
LOAN NUMBER 2575-INO

LOAN AGREEMENT
(Ordinary Operations)

(Rural Infrastructure Support to the PNPM Mandiri Project II)

between

REPUBLIC OF INDONESIA

and

ASIAN DEVELOPMENT BANK

DATED 10 DECEMBER 2009

LAL:INO 38385

**LOAN AGREEMENT
(ORDINARY OPERATIONS)**

LOAN AGREEMENT dated 10 December 2009 between REPUBLIC OF INDONESIA (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

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

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

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the Loan Regulations):

(a) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit. (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the amount of the credit against the interest payable by the Borrower.

(b) Section 3.06 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(c) Section 3.07 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period

commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

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

(a) "BAPPENAS" means Badan Perencanaan Pembangunan Nasional, the National Development Planning Agency of the Borrower, or any successor thereto;

(b) "BI" means Bank Indonesia, the Borrower's central bank, operating under Law No. 23 of 1999 Concerning Bank Indonesia, and any amendments thereto;

(c) "CIO" means a community implementing organization of a Participating Village established in accordance with the criteria and procedures required under the Project;

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

(e) "DGHS" means the Borrower's Directorate General of Human Settlements within MPW, or any successor thereto;

(f) "DPIU" means a district Project implementation unit established within a Borrower's district government which is responsible for implementing the Project at the district level as described in paragraph 5 of Schedule 5 of this Loan Agreement;

(g) "EARF" means the environment assessment and review framework which provides the guide to screening of Subprojects for compliance of environmental requirements, sets out the institutional arrangements for environmental management and monitoring of Subprojects, and defines the environment assessment requirements for Subprojects, as agreed between the Borrower and ADB for the Project;

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

(i) "LARF" means the land acquisition and resettlement framework prepared and approved by the Borrower on 17 July 2009;

(j) "M&E" means monitoring and evaluation;

(k) "MIS" means management information system;

- (l) "MOF" means the Ministry of Finance of the Borrower, or any successor thereto;
- (m) "MPW" means the Borrower's Ministry of Public Works, or any successor thereto;
- (n) "MTPR plan" means a Participating Village plan for medium term poverty reduction developed in accordance with PNPM Mandiri Guidelines;
- (o) "NGO" means nongovernmental organization;
- (p) "O&M" means operation and maintenance;
- (q) "Oversight Body" means the PNPM Mandiri's oversight body established under PNPM Mandiri;
- (r) "Participating Districts" means those districts that have met all Project participation requirements to participate in the Project, and which are located in the Participating Provinces;
- (s) "Participating Provinces" means Jambi, Lampung, Riau, and South Sumatra provinces;
- (t) "Participating Subdistricts" means those subdistricts that have met all Project participation requirements, and been selected by the Oversight Body to participate in the Project, and which are located in the Participating Provinces;
- (u) "Participating Villages" means those villages in a Participating Subdistrict that have met all Project participation requirements and been selected to receive financing under the Project;
- (v) "PCMU" means the Project coordination and monitoring unit for the Project, established within DGHS;
- (w) "PNPM Mandiri" means the Borrower's National Program for Community Empowerment;
- (x) "PNPM Mandiri Guidelines" means the Borrower's guidelines for the implementation of various activities under the PNPM Mandiri, including guidelines for the communications strategy, M&E, MIS, and the management of complaints and grievances, as published on the PNPM Mandiri website;
- (y) "PPIU" means a provincial Project implementation unit established within a Borrower's provincial government, which is responsible for implementing Project activities at a provincial level as described in paragraph 4 of Schedule 5 of this Loan Agreement;
- (z) "Procurement Guidelines" means ADB's Procurement Guidelines (2007, as amended from time to time);

(aa) "Procurement Plan" means the procurement plan for the Project dated 1 October 2009 and agreed between the Borrower and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(bb) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means DGHS and any legal successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(cc) "Project facilities" means the facilities, equipment and vehicles provided under the Project;

(dd) "Risk Mitigation Measures" means the governance measures as agreed between the Borrower and ADB and as described in Appendix 4 of the RRP;

(ee) "RIS-PNPM" means the rural infrastructure support to PNPM Mandiri;

