall supervise rural infrastructure construction activities and rural infrastructure management (including O&M) programs.

12. Each village wishing to participate in the Project shall prepare an IRIP addressing identified rural infrastructure problems in the village and submit it for approval by the DPIU. Once an IRIP is approved, the Participating Village shall be entitled to receive under the project shall be entitled to a maximum grant of Rp 250 million, unless otherwise agreed by ADB

13. Village facilitators, recruited by the Project, shall act as technical and mobilization advisors to assist each CIO and village organizer in planning, selection, design and implementation of Project activities. Village facilitators shall act as a liaison between the CIO and the DPIU and shall be assigned to the CIO by the DPIU. The village organizer shall be elected by the Participating Village to support the CIO and shall engaged under the Project to act as a liaison with the DPIU.

14. Each Participating Village shall carry out all required O&M activities. The failure to carry out needed O&M activities as specified in the IRIP shall result in the Participating Village being no longer eligible for participation in the Project, unless otherwise agreed by ADB.

15. Each Participating Village, acting through its respective CIO, shall establish a separate Project bank account for village-level activities funded by the Project. The bank account described in paragraph 20 of this Schedule 6 shall be used to transmit funds to Participating Villages.

III. Selection of Participating Districts, Participating Villages and Village Infrastructure

16. The Borrower shall ensure that the selection of Participating Districts is based on criteria issued by the NSC. Selection criteria shall include, at a minimum, the following: (i) the proposed district has been classified by the Borrower as a "Less Developed District", (ii) there is sufficient implementation capacity in the district, and (iii) there are a sufficient number of villages in the district which are potentially eligible to participate in the Project. Final selection of Participating Districts shall be approved by ADB prior to Project activities commencing in that district. The Borrower shall ensure that the selection of Participating Villages is based on criteria issued by the NSC. Selection criteria shall include, at a

minimum, the following: (i) the village has a poverty level higher than the district average; (ii) the village has a lower density of infrastructure than the district average; and (iii) the village has not received support in the preceding two (2) years for rural infrastructure development. A proposed list of Participating Villages shall be submitted to the PCMU and ADB prior to approval of the Participating Villages' IRIP and prior to commencement of civil works in each of the Participating Villages.

17. Selection of Participating Villages shall be subject to the IRIP meeting the following criteria:

- (i) it is unanimously endorsed by the Representative Committee and provides proportional benefits and employment opportunities to women and minority groups;
- (ii) the proposed works have a village infrastructure focus leading to improvement of livelihoods for the poor or near poor;
- (iii) the proposed works have the potential of immediate utilization by the poor or near poor;
- (iv) only rehabilitation and improvement of existing village level infrastructure will be required;
- (v) the proposed works demonstrate economic viability and financial sustainability;
- (vi) no individual or community voluntary land donations, land acquisition or involuntary resettlement as defined in ADB's *Policy on Involuntary Resettlement* (1995) will be required;
- (vii) no negative environmental, social or economic impacts will occur;
- (viii) the construction period will not exceed three (3) months;
- (ix) an evaluation of alternative designs and verification of cost effectiveness has been completed;
- (x) local labor and materials and simple technology or technology appropriate to village conditions will be utilized;
- (xi) at least 50 per cent of the village's population have participated in a demonstration of the proposed works' nature, location and impacts; and
- (xii) the village has agreed to the proposed works' O&M plan which is contained in the contract between the CIO and the DPIU.

IV. Counterpart Contribution and Obligations

18. Without prejudice to the generality of Section 6.06 of the Loan Regulations, the Borrower shall ensure that all necessary counterpart obligations for Project implementation 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, if any, to the Participating Provinces, Participating Districts and Participating Villages during each year of Project implementation.

V. Use of Earmarked Funds

19. 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 necessary counterpart funds, if any, shall be passed on as grant to Participating Provinces, Participating Districts and Participating Villages by budgetary transfers of funds earmarked for such purpose. The Project shall be denominated a national level Project.

20. The Borrower shall transmit funds directly from Ministry of Finance to its local treasury offices in the Participating District (or the nearest Participating District if there is no district level treasury office for the relevant Participating District) for direct transmission to individual accounts held by CIOs. Funds shall be released to Participating Villages in tranches of 40 per cent, 40 per cent and 20 per cent of the approved amount for the respective IRIP based upon verification of actual implementation progress by the relevant DPIU. The first tranche shall be payable upon approval of designs and detailed cost estimates for the proposed rural infrastructure as an advance payment; the second and third tranches shall be payable when the works are completed by 36 per cent and by 72 per cent, respectively.

VI. Gender

21. The Borrower shall ensure that a minimum of 20 per cent of village organizers are women and the female organizers shall receive a wage equal to male village organizers.

