
LOAN NUMBER 2501-INO(SF)

LOAN AGREEMENT
(Special Operations)

(Integrated Citarum Water Resources Management Investment Program – Project 1)

between

REPUBLIC OF INDONESIA

and

ASIAN DEVELOPMENT BANK

DATED 22 April 2009

LAS:INO 37049

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 22 April 2009 between the REPUBLIC OF INDONESIA (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) the Borrower and ADB have entered into a Framework Financing Agreement (hereinafter called FFA) on 29 October 2008 for the Integrated Citarum Water Resources Management Investment Program (hereinafter called the Investment Program);

(B) the Borrower has applied to ADB for a loan from its Ordinary Capital Resources and a loan from its Special Funds Resources for the purposes of Project – 1 under the Investment Program, as further described in Schedule 1 to this Loan Agreement (hereinafter called the Project);

(C) by a loan agreement of even date herewith between the Borrower and ADB (hereinafter called the Ordinary Operations Loan Agreement), ADB has agreed to lend to the Borrower from ADB's Ordinary Capital Resources an amount of twenty million dollars (\$20,000,000) (hereinafter called the Ordinary Operations Loan) for the purpose of the Project;

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

(E) The Borrower has applied to the Global Environment Facility (hereinafter called GEF) for a grant in the amount of three million eight hundred thousand dollars (\$3,800,000) (hereinafter called the GEF Grant) to be administered by ADB to finance Part 3(b) of the Project; and

(F) ADB also agreed, upon the request of the Borrower, to provide to the Government of the Borrower a technical assistance for a total amount of eight million dollars (\$8,000,000) on a grant basis, with one million dollars (\$1,000,000) to be funded by the Technical Assistance Special Fund, five million dollars (\$5,000,000) to be funded by the Government of the Netherlands and administered by ADB and two million dollars (\$2,000,000) to be funded by the Multi-Donor Trust Fund under the Water Financing Partnership Facility and administered by ADB, to support Institutional Strengthening for Integrated Water Resource Management in the 6 Ci's River Basin Territory.

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 National Development Planning Agency of the Borrower, and any successor thereto;

(b) "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);

(c) "CRB" means the Citarum River Basin;

(d) "CRBO" means the CRB Organization under DGWR, and any successor thereto;

(e) "CSO" means a civil society organization;

(f) "DGWR" means the Directorate General of Water Resources within the Ministry of Public Works, and any successor thereto;

(g) "EMP" means the environment management plan for the Project as agreed between the Borrower and ADB dated 7 December 2006;

(h) "Facility" means the multitranche financing facility provided by ADB to the Borrower under the FFA;

(i) "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;

(j) "IA" means an implementing agency;

(k) "IEE" means the initial environmental examination dated 7 December 2006;

(l) "IPPMS" means Investment Program performance monitoring system;

(m) "MPW" means the Ministry of Public Works of the Borrower, and any successor thereto;

- (n) “NSCWR” means the National Steering Committee for Water Resources which is referred to in paragraph 4 of Schedule 5 to this Loan Agreement;
- (o) “PCMU” means the Project Coordination and Management Unit within DGWR;
- (p) “PIU” means a project implementation unit;
- (q) “PJT-2” means *Perum Jasa Tirta II* which is a publicly-owned corporate river basin organization under the Ministry of State-Owned Enterprises, and any successor thereto;
- (r) “PPMS” means Project performance monitoring system;
- (s) “Procurement Guidelines” means ADB’s Procurement Guidelines (2007, as amended from time to time);
- (t) “Procurement Plan” means the procurement plan for the Project dated 29 October 2008 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;
- (u) “Project Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations means DGWR or any legal successor thereto, which is responsible for the carrying out of the Project;
- (v) “Project facilities” means the facilities and equipment provided under the Project;
- (w) “RCMU” means the Roadmap Coordination and Management Unit within BAPPENAS;
- (x) “Roadmap” means the roadmap for integrated water resources management in the CRB which is described in Schedule 1 to the FFA;
- (y) “RP” means the Resettlement Plan prepared and agreed between the Borrower and ADB dated 11 August 2008;
- (z) “RPMS” means Roadmap performance monitoring system; and
- (aa) “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 twenty million one hundred and sixty-two thousand Special Drawing Rights (SDR 20,162,000).