(ff) "RIS-PNPM guidelines" means the guidelines developed or to be developed by the Project Executing Agency for the implementation of various activities under RIS-PNPM;

(gg) "Rp" means Rupiah, the currency of the Borrower;

(hh) "RRP" means the Report and Recommendation of the President to the Board of Directors of ADB in relation to the Project;

(ii) "Subproject" means a community investment project approved under the Project's selection procedures, which is to be undertaken by a Participating Village and funded by the Project;

(jj) "Subproject Contract" means a contract between a CIO and the relevant DPIU for implementing a Subproject and as described in Schedule 4 to this Loan Agreement; and

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

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of eighty four million two hundred forty thousand Dollars (\$84,240,000) as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as provided by Section 3.02 of the Loan Regulations, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 March and 15 September in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

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. ADB may refuse to finance a contract where Goods, Works or consulting services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all Goods, Works and consulting services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 September 2013 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and rural infrastructure development practices.

(b) 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. The Borrower shall make available, promptly as needed, or ensure the availability of, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project and for the operation and maintenance of the Project facilities.

Section 4.03. (a) In the carrying out of the Project, the Borrower shall cause competent and qualified consultants, acceptable to ADB, to be employed to an extent and upon terms and conditions satisfactory to the Borrower and ADB.

(b) The Borrower shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. The Borrower shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 4.04. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.05. (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 4.05(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 4.06. The Borrower shall enable ADB's representatives to review the Project, and inspect the Goods and the Works financed out of the proceeds of the Loan, and any relevant records and documents.

Section 4.07. The Borrower shall ensure that the Project facilities are operated, maintained and repaired in accordance with sound administrative, financial, engineering, environmental, rural infrastructure development, community participation, and maintenance and operational practices.

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 10.04 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 12.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Directorate General of Debt Management
Ministry of Finance
Jln. Lapangan Banteng Timur No. 2-4
P.O. Box 1139
Jakarta 10710, Indonesia

For Correspondence

Attn: Directorate of Funds

Facsimile Number:

+62 21 381 2859

For Disbursements and Payments

Attn: Directorate of Evaluation, Accounting and Settlement

Facsimile Number:

+62 21 384 3712

For ADB


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

Facsimile Numbers:

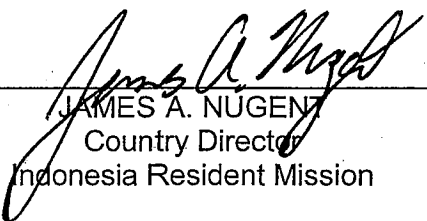
(632) 636-2444
(632) 636-2231.

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 will support the implementation of RIS-PNPM by providing resources to expand the coverage of RIS-PNPM and improve its management. The Project is expected to reduce poverty and improve local level governance in the Participating Provinces through improved access of the poor, near poor and women to village services and basic rural infrastructure. The Project scope will extend to about 1,500 Participating Villages in about 37 Participating Districts and about 215 Participating Subdistricts.

2. The Project consists of the following Parts:

Part 1: Strengthen Capacity for Community Planning and Development

Support to strengthen capacity for communities to prioritize design, implement, manage and monitor community-based rural infrastructure development projects, including:

- (a) assistance to empower village level communities and to identify development needs and opportunities to help reduce poverty;
- (b) capacity building for CIOs and village communities to formulate development and related investment plans by:
 - (i) focusing efforts on activities related to project procurement, construction, transparency and accountability, financial reporting, physical and financial auditing, monitoring and O&M planning,
 - (ii) deploying community facilitators to assist capacity building efforts, and
 - (iii) assisting Participating Villages through CIOs;
- (c) strengthening local government capacity to deliver services to village communities in accordance with PNPM Mandiri strategies by:
 - (i) focusing efforts on DPIU and PPIUs and provincial and district steering committees tasked with service delivery under RIS-PNPM, and
 - (ii) capacity building efforts including planning and budgeting, M&E and financial management.

Part 2: Improve Village Services and Infrastructure through Community Development Grants

Provision of block grants, each of approximately Rp250,000,000 to be allocated in two cycles of grants to about 1,500 Participating Villages, to support investments in rural infrastructure to meet local needs as identified in MTPR plans, detailed in the Subproject proposals, and based on the RIS-PNPM guidelines.