22. The Borrower shall ensure that women are appropriately represented on the CIO Representative Committee, as described in paragraph 9 of this Schedule, and female CIO Representative Committee members shall receive benefits equal to male CIO Representative Committee members.

23. The Borrower shall ensure that a minimum of 33 per cent of participants in training programs under the Project are women.

VII. Indigenous Peoples

24. The Borrower shall ensure that measures are undertaken to promote full participation of indigenous peoples in Project activities including, inter alia, developing mechanisms to include indigenous peoples in capacity building and training under the Project. The PPMS developed under the Project shall include performance indicators that facilitate the monitoring of participation of indigenous peoples in Project activities. The Borrower shall ensure that Project activities are carried out in accordance with ADB's *Policy on Indigenous Peoples* (1998) and in accordance with paragraph 9 of this Schedule 6.

VIII. Environment

25. The Borrower shall ensure that all Project activities are performed in accordance with ADB's *Environment Policy* (2002). The Borrower shall further ensure that no IRIPs are approved for inclusion in the Project which have negative environmental impacts, in accordance with paragraph 17(vii) of this Schedule, or which do not meet ADB's Category "C" requirements with respect to environmental impact rating.

IX. Resettlement

26. The Borrower shall ensure that all Project activities are performed in accordance with ADB's *Policy on Involuntary Resettlement* (1995). The Borrower shall further ensure that no IRIPs are approved for inclusion in the Project which would require individual or community voluntary land donations, land acquisition or involuntary resettlement as defined in ADB's *Policy on Involuntary Resettlement* (1995), in accordance with paragraph 17(vi) of this Schedule.

X. Fiduciary Control, Fraud and Anti-Corruption Plan

27. The Borrower shall ensure that DGHS, in consultation with the Ministry of Finance, ADB, regional governments, non-governmental organizations and other stakeholders, develops a code of conduct, ethics and sanctions to be observed by bidders, suppliers, contractors, consultants, and other stakeholders.

28. 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.

29. The Borrower shall ensure that personnel assigned to professional positions in the PCMU shall remain in their position for the duration of the Project, unless otherwise agreed by ADB.

30. The Borrower shall ensure that, in the event regional governments participating in the Project establish a procurement committee, then each such committee shall include at least one independent observer.

31. The Borrower shall ensure that contracts with CIOs, contractors, suppliers and service providers involved in Project activities include financial liability provisions with regard to corruption, misrepresentations and other unethical conduct. The Borrower shall further ensure that such contracts contain provisions specifying the right of ADB to audit or participate, together with the Borrower's auditor, in the audit of the accounts of the CIOs, contractors, suppliers and service providers if there are allegations of graft or fraudulent financial practices.

32. The Borrower shall ensure that all CIO contracts entered into with the DPIU are made available to the public upon request and also that such contracts, and records of payments made, are publicly posted in the Participating Villages.

33. The Borrower shall ensure that DGHS develops a website for the Project which contains relevant Project information.

XI. Auditing and Financial Recordkeeping

34. 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 shall be selected and engaged in accordance with selection procedures acceptable to ADB.

35. Without prejudice to the generality of Section 4.02(a) of this Loan Agreement, the Borrower shall ensure that all Participating Provinces, all Participating Districts, and national level DGHS, 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 DGHS 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 three provincial audit reports and one for DGHS 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.

36. Each Participating Village shall maintain a record of expenditures for all expenses incurred as a result of rural infrastructure construction in a format specified by guidelines prepared under the Project and shall make such records be available to the public in accordance with paragraph 32 of this Schedule.

XII. Reporting

37. The Borrower shall ensure that DGHS, through the PCMU, submits to NSC and ADB, within four (4) weeks of the end of each calendar quarter period, consolidated progress reports in a form agreed upon by the Borrower and ADB. Such report shall include the ongoing findings of the PPMS, as described in paragraph 39 of this Schedule 6.

38. The Borrower shall ensure that DGHS, through the PCMU, submits to NSC and ADB, within six (6) months of Project completion, a consolidated Project completion report in a form agreed upon by the Borrower and ADB. Such report shall include the overall findings of the PPMS, as described in paragraph 39 of this Schedule 6.

XIII. Project Performance Monitoring System (PPMS)

39. The Borrower shall ensure that a PPMS, as agreed upon by the Borrower and ADB, is implemented and managed effectively. The PPMS shall include the following elements: (i) monitoring of physical and financial progress as well as the efficacy and efficiency of IRIP implementation, (ii) monitoring the level and adequacy of participation of various stakeholders in planning and implementing Project activities in Participating Villages, (iii) collection of gender disaggregated data, (iv) monitoring social, environmental and economic impacts, including the establishment of benchmark information and data, and (v) assessing the impact and utilization of the Project facilities. Data collection for the PPMS shall be performed by the village organizers who shall report such data to the appropriate DPIU.