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 May and 15 November in each year.

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

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

ARTICLE III

Use of Proceeds of the Loan

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

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

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

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

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

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2014 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 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; 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 Borrower shall have failed to perform any of its obligations under the Ordinary Operations Loan Agreement.

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 is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations: the Ordinary Operations Loan Agreement shall have been duly executed and delivered on behalf of the Borrower, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Loan Agreement) shall have been fulfilled.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: that the Ordinary Operations Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of the Borrower, and is legally binding upon the Borrower in accordance with its terms, subject only to the effectiveness of this Loan Agreement.

Section 6.03. 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 Ministry 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

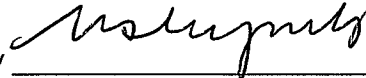
Facsimile Numbers:

(632) 636-2444
(632) 636-2231.

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

REPUBLIC OF INDONESIA

By



DR. RAHMAT WALUYANTO
Authorized Representative

ASIAN DEVELOPMENT BANK

By



JAMES A. NUGENT
Country Director
Indonesia Resident Mission

SCHEDULE 1

Description of the Project

1. The Project is expected to improve integrated water resources management in the CRB. The expected outcomes are: (i) improved reliability of water supply to Jakarta and irrigation areas supplied by West Tarum Canal; (ii) improved water use efficiency and increased yields for rice irrigation in three districts in the CRB; (iii) significant increase in the number of community- and non-government organization-driven initiatives for improved water and catchment management in the CRB; and (iv) improved water quality in the waterways and reservoirs of the CRB.

2. The Project consists of the following Parts:

Part 1: Support for Institutions and Planning for Integrated Water Resources Management

This part will support program management, coordination and planning for the entire Roadmap.

Part 2: Water Resources Development and Management

- (a) Rehabilitation of West Tarum Canal. This sub-part will support (i) civil works for the increase of the West Tarum Canal conveyance capacity between Curug and Bekasi; (ii) the exclusion of inflows of polluted water into the West Tarum Canal from crossing streams through the construction of siphons; (iii) the upgrading of water control structures and pumping station capacity; and (iv) the improvement of the management and financial capacity of PJT-2 for canal asset management.
- (b) Improved On-Farm Land and Water Management Practices. This sub-part will support (i) training of trainers and about 150 leading farmers over about 3,000 ha of irrigated rice land in three districts and 16 sub-districts; and (ii) the provision of about 30,300 kg of selected seeds, organic fertilizer distribution, 300 composter kits and training to some 3,000 farmers.
- (c) Support for Community- and CSO-Driven Initiatives for Improved Water Supply and Sanitation. This sub-part will support (i) the rehabilitation or construction of community-based water supply and sanitation infrastructure, including simple drainage, washing platforms, soak pits, bashing and washing facilities; and (ii) the development of capacity of communities to develop or maintain community-based water supply and sanitation infrastructure in order to reduce water-borne and water related diseases in the upper catchment and along the West Tarum Canal.
- (d) Detailed Engineering Design for Upgrading of Bandung Water Sources. This sub-part will support (i) detailed engineering design for surface water supply option(s) identified in a parallel project preparatory technical assistance, and (ii) complete documentation for procurement of construction contractors and construction supervision consultants.