Part 3: Improve Capacity for Project Implementation and M&E

Support for Project management and implementation and M&E activities at national, provincial and district levels by:

- (a) providing technical, management and capacity building development support for Project management activities including planning and coordination, establishment and operation of a grievance redress mechanism, preparation of feasibility studies and procurement packages, design and construction supervision, contract management, financial management and accounting, and training, and institutional and human resources development; and
- (b) supporting capacity building for M&E and encouraging NGO participation in M&E.

3. The Project which includes the provision of consulting services, is expected to be completed by 31 March 2013.

SCHEDULE 2

Amortization Schedule (Rural Infrastructure Support to the PNPM Mandiri Project II)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (the Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Date Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 March 2015	0.827816
15 September 2015	0.869207
15 March 2016	0.912667
15 September 2016	0.958301
15 March 2017	1.006216
15 September 2017	1.056526
15 March 2018	1.109353
15 September 2018	1.164820
15 March 2019	1.223061
15 September 2019	1.284214
15 March 2020	1.348425
15 September 2020	1.415846
15 March 2021	1.486639
15 September 2021	1.560971
15 March 2022	1.639019
15 September 2022	1.720970
15 March 2023	1.807019
15 September 2023	1.897369
15 March 2024	1.992238
15 September 2024	2.091850
15 March 2025	2.196442
15 September 2025	2.306264
15 March 2026	2.421578
15 September 2026	2.542657
15 March 2027	2.669789
15 September 2027	2.803279

<u>Date Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 March 2028	2.943443
15 September 2028	3.090615
15 March 2029	3.245146
15 September 2029	3.407403
15 March 2030	3.577773
15 September 2030	3.756662
15 March 2031	3.944495
15 September 2031	4.141720
15 March 2032	4.348806
15 September 2032	4.566246
15 March 2033	4.794558
15 September 2033	5.034286
15 March 2034	5.286000
15 September 2034	5.550311
Total	100.000000

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting 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 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 after consultation with the Borrower 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, after consultation with the Borrower, 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, 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 at the Bank of Indonesia (the Imprest Account). The Imprest Account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook, and detailed arrangements agreed upon between the Borrower and ADB. The currency of the Imprest Account shall be Dollars. The initial amount to be deposited into the Imprest Account shall not exceed the lower of (i) the estimated expenditure to be financed through the Imprest Account for the first six months of Project implementation, or (ii) the equivalent of seventeen million Dollars (\$17,000,000). Subsequent amounts to be advanced to the Imprest Account shall not exceed the estimated expenditure to be financed through the Imprest Account for the relevant six month period of Project implementation.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures for any individual payment not exceeding \$50,000 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.

Condition of Withdrawals from Imprest Account for a Block Grant

6. Notwithstanding any other provision of this Loan Agreement, no withdrawal shall be made from the Imprest Account by the Borrower in respect of expenditures for a Subproject until: (a) a CIO for the Participating Village has been established in accordance with Schedule 5 to this Loan Agreement; (b) a separate bank account has been established by the relevant CIO for the grant funds; (c) a management team for construction and O&M has been established; (d) a Subproject proposal based on the MTPR plan together with an investment plan has been prepared and approved in accordance with selection procedures under the Project; and (e) a Subproject Contract between the CIO and the DPIU has been signed, as described in Schedule 4 to this Loan Agreement.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Rural Infrastructure Support to the PNPM Mandiri Project II)				
CATEGORY				ADB FINANCING BASIS
Number	Item	Total Amount Allocated for ADB Financing \$',000		Percentage of ADB Financing from the Loan Account
		Category	Subcategory	
1	Community Development Grants for Subprojects	75,000		100 percent of total expenditure claimed*
2	Project Management	140		100 percent of total expenditure claimed*
2A	External Monitoring		50	100 percent of total expenditure claimed*
2B	Annual Audits		90	100 percent of total expenditure claimed*
3	Training and Workshop	3,700		100 percent of total expenditure claimed*
4	Consulting Services	4,400		100 percent of total expenditure claimed*
5	Contingencies	1,000		
	Total	84,240		

* Exclusive of local taxes and duties imposed within the territory of the Borrower.
(The interest and commitment charges will be paid directly by the Borrower.)

