

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF056723-IND

Global Environment Facility Trust Fund Grant Agreement

(Marine Electronic Highway Demonstration Project)

between

REPUBLIC OF INDONESIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated July 7, 2006

GEF TRUST FUND GRANT NUMBER TF056723-IND

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated July 7, 2006, between REPUBLIC OF INDONESIA (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991, of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution 94-2);

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding Part B.1 of the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2;

(D) by a GEF Grant Agreement dated June 19, 2006 between the International Maritime Organization and the Bank, the Bank has agreed to make available to the International Maritime Organization a GEF grant in the amount of six million eight hundred sixty thousand Dollars (\$6,860,000), for purposes of Parts A, B.2, B.3, B.4, D and E of the Project;

(E) a Memorandum of Understanding has been entered into among the Recipient, Malaysia, the Republic of Singapore and the International Maritime Organization on September 8, 2005, to provide a framework for participation, collaboration, commitment and co-operation to implement the Marine Electronic Highway Demonstration Project in the Straits of Malacca and Singapore (hereinafter the Memorandum of Understanding); and

(F) a Memorandum on Arrangements has been entered into among the Recipient, Malaysia, the Republic of Singapore, the International Maritime Organization, the International Hydrographic Organization, the International Association of Independent Tanker Owners and the International Chamber of Shipping on September 8, 2005, as an implementing arrangement in accordance with Article IV of the

Memorandum of Understanding to support, promote and collaborate in the implementation of the Marine Electronic Highway Demonstration Project in the Straits of Malacca and Singapore (hereinafter the Memorandum on Arrangements); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. (a) The following provisions of the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Sections 4.01 and 4.06;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (c), (e), (f), (i), (l), (m), (n), (o) and (p), 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (ix) Sections 10.01, 10.03 and 10.04;
- (x) Article XI; and
- (xi) Sections 12.01 (c), 12.03 and 12.04.

- (b) The General Conditions shall be modified as follows:
- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01(6), 6.02(f) and 5.01(a) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
 - (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
 - (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
 - (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
 - (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
 - (vi) a new subparagraph is added after subparagraph (o) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”; and
 - (vii) the words “corrupt or fraudulent” in paragraph (c) of Section 6.03 of the General Conditions are replaced with the words “corrupt, fraudulent, collusive or coercive”.

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

- (a) “Eligible Category” means Category (1) set forth in the table in Part A.1 of Schedule 1 to this Agreement.
- (b) “Eligible Expenditures” means the expenditures for goods referred to in Section 2.02 of this Agreement.
- (c) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement.

(d) “MEH” means the Marine Electronic Highway system to be established under the Project.

(e) “MEH Data Center” means the data centers to be established under the Project in the Republic of Indonesia, Malaysia and the Republic of Singapore.

(f) “Memorandum of Agreement” means the memorandum of agreement entered into between the Recipient and the International Maritime Organization on May 31, 2006, specifying: (i) the functions of the Project Management Office; (ii) the staffing (including support staff) and the facilities (including office space), to be provided to the Project Management Office; and (iii) who shall be responsible for providing the required staff, the facilities, and the operating costs of the Project Management Office.

(g) “Procurement Plan” means the Recipient’s procurement plan, dated March 14, 2006, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(h) “Project Area” means the area of the Strait of Malacca from One Fathom Bank (Permatang Sedepa) to the whole of the Strait of Singapore.

(i) “Project Coordination Unit” means the unit established within the Office of the Deputy Minister for Nature Conservation Enhancement and Environmental Destruction Control in the Ministry of Environment.

(j) “Project Implementation Plan” means the plan adopted by the Recipient and the International Maritime Organization for purposes of the carrying out of the Project.

(k) “Project Implementation Unit” means the unit established within the Recipient’s Directorate General of Sea Transport in the Ministry of Transport.

(l) “Project Management Office” means the office established at Batam, Republic of Indonesia, to administer and manage the Project.

(m) “Project Steering Committee” means the committee established at the regional level to implement the Project and to administer and manage the MEH system, and includes representatives of the Recipient, Malaysia, Republic of Singapore, the International Maritime Organization (as the Secretariat of the Committee), the International Hydrographic Organization (as observer), the International Association of Independent Tanker Owners (as observer) and the International Chamber of Shipping (as observer).

(n) “Report-based Disbursements” means the Recipient’s option for withdrawal of funds from the GEF Trust Fund Grant Account referred to in Part A.4 of Schedule 1 to this Agreement.

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

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount equal to one million four hundred and forty thousand Dollars (\$1,440,000).

Section 2.02. The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Part B.1 of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

Section 2.03. The Closing Date shall be June 30, 2011, or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of Part B.1 of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out Part B.1 of the Project through its Ministry of Environment (as the coordinating Ministry) and its Ministry of Transport (as the implementing Ministry), with due diligence and efficiency and in conformity with appropriate administrative, engineering, financial and maritime practices, and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part B.1 of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Bank shall otherwise agree, the Recipient shall carry out Part B.1 of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods required for Part B.1 of the Project and to be financed out of the proceeds of the

GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to Part B.1 of the Project.