Part 3. Environmental Protection

- (a) Development of a Basin River Quality Improvement Strategy and Action Plans. This sub-part will support (i) the improvement of policies and procedures for water quality management; (ii) improvements to water quality monitoring and data management; (iii) the strengthening of organizational capacity, availability of information, and stakeholder dialogue for water quality management; and (iv) the establishment of a basin-wide River Water Quality Improvement Strategy and Area-based Pollution Source Management Action Plan. This sub-part will also support environment improvement activities to be carried out by communities such as the construction of water infiltration wells, and composting and biogas solid waste production facilities, the strengthening and greening of riverbanks, and garbage recycling.
- (b) Citarum River Basin Catchment Management and Biodiversity Conservation. This sub-part which is financed from a grant of the GEF administered by ADB will support (i) the preparation of conservation action plans with stakeholders for seven priority conservation protected areas in the Citarum River Basin; (ii) the identification of important plants and animals, and resource utilization patterns in key habitats in seven priority conservation protected areas; (iii) the preparation of strategic conservation biodiversity conservation spatial plans; (iv) the development of their own action plans and engagement in conservation activities of about 30 village communities in this strategic conservation area; and (v) the development of compatible biodiversity and land degradation information and databases made compatible with existing CRB management databases.

Part 4. Investment Program Management

- (a) Program Management. This sub-part will support (i) effective liaison between the Investment Program stakeholders and the teams undertaking the individual component projects so that outcomes align with stakeholders needs; (ii) effective coordination among the different parts of the Project to promote cooperation and information exchange, improve overall performance, and minimize wasted effort caused by overlaps; and (iii) accurate and timely monitoring and reporting of Investment Program and Project performance, including financial management.
 - (b) Independent Monitoring and Evaluation. This sub-part will support the establishment and management of a RPMS located in the RCMU for the overall Roadmap investments and monitoring and evaluating the Roadmap implementation performance. The RCMU will work closely with the PCMU which is in charge of consolidating information from each PIU and managing the IPPMS.
3. The Project also provides consulting services.
 4. The Project is expected to be completed by 31 December 2013.

SCHEDULE 2**Amortization Schedule****(Integrated Citarum Water Resources Management Investment Program – Project 1)**

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15-May-2017	420,042.00
15-Nov-2017	420,042.00
15-May-2018	420,042.00
15-Nov-2018	420,042.00
15-May-2019	420,042.00
15-Nov-2019	420,042.00
15-May-2020	420,042.00
15-Nov-2020	420,042.00
15-May-2021	420,042.00
15-Nov-2021	420,042.00
15-May-2022	420,042.00
15-Nov-2022	420,042.00
15-May-2023	420,042.00
15-Nov-2023	420,042.00
15-May-2024	420,042.00
15-Nov-2024	420,042.00
15-May-2025	420,042.00
15-Nov-2025	420,042.00
15-May-2026	420,042.00
15-Nov-2026	420,042.00
15-May-2027	420,042.00
15-Nov-2027	420,042.00
15-May-2028	420,042.00
15-Nov-2028	420,042.00
15-May-2029	420,042.00
15-Nov-2029	420,042.00
15-May-2030	420,042.00
15-Nov-2030	420,042.00
15-May-2031	420,042.00
15-Nov-2031	420,042.00
15-May-2032	420,042.00
15-Nov-2032	420,042.00
15-May-2033	420,042.00
15-Nov-2033	420,042.00
15-May-2034	420,042.00
15-Nov-2034	420,042.00
15-May-2035	420,042.00
15-Nov-2035	420,042.00
15-May-2036	420,042.00
15-Nov-2036	420,042.00

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15-May-2037	420,042.00
15-Nov-2037	420,042.00
15-May-2038	420,042.00
15-Nov-2038	420,042.00
15-May-2039	420,042.00
15-Nov-2039	420,042.00
15-May-2040	420,042.00
15-Nov-2040	420,026.00
TOTAL	20,162,000.00

* 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 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of 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 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 and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and Subcategories 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, after consultation with 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

4. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, and consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Account; Statement of Expenditures

5. (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

Schedule 3

Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. The currency of the imprest account shall be Dollar. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Loan amount.