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:

Shopping
Community Participation in Procurement

The method of procurement is 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. Community Participation in Procurement. The Borrower shall use community participation in procurement for Works contracts for civil works for Subprojects, based on the Subproject Contract, as set out below, and in compliance with the requirements for Community Participation in Procurement as specified in the Procurement Guidelines.

C. Conditions for Award of Contract

5. The Borrower shall not award any Works contracts financed under the Loan unless:
 - (a) The Works are based on an approved Subproject and a Subproject Contract has been signed between the relevant CIO and DPIU based on the format agreed between the Borrower and ADB and that of the Community contracts under PNPM Mandiri. Such format shall include:
 - (i) a requirement to show evidence of community facilitation;
 - (ii) details of the design of Project facilities to be constructed under the Subproject;
 - (iii) a community O&M plan for the Project facilities; and
 - (iv) respective obligations of the parties for undertaking Project activities.

(b) Where applicable, the resettlement plan for each Subproject shall have been prepared in accordance with the Project LARF, disclosed to any person whose living environment and/or livelihood activities have been, or will be adversely impacted from Project activities (Affected Persons) and any compensation, if due, shall have been paid to such Affected Persons on a timely basis.

D. Selection of Consulting Services

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

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

Fixed Budget Selection for Project management consultancy and external monitoring
Least-Cost Selection for annual audits of Project accounts
Individual Consultants

8. The Borrower shall recruit individual consultants for Project training design and management and as Project facilitators.

E. Industrial or Intellectual Property Rights

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

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

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

F. ADB's Review of Procurement Decisions

11. The first two community contracts entered into in each Participating Province procured under Community Participation in Procurement procedures and all contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

Project Executing Agency

1. The Borrower shall ensure that MPW through its DGHS is the Project Executing Agency, responsible for the overall technical supervision and execution of the Project and shall establish a Project coordination and monitoring unit (the PCMU) which will be responsible for the day-to-day management, coordination and monitoring of Project activities and will provide administrative and technical support, counterpart staff, documentation and other services that may be required.

Project Management

2. The Borrower shall ensure that the existing implementation arrangements for PNPM Mandiri are utilized under the Project, including the Oversight Body which shall continue to provide direction to and oversight of the entities implementing the Project.

3. The Borrower shall ensure that the PCMU has sufficient, appropriately qualified staff to undertake the Project execution responsibilities including: (a) creating awareness, understanding and support for the Project among Project stakeholders; (b) building partnerships with Project stakeholders; (c) coordinating activities in accordance with the PNPM Mandiri Guidelines; (d) coordinating activities related to financial management and financial audits; (e) supporting capacity building for Project staff and stakeholders; (f) operationalizing the Project's complaints and grievances handling mechanism; (g) recruiting and directing consultants; and (h) reporting periodically on implementation, status of grievances lodged under the Project, and any allegations of misuse of funds or corruption, to the DGHS and the Oversight Body.

4. The Borrower shall cause each PPIU to undertake, and have sufficient, appropriately qualified staff to implement the day-to-day Project responsibilities at the provincial level including: (a) implementing, monitoring and evaluating, and building awareness about, and reporting on, relevant Project activities; (b) coordinating monitoring and reporting activities and with local stakeholders; (c) recruiting community facilitators; (d) managing complaints and grievances handling and reporting on the status, and any allegations of misuse of funds or corruption, to the relevant provincial committee and to the PCMU; and (e) performing financial programming and management.

5. The Borrower shall ensure that each DPIU undertakes, and has sufficient, appropriately qualified staff to implement the day-to-day Project responsibilities within the Participating District including: (a) coordinating, organizing and facilitating implementation of Subproject activities; (b) building awareness about the Project and ensuring that gender and poverty policies and targets are disseminated to the Participating Villages; (c) providing technical assistance; (d) monitoring CIO funds and supervising O&M; (e) providing support to and monitoring the outputs of community facilitators and consultants; (f) ensuring availability of Project related information; (g) maintaining technical data and accounting records; (h) conducting investigations of complaints and submitting a report to the PPIU within 10

days of receipt of any complaint; and (i) preparing progress reports based on CIO reports and conducting 3-monthly performance evaluations of community facilitators and submitting these to the PPIU.