(b) The Recipient shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements,

and concerning said auditors, as the Bank may from time to time reasonably request.

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

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

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraph 6 of Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for Part B.1 of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the GEF Trust Fund Grant, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under Part B.1 of the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under Part B.1 of the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

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

(a) the GEF Trust Fund Grant Agreement between the International Maritime Organization and the Bank referred to in Whereas Clause (D) of this Agreement, shall have failed to become effective six months after its signing or such later date as the Bank may agree;

(b) the Memorandum of Understanding shall have been amended, suspended, waived or terminated so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement;

(c) the Memorandum on Arrangements shall have been amended, suspended, waived or terminated so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement; and

(d) the Memorandum of Agreement shall have been amended, suspended, waived or terminated so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement.

ARTICLE VI

Effectiveness, Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01 (c) of the General Conditions:

(a) The GEF Trust Fund Grant Agreement referred to in Whereas Clause (D) of this Agreement shall have been executed on behalf of the International Maritime Organization and the Bank.

(b) The Project Coordination Unit shall have been established in accordance with paragraph 3 (a) of Schedule 4 to this Agreement.

(c) The Project Implementation Unit shall have been established in accordance with paragraph 3 (b) of Schedule 4 to this Agreement.

(d) For purposes of Section 4.01 of this Agreement, the Recipient shall have established auditing arrangements, acceptable to the Bank, including provisions to make the audit report available to the public.

(e) The Project Implementation Plan, acceptable to the Bank, shall have been adopted by the Recipient in accordance with paragraph 4 of Schedule 4 to this Agreement.

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

Section 6.03. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

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

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

For the Recipient:

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

Cable address:

Telex:

Facsimile:

FINMINISTRY
Jakarta

45799 DJMLN-IA
44319 DEPKEU-IA

(21) 381 2859

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

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

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

REPUBLIC OF INDONESIA

By /s/ Mulia P. Nasution

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as an Implementing Agency of the Global Environment Facility

By /s/ Andrew Steer

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

A. General

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

<u>Category</u>	<u>Amount of the GEF Trust Fund Grant Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	1,310,000	100%
(2) Unallocated	<u>130,000</u>	
TOTAL	<u>1,440,000</u>	

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

3. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for goods costing less than \$200,000 equivalent per contract under such terms and conditions as the Bank shall specify by notice to the Recipient.

4. The Recipient may request withdrawals from the GEF Trust Fund Grant Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the GEF Trust Fund Grant Account, the Recipient shall submit to the Bank only a statement with the projected sources and applications of funds for Part B.1 of the Project for the six-month period following the date of such request.

B. Special Account

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

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

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

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

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

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

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

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the GEF Trust Fund Grant Account; or

(c) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

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

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

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

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

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

**Annex A
to
SCHEDULE 1**

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

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$300,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.
 - (b) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Category.
3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the GEF Trust Fund Grant minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

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

1. Withdrawals from the GEF Trust Fund Grant Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Category.
2. Upon receipt of each application for withdrawal of an amount of the GEF Trust Fund Grant, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are:

(a) to assist the Republic of Indonesia, Malaysia, the Republic of Singapore and representatives of some of the large commercial ship owners that use the Strait of Malacca and the Strait of Singapore, to collectively decide whether to establish a marine electronic highway for the entire length of the Straits of Malacca and Singapore; and

(b) to improve maritime safety and reduce environmental damage to the globally-significant shared natural resources of the Straits of Malacca and Singapore.

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

Part A: Marine Electronic Highway System Design, Coordination and Operation

1. System Planning and International Maritime Organization Management

(a) Management of the operational aspects of the Project by the International Maritime Organization.

(b) Development of a system for the management and on-line access and storage of data and information, including links to the MEH Data Centers and financial and economic assessments.

(c) Development of criteria and measurable indicators for Project performance assessment, including the carrying out of a baseline survey to compile and analyze data and information covering a period of about thirty years up to the inception of the Project, as a basis for evaluation of the impact of the MEH system.

2. Project Management Office

(a) Strengthening the capacity of the staff of the Project Management Office, including relevant training.

(b) Establishment of MEH Data Centers in the Republic of Indonesia, Malaysia and the Republic of Singapore, including provision of relevant training to the staff of the MEH Data Centers in operation and management of the MEH system and in data handling and exchange.

3. Project Steering Committee Support

Carrying out of meetings of the Project Steering Committee, the Technical Committees and the Working Groups, including travel and accommodations for participants.

Part B: Marine Electronic Highway System Development

1. Tide and Current Facilities

Tidal and current monitoring on the Republic of Indonesia's coast of the Strait of Malacca, including provision of relevant equipment.

2. Hydrographic Survey

(a) Carrying out of a hydrographic survey within the designated traffic separation scheme in the Strait of Malacca within the Project Area.