(b) The statement of expenditures 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.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Integrated Citarum Water Resources Management Investment Program – Project 1)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated		Percentage and Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Works	10,491,000		
1A	West Tarum Canal		7,991,000	25 percent of total expenditure
1B	Other Works		2,500,000	82 percent of total expenditure
2	Equipment	470,000		35 percent of total expenditure
3	Training	1,492,000		75 percent of total expenditure
4	Consulting Services	7,709,000		66 percent of total expenditure
	Total	20,162,000		

SCHEDULE 4

Procurement of Goods and Works, and Consulting Services

A. General

1. All Goods, 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
National Competitive Bidding
Shopping
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. Domestic Preference. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods.
5. National Competitive Bidding. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Borrower and ADB.
6. Community Participation in Procurement. The Borrower may use community participation in procurement for Works contracts for labor intensive works in accordance with the agreed procedures set out in the Procurement Plan.

C. 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.

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

Consultants' Qualification Selection

9. The Borrower shall recruit the individual consultants in accordance with procedures acceptable to ADB for recruiting individual consultants.

D. Industrial or Intellectual Property Rights

10. (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.

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

E. ADB's Review of Procurement Decisions

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

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

I. IMPLEMENTATION ARRANGEMENTS

A. Executing Agency

1. As the Project Executing Agency, DGWR shall be responsible for carrying out the Project.

B. Project Coordination and Management Unit

2. The PCMU established by DGWR shall be responsible for overall management and coordination of the Project activities. The PCMU shall (i) ensure that annual work plans are submitted by the PIUs in a timely manner and in a standard format; (ii) review and consolidate, for all PIUs, the annual work plans and corresponding budget estimates; (iii) prepare and submit reports to ADB and NSCWR; (iv) compile the results of project monitoring and evaluation, and convey the consolidated results to the IAs and ADB; (v) liaise and coordinate with other donor agencies on complementary activities; (vi) organize coordination meetings and workshops, and issue invitations to the IAs at the national, provincial, and district levels as appropriate; and (vii) arrange for representatives of the IAs to assist the ADB's review missions.

C. Roadmap Coordination and Management Unit

3. The RCMU established within BAPPENAS shall ensure overall planning and financial management at the national and local government levels. The RCMU shall primarily (i) review prioritization of activities under the Facility and other funding, (ii) facilitate consultations with stakeholders, (iii) liaise with bilateral and multilateral donors, and the private sector, and (iv) monitor and evaluate the Roadmap implementation performance. The RCMU and PCMU shall work closely with the NSCWR.

D. National Steering Committee for Water Resources

4. The NSCWR established within BAPPENAS shall be chaired by the Deputy of Infrastructure Affairs, BAPPENAS and comprises the following representatives:

Director General of Water Resources, Ministry of Public Works as Deputy Chairman;
 Director Water Resources and Irrigation, State Ministry of National Development Planning/National Development Planning Agency (BAPPENAS) as Secretary;
 Director of Programming, DGWR, as Deputy Secretary;
 Director General of Food Production, Ministry of Agriculture;
 Director General of Land and Water Management, Ministry of Agriculture;
 Director General of Regional Development, Ministry of Home Affairs;
 Director General of Budget, Ministry of Finance;

Director General of Treasury, Ministry of Finance;
 Deputy of Water Resources Conservation and Environment Damage Control,
 State Ministry of Environment;
 Deputy of Development Finance, State Ministry of National Development
 Planning/National Development Planning Agency (BAPPENAS);
 Deputy of Natural Resources and Environment, State Ministry of National
 Development Planning/National Development Planning Agency (BAPPENAS);
 Deputy of Decentralization Affair and Regional Development, State Ministry of
 National Development Planning/National Development Planning Agency
 (BAPPENAS).

5. The NSCWR shall provide (i) policy guidance and direction related to the Investment Program and implementation of water resources development; (ii) guidance in overcoming obstacles and problems by giving directions and recommendations on the preparation and implementation of water resources development program financed by foreign loans and/or grants; and (iii) policy guidance and coordination assistance across all central government agencies and local government agencies involved in integrated water resources management in the CRB and the Roadmap implementation.