CIOs

6. The Borrower shall cause the PPIUs and DPIUs to take all appropriate measures to require the CIOs to take responsibility for implementing the Subprojects, including: (a) conducting social and poverty mapping and community meetings, with about (i) 50 percent participation of the poor, and (ii) 40 percent participation of women, in the decision making process; (b) identifying poverty reduction constraints and social and infrastructure constraints in the village and introducing appropriate remedial action; (c) supervising and monitoring construction works, managing the cash management system, and reporting progress to the DPIU; (d) holding weekly meetings with the community and providing copies of daily records on village information boards to report progress; (e) maintaining a complaints and grievance recording system, including investigating allegations, and reporting lodgment of grievances and findings to the PPIU on a timely basis.

Communication and Dialogue

7. The Borrower shall: (a) keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on rural infrastructure sector issues, policy reforms and additional reforms that may be considered necessary or desirable, under PNPM Mandiri; (b) promptly discuss with ADB problems and constraints encountered during implementation of the Project and appropriate measures to overcome or mitigate such problems and constraints; and (c) keep ADB informed of policy discussions with other multilateral or bilateral agencies that have implications for implementation of the Project, and provide ADB with an opportunity to comment on any resulting policy proposals and will take ADB's views into consideration.

Selection of Participating Villages, Subprojects and Disbursement Procedures

8. The Borrower shall ensure that: (a) the selection of Participating Villages not previously selected under the first cycle of the RIS-PNPM, is based on criteria agreed with ADB which include a requirement that only the poorest villages in each Participating Subdistrict are included, as confirmed to the PCMU by the relevant provincial and district governments; (b) the selection of Subprojects follows the relevant RIS-PNPM guidelines; and (c) DPIU approval of a Subproject is based on criteria including pro-poor nature and immediate utilization potential of investments, availability of land with minimal negative environmental, social or economic impacts, demonstrated cost effectiveness, local execution of projects, and preparation of realistic and affordable O&M plans.

9. The Borrower shall ensure that no disbursements shall be authorized by a DPIU unless the proposed Works are based on an approved village MTPR plan and a signed Subproject Contract between the relevant CIO and DPIU and certification for the relevant Subproject has been issued from the regional project management consultants to the relevant DPIU, and been advised to the relevant CIO and regional treasury officers. The Borrower shall further cause the PPIUs to undertake regular spot-checks to ensure compliance with the requirements of this paragraph.

Counterpart Funds and Funds Flow

10. Without limiting the generality of Section 4.02 of this Loan Agreement, the Borrower shall ensure that: (a) all local and foreign currency counterpart financing necessary for the Project, including cash advances, are provided as and when due to enable completion of the Project activities in the scheduled implementation period; (b) additional counterpart funding is promptly provided for any shortfall of funds or cost overruns; and (c) it requires (i) DGHS to make timely submission of annual budgetary appropriation requests to MOF, and (ii) MOF to ensure prompt disbursement of counterpart funds, including grants from the Project Imprest Account to the Participating Village, in accordance with the disbursement and liquidation procedures and funds flow mechanism as agreed with the ADB and as set forth in Appendix 6 to the RRP.

Anticorruption Measures

11. The Borrower shall cause MPW to; (a) undertake necessary measures to create and sustain a corruption-free environment for activities under the Project; (b) institute, maintain and ensure compliance with internal procedures and controls for activities under the Project, following international best practice standards for the purpose of preventing corruption, money laundering activities, and the financing of terrorists, and shall require all relevant ministries and agencies to refrain from engaging in any such activities; (c) where appropriate for the Project, comply with requirements of ADB's Anticorruption Policy (1998, as amended to date); and (d) where appropriate, ensure that relevant provisions of ADB's Anticorruption Policy are included in all bidding documents for the Project.