(b) Provision of training to the hydrographic surveyors of the hydro-oceanographic services of the Republic of Indonesia, Malaysia and the Republic of Singapore.

3. Electronic Navigation Charts

Production of high resolution electronic navigation charts for the Project Area, including provision of relevant computer software licenses to the Republic of Indonesia and to Malaysia.

4. Information Exchange System

Establishment of a MEH information exchange system, including data servers, data exchange protocols and training of staff in data exchange.

Part C: Ship-Board Equipment and Communications

Carrying out of testing of the demonstration MEH system by about 160 ships fitted with type-approved electronic chart display and information systems, including internet connectivity.

Part D: Marine Environment Protection

1. Oil Spill and Sand Wave Models

Carrying out of a modeling and analysis of: (i) the likely movement of oil spills originating in the Project Area; and (ii) the sand wave formation and movement in the Project Area.

2. Sensitive Area Mapping

Research and development of options for providing real-time geo-referenced environmental protection information to mariners navigating in the Straits of Malacca and Singapore and for conservation and coastal resources management and mapping of sensitive areas.

3. Emergency Response Systems

Carrying out of simulated oil and chemical spill emergency response exercises to determine the cost-effectiveness and efficiency of the MEH system in the event of chemical and oil spill incidents from ships.

Part E: Information Dissemination, Evaluation and Scale-up Plan

1. Website and Publicity

Production and dissemination of information through the Internet on the MEH system, including technical reports, progress reports and a newsletter, and carrying out of national and regional workshops and seminars to provide information and seek feedback on the benefits and applicability of the MEH system.

2. Evaluation

(a) Assessment of the cost and benefits of the establishment and use of the MEH system in terms of maritime safety and marine environment protection, including: (i) the development of criteria and measurable indicators for the socio-economic assessment of the MEH system; and (ii) the carrying out of a socio-economic survey to evaluate the benefits of the MEH system.

(b) (i) Carrying out of an assessment of the technical functionalities of the MEH system, including system performance.

(ii) Carrying out of a continuous monitoring of new and potential technologies that could be linked to the MEH system or enhance its performance, including the carrying out of technical evaluations on the new technologies to determine their suitability, value added contribution, enhancing performance and cost effectiveness.

(c) Carrying out of an assessment of the MEH system, including institutional and legal aspects.

(d) Consolidation of the technical, institutional, legal, financial and economic assessments of the MEH system, including the implementation of the Project, and development of a managing tool blueprint.

3. System Development

Carrying out of marketing strategies to package and market the MEH system and its marine information and other products, and the services it could provide.

* * *

The Project is expected to be completed by December 31, 2010.

SCHEDULE 3

Procurement

Section I. General

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines.

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

A. International Competitive Bidding. Contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient.

B. Other Procurement Procedures

1. Shopping. Goods estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

Section III. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Bank each contract for goods estimated to cost the equivalent of \$200,000 or more. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 4

Implementation Program

1. The Recipient shall, until completion of the Project, remain a member of, and an active participant in, the Project Steering Committee.
2. The Recipient shall, in accordance with the Memorandum of Agreement, cause to be established by December 31, 2006, and, thereafter, maintained until the completion of the Project, the Project Management Office, with facilities and support staff at all times acceptable to the Bank.
3. The Recipient shall establish, and thereafter maintain until completion of the Project:
 - (a) the Project Coordination Unit with terms of reference, facilities and staff at all times acceptable to the Bank; and
 - (b) the Project Implementation Unit with term of reference, facilities and staff, including a procurement officer and a financial officer, at all times acceptable to the Bank.
4. The Recipient shall adopt and, thereafter, apply in the implementation of the Project, the Project Implementation Plan, acceptable to the Bank, which shall include the description of: (a) implementation arrangements; (b) the procurement procedures set forth in Schedule 3 to this Agreement and standard procurement documentation; (c) reporting requirements, financial management procedures and audit procedures as set forth in Article 4 of this Agreement; and (d) the Project Performance Indicators set forth in Schedule 5 to this Agreement, and shall not amend, suspend, abrogate, repeal or waive any provisions of the Project Implementation Plan without the prior agreement of the Bank.
5. In carrying out Part B.1 of the Project, the Recipient shall, not later than April 30, 2007, complete the purchase and installation of new tidal stations and the upgrading of existing tidal stations.
6. The Recipient shall:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators acceptable to the Bank, the carrying out of Part B.1 of the Project and the achievement of the objectives thereof;
 - (b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30 of each year, commencing June 30, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to

paragraph (a) of this Section, on the progress achieved in the carrying out of Part B.1 of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Part B.1 of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by October 1 of each year, commencing October 1, 2007, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of Part B.1 of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 5

Performance Indicators

		Target Values					Data Collection and Reporting	
Performance Indicators	Baseline	YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments
Component Two (Part B) Indonesian navigational data gathering system in Straits upgraded and data provided to MEH PMO.	No activity	40%	100%	100%	100%	100%	Semi-annual	Progress reports