E. Implementation Agencies

6. The IAs for the Project shall be:

- (i) Directorate of Water Resources and Irrigation, under the Deputy Minister of Infrastructure Affairs, BAPPENAS, which shall implement Part 1 and Part 4(b) of the Project;
- (ii) CRBO, which shall implement Part 2(a), Part 2(d) and Part 4(b) of the Project;
- (iii) Directorate of Land Management, Directorate General of Land and Water Management, Ministry of Agriculture, which shall implement Part 2(b) of the Project;
- (iv) Directorate of Environmental Health, Directorate General of Disease Control and Environment Health, Ministry of Health, which shall implement Part 3(a) of the Project;
- (v) The unit under the Deputy Assistant of Lake and River Damage Control, Deputy of Water Resource Conservation and Environment Damage Control, State Ministry of the Environment, which shall implement Part 3(a) of the Project; and
- (vi) Directorate of Area Conservation, Directorate General of Forest Protection and Nature Conservation, Ministry of Forestry, which shall implement Part 3(b) of the Project.

7. The Borrower shall ensure that a PIU is established within each IA within thirty (30) days of the Effective Date and maintained throughout the Project Implementation period.

8. The Borrower shall maintain during the implementation of the Project (i) the RCMU within BAPPENAS to support the NSCWR, and (ii) the PCMU in CRBO within DGWR, with permanent staff representation from each relevant IA.

F. Stakeholders' Participation

9. The Borrower shall ensure that stakeholder participation in the Project is carried out through implementation of activities using community-driven development approaches and, more importantly CSO involvement in CRB development and management strategy planning, monitoring and evaluation is mainstreamed. In Project design and implementation, the Borrower shall support (i) a community-driven development approach, (ii) intensive media and campaigns, (iii) community and private sector behavior change activities, (iv) private sector involvement in integrated water resources management through corporate social responsibility programs, and (v) community empowerment initiatives, governance initiatives, and stakeholder complaint mechanisms.

II. COUNTERPART FUNDING

10. Without prejudice to the general provisions of the Loan Regulations, the Borrower shall ensure that necessary counterpart funds are made available and released on a timely basis to implement the Project. The Borrower shall annually update the Roadmap to incorporate revised estimates of the funding requirements for the Project. The Borrower shall submit to ADB its annual State of the Basin report which shall include detailed progress of the Roadmap performance and evaluations funding targets.

11. Based on the relevant needs assessments, starting from 2010 and throughout the Project implementation period, the Borrower shall ensure that adequate funds are allocated in its annual budgets for the operations and maintenance of all water resources assets included in the Project. The Borrower shall encourage and support contributions for asset management by the respective users.

III. GOVERNANCE AND ANTICORRUPTION

12. The Borrower shall ensure that (i) relevant provisions of ADB's Anticorruption Policy (1998, as amended to date) are included in all bidding documents for the Project; and (ii) all contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine the records and accounts of DGWR, IAs, all contractors, suppliers, consultants, and other service providers as they relate to the Project.

13. The Borrower shall ensure that DGWR establishes a website for the Project and posts financial statements and track procurement contract awards, including information on the list of participating bidders, name of the winning bidder, basic details on bidding procedures adopted, amount of the contract awarded, the list of goods and/or services purchased, and their intended and actual utilization.

14. The Borrower shall ensure that each IA establishes a procurement committee consisting of representatives from the related departments and the PCMU. DGWR and each IA shall undertake and make available to ADB the annual inspection audits from an independent auditor.

15. The Borrower shall ensure that (i) PIU staff are trained on appropriate procurement and financial management procedures set forth in applicable provisions of the procurement, accounting and auditing rules and regulations of the Borrower and ADB; (ii) financial controls are established through periodic review, reconciliation and reporting of

status of fund releases, disbursements and liquidation; and (iii) all community-based activities and goods procured for the community are communicated in advance on village notices and through facilitated dialogue with the respective community.