The Borrower acknowledges that in accordance with ADB's Anticorruption Policy and Integrity Principles and Guidelines, ADB will assess allegations of any alleged corrupt, fraudulent, collusive and coercive practices relating to the Project, and where appropriate, recommend administrative action for ADB to take to address such allegations. The Borrower shall facilitate ADB's request to conduct any such investigation and will undertake the investigation with ADB, in accordance with procedures to be agreed between the Borrower and ADB.

12. Without limiting the generality of the preceding paragraph the Borrower shall ensure that activities to be undertaken under the Project shall, to the extent reasonably possible, incorporate the Risk Mitigation Measures and the following good governance features: (a) awareness building of the overall project objectives; and (b) transparent, consistent, and cost-effective subproject planning and implementation through well-defined procedures, guidelines and institutional arrangements, including community sign boards with summaries of plans, progress reports, and financial records and a Project website (to be created within 6 months of the Effective Date and which shall disclose information about relevant Project matters including detailed accounts of procurement.

13. The Borrower shall cause MPW and DGHS to strengthen the existing PNPM Mandiri project complaints and problem management unit to: (a) review and address grievances of Project stakeholders in relation to either the Project, any of the service providers, or any person or agency responsible for carrying out the Project; and (b) set the threshold criteria and procedures for handling such grievances, responding to them, notifying stakeholders regarding the chosen mechanism, and reporting to the relevant reporting agency in

accordance with the PNPM Mandiri Guidelines on management of complaints and grievances.

Accounting, Auditing, and Financial Reporting

14. Without prejudice to the generality of Section 4.05(a) of this Loan Agreement, the Borrower shall ensure that: (a) the auditors for conducting the audits of accounts and financial statements of the Project are selected in accordance with selection procedures acceptable to ADB; and (b) all Project accounts, including financial statements, statements of expenditures, and account records, are audited annually as part of the regular audit of accounts and financial statements. The audit opinion shall include: (i) an assessment of the adequacy of accounting and internal control systems relating to Project expenditures and other financial transactions, including the use of the Project imprest account and SOE procedures; (ii) a determination as to whether the Borrower and DGHS have maintained adequate documentation for the Project Imprest Account procedures; and (iii) confirmation of compliance with this Loan Agreement's financial covenants and ADB's requirements for Project management.

15. The Borrower shall cause the CIOs to maintain accounts in the format specified by the RIS-PNPM guidelines, their books and records are open for public inspection, and the summary of the expenditures are posted on a signboard in the relevant Participating Village.

16. The Borrower undertakes to contract an independent auditor, funded by Project resources, to audit the accounts at the relevant implementation levels in a timely fashion, in the event of a specific complaint made by ADB to the Borrower about the accounts.

Project Performance Monitoring and Evaluation (M&E) and Reporting

17. The Borrower shall cause the Project's M&E to be conducted in accordance with the established M&E framework for PNPM Mandiri, and encompassing the following elements: (a) conduct of baseline and completion surveys for a sample of Participating Villages by trained staff and community facilitators; (b) participatory monitoring by communities based on self-defined indicators; (c) internal monitoring of inputs, process, and outputs; (d) independent external M&E by third parties; and (e) design and implementation of a high quality impact evaluation frameworks.

18. The Borrower shall cause local NGOs or other civil society organizations located in each of the Participating Provinces to be engaged to undertake independent monitoring of Project activities, with particular emphasis given to assessing participation by and benefits accruing to very poor and remote households, women, and other marginalized groups.

19. The Borrower shall cause an independent firm to be contracted to conduct an external and impact evaluation of Project interventions on poverty, governance and socioeconomic conditions in selected Participating Villages, as agreed with ADB.

20. The Borrower shall cause the Project's M&E activities to encompass the following elements: (a) monitoring (i) physical and financial progress and efficiency of Subprojects; (ii) the level and adequacy of village and stakeholder participation in planning and implementing Project activities; (iii) the capacity of CIOs and local governments; and

(iv) social, environmental, and economic impacts, including establishment of baseline data; (b) collecting gender disaggregated data on stakeholders' participation in training and planning, and the accrual of benefits, including employment generation; (c) conducting physical and financial audits; and (d) assessing the impact and utilization of the investments.