16. The Borrower shall ensure that PCMU engages the services of an expert in fiduciary arrangements and technical quality assurance who shall semi-annually, or as deemed necessary, review the Project's physical progress and performance regarding the financial assurances.

17. The Borrower shall require strict documentation by its contractors with respect to the use of Project funds as basis for further releases. To ensure adherence to contractual obligations, the office of the Inspector General of MPW shall, through routine inputs, build capacity in the PCMU to ensure implementation of sound quality control and quality assurance procedures for Works and consulting services.

IV. PERFORMANCE MONITORING SYSTEMS AND REVIEWS

A. Performance Monitoring Systems

18. Within 6 months of the Effective Date, (i) BAPPENAS shall establish a RPMS in the RCMU and (ii) DGWR shall establish an IPPMS in the PCMU acceptable to ADB. For this purpose, BAPPENAS and DGWR shall establish a database of key benchmark indicators within 9 months of the Effective Date.

19. Within 9 months of the Effective Date, DGWR shall establish within the PCMU a PPMS to monitor and evaluate the performance and development impact of the Project in form and substance acceptable to ADB.

20. DGWR and each of the IAs shall undertake periodic performance review of the Project, and of the Investment Program in accordance with the IPPMS and the PPMS to evaluate the scope, implementation arrangements, progress and achievements of objectives of the Project and overall Investment Program. The PCMU shall consolidate annual PPMS reports prepared by PIUs of the IAs and submit the consolidated IPPMS report to ADB.

21. The PCMU shall (i) submit to ADB the progress reports of each IA on a quarterly basis; and (ii) prepare and submit to ADB semi-annual consolidated progress reports for the Project. The reports shall include a description of physical progress, problems encountered and a summary of financial accounts that shall consist of Project expenditures during the period, year to day, and total to date. These reports shall also include implementation progress of (i) the EMP and measures taken under the IEE and environmental monitoring carried out as a regular part of Project implementation, and (ii) resettlement monitoring as detailed in the RP.

B. Reviews

22. During the initial 3 years of Project implementation, the Borrower shall carry out, jointly with ADB, semiannual reviews to (i) ensure that the implementation arrangements are appropriate; (ii) assess implementation performance and achievement of Project outcomes and objectives against the agreed implementation schedule, identify bottlenecks, and agree time-bound action plan for their resolution; (iii) ensure that conditions regarding

safeguards and other conditions are being met; (iv) assess progress made in mobilizing CSOs; and (v) assess the readiness for Project 2 implementation.

23. Three years after the Effective Date, the Borrower shall, jointly with ADB, undertake a comprehensive midterm review of the Project, which shall assess performance, identify problems affecting Project implementation, and reach formal agreement with ADB on changes on the scope or implementation arrangements of the Project and Investment Program required to address these shortfalls. The terms of reference of the midterm review shall be developed jointly by the DGWR and ADB during the second and third year of the Project. Prior to the review, DGWR shall submit to ADB a detailed progress report.

V. SAFEGUARDS AND SOCIAL ISSUES

A. Environment

24. DGWR shall ensure that (i) the West Tarum Canal is rehabilitated and other facilities and structures under the Project are designed, constructed, and operated in accordance with all applicable laws and regulations of the Borrower, ADB's *Environment Policy* (2002), and the IEE; (ii) any adverse environmental impacts are minimized by implementing the mitigation measures and the monitoring program set out in the EMP; (iii) implementation of the EMP and any violation of the environmental standards are reported to ADB semiannually in accordance with the IEE; and (iv) the EMP is incorporated in the bidding documents and bill of quantities, and made a part of the Works contracts.

B. Resettlement

25. DGWR shall ensure that (i) the Project is implemented in accordance with applicable laws and regulations of the Borrower, ADB's *Involuntary Resettlement Policy* (1995), and the RP; (ii) all affected people are given adequate opportunity to participate in resettlement planning and implementation; (iii) the RP (a) is disclosed to the affected people, who are compensated and assisted prior to displacement from their houses, land and assets, before commencement of civil works under the Project, (b) is updated based on the detailed feasibility studies or detailed designs, (c) is submitted to ADB for approval and disclosure on its website, (d) includes complete information on full census, final asset inventory and valuation, and final budget, and (e) is approved by ADB prior to notice to proceed for Works in the construction work zone; (iv) implementation of the RP is monitored (a) internally by the PIUs and reported monthly to the PCMU who shall report the results quarterly to ADB, and (b) independently by an external agency or a non-government organization, acceptable to ADB, and reported biannually directly to ADB; (v) affected people have an opportunity to express grievance at appropriate levels; and (vi) local officials are instructed to resolve disputes and implement measures promptly.

26. The Borrower shall engage an external agency or a non-government organization, acceptable to ADB, to conduct external monitoring and evaluation of the resettlement process and impacts. Reports of such external monitoring agency shall be submitted to ADB on a semiannual basis.

C. Social Impacts

27. The Borrower shall ensure and cause all IAs to ensure that all Works contractors are required to (i) comply with all applicable labor laws of the Borrower, (ii) use their best efforts to employ women and local people living in the vicinity of the project/subproject, (iii) disseminate information at worksites on the risks of sexually transmitted diseases and HIV/AIDS for those employed during construction, (iv) not differentiate between men's and women's wages or benefits for work of equal value, and (v) not use child labor. Such Works contracts must include specific clauses on these undertakings. The Borrower shall ensure, and cause all IAs to ensure, that compliance with these provisions is monitored by the respective PIUs.

28. The Borrower shall ensure that the Project is implemented in accordance with ADB's *Policy on Indigenous Peoples* (1998).

VI. OTHER MATTERS

29. The Borrower shall ensure that in line with the expected results of the proposed CRB Pollution Control Action Plan, reforms are introduced to move from voluntary controls for polluters to a control system based on legal enforcement and financial incentives.

30. The Borrower shall ensure that the Roadmap Vision (as defined in Schedule 1 to the FFA), is used as a basis for the development of a Strategic Planning Framework (Pola) for the 6 Ci's River Basin Territory and a 6 Ci's River Basin Territory Water Resources Management Plan (*Rencana*) (as required under the Borrower's Water Law No 7/2004) to be endorsed by the 6 Cis River Basin Territory Water Council (*Tim Koordinasi Pengelolaan Sumber Daya Air Wilayah Sungai*) and formalized by Ministerial Decrees by 31 December 2012 and 31 December 2013, respectively. Future regional spatial planning and strategic development plans shall incorporate the goals of the Strategic Planning Framework (*Pola*) for the 6 Ci's River Basin Territory.

31. The Borrower shall have (i) by no later than 30 September 2009, developed a framework for stakeholders discussions for establishing the 6 Ci's River Basin Territory organization and water council, (ii) by no later than March 2010, issued the first Annual "State of the Citarum River Basin" report; (iii) by no later than June 2010, completed CRB institutional rationalization reviews, including, among others: matching the roles, responsibilities and resources of national and regional water resources management organizations (including PJT-2, CRBO, provincial and district agencies) to ensure rationalization of water resources and irrigation asset management and allocation of and management of needs based funding for the Tarum canal systems and the Jatiluhur Irrigation systems, and (iv) by no later than December 2011, established the 6 Ci's River Basin Territory Water Council.

32. The Borrower shall ensure that the Bekasi to Cawang section of the West Tarum Canal shall be either rehabilitated to adequate design capacity or upgraded in line with ongoing studies funded by the Government of France and detailed engineering design, in a timely manner to ensure availability of increased capacity coinciding with the commissioning of the West Tarum Canal Curug to Bekasi works funded under the Project.

33. In the event the GEF Grant cannot be made available for Part 3(b) of the Project, the Borrower shall, in consultation with ADB, undertake to either provide the corresponding funding from its own resources or agree to reduce the scope of the Project accordingly.