21. The Borrower shall cause: (a) the PCMU to establish and maintain the Project performance management system, in accordance with ADB's requirements, to follow PNPM Mandiri's Guidelines, to be flexible to adopt remedial action regarding Project activities and development impacts, and to be part of the PNPM Mandiri MIS; (b) M&E findings and analysis to be updated on the PNPM Mandiri website on the 15th day of every month and incorporated in quarterly project progress reports that the PCMU will prepare within one (1) month of the end of the quarterly reporting period and submit to ADB and the Oversight Body; and (c) the PCMU to prepare, in coordination with the PPIUs and DPIUs, a consolidated Project completion report and submit it to ADB within six (6) months of Project completion.

Project Review

22. In addition to regular monitoring, the Borrower shall cause: (a) MPW, jointly with ADB to carry out Project reviews at least twice a year; and (b) MPW and the district governments to ensure that their staff conduct regular field visits and join ADB for all Project review missions. The reviews shall assess Project impacts, particularly institutional, administrative, organizational, technical, environmental, and social. The Borrower shall also, jointly with ADB, undertake a midterm review to be conducted after two (2) years of Project implementation to assess implementation status and take appropriate measures, including modification of scope and implementation arrangements, and reallocations of Loan proceeds, as appropriate, to achieve the Project's outcomes and impact.

Safeguard Provisions

23. **Environment.** The Borrower shall ensure that: (a) Subproject proposals are reviewed and assessed in accordance with the Project's EARF which will also prescribe mitigation and monitoring measures; (b) the CIOs are responsible for conducting environmental screening and identifying necessary mitigation measures with relevant technical assistance; (c) community facilitators, PPIUs, DPIUs, and the PCMU are responsible for managing the Project's environmental aspects; and (d) guidelines for community-based civil works and the technical guidelines developed by MPW for PNPM Mandiri are adhered to.

24. The Borrower shall further ensure that the Works and Project facilities are reviewed periodically and assessed for environmental impacts in accordance with the EARF. The Borrower shall further ensure that implementation of the Project activities are in accordance with its applicable environmental laws and regulations and ADB's Environment Policy (2002). In case of any inconsistency between the Borrower's relevant environmental laws and ADB's Environment Policy (2002), the later shall prevail.

25. **Indigenous People.** The Borrower shall ensure that: (a) the selection criteria for Subprojects include provisions to provide that indigenous peoples and other vulnerable groups are part of the capacity-building, planning, implementation, and post-implementation Project processes; and (b) minority and marginalized groups are represented on CIOs and

CIO representation committees in proportion to their overall population in the community; and will benefit from anticipated Project benefits with respect to service delivery, rural infrastructure, training, and construction-related jobs in accordance with ADB's Policy on Indigenous Peoples (1998).

26. **Resettlement.** The Borrower shall ensure that where applicable, each CIO shall prepare a resettlement plan in accordance with the approved LARF, including endorsement by the resettlement committee at the district level and ADB, disclosure to any person whose living environment and/or livelihood activities have been, or will be adversely impacted from Project activities and uploading on ADB's website. The Borrower shall further ensure that all land acquisition and resettlement activities under the Project are implemented in accordance with its applicable laws and regulations, ADB's Involuntary Resettlement Policy (1995), and the Project's LARF.

27. **Gender.** The Borrower shall ensure or cause that all reasonable measures are undertaken under the Project, to ensure that the proportion of women participants in the following Project activities is maintained at not less than: (a) 40 percent (i) in training programs at the village level, and (ii) membership of each CIO; and (b) 30 percent for (i) contracted community facilitators, and (ii) employment opportunities created under the Project. The Borrower shall further ensure that a gender audit is conducted for each Subproject during a period of implementation to be agreed with ADB.

28. The Borrower shall ensure that or cause the Project is implemented in accordance with ADB's Policy on Gender and Development (1998) and the Project's Gender Action Plan as agreed between the Borrower and ADB and as set forth in Appendix 13 to the RRP with periodic reports and details of any remedial actions being undertaken, (in the event that targets are not being met), made by DPIUs and PIUs to the PCMU which will, in turn consolidate the findings and report periodically to the Oversight Body and ADB.