
LOAN NUMBER 2379-INO

LOAN AGREEMENT
(Ordinary Operations)

(Capital Market Development Program Cluster - Subprogram 1)

between

REPUBLIC OF INDONESIA

and

ASIAN DEVELOPMENT BANK

DATED 11 DECEMBER 2007

PLL:INO 32507

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 11 December 2007 between the REPUBLIC OF INDONESIA (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 10 October 2007 (hereinafter called the "Policy Letter"), setting forth certain objectives, policies and actions described in Schedule 1 to this Loan Agreement, designed to promote financial sector diversification and resilience and support financial sector reforms; under a cluster of two subprograms forming the Capital Market Development Program Cluster ((hereinafter called the "Program Cluster"), some of which have been implemented under the first subprogram of the Program Cluster (hereinafter called the "Program");

(B) the Borrower has applied to ADB for a loan from its ordinary capital resources for the purposes of the Program;

(C) the Government of Indonesia (hereinafter called "GOI") has applied to ADB and the Government of Luxemburg for technical assistance to support the effective implementation of the Program Cluster (the TA project) and for such purposes ADB has agreed to provide a technical assistance grant not exceeding the equivalent of seven hundred thousand dollars (\$700,000). The Government of Luxemburg has also agreed to provide a technical assistance grant from the Financial Sector Development Partnership Fund, in the amount of five hundred thousand dollars (\$500,000) (the FSDPF Component of the TA project). By a letter of agreement of even date herewith, between ADB and the Government, ADB has agreed to administer the FSDPF Component of the TA project; and

(D) ADB has, on the basis inter alia of the foregoing, 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 2.01(49) is deleted and the following is substituted therefor:

49. The term "Program" means the first subprogram of the Program Cluster as referred to in Recital (A) of the Loan Agreement for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

- (b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

- (c) Section 2.01(51) is deleted and the following is substituted therefor:

51. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

- (d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

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

Section 3.06. Rebate.

(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.

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

Section 3.07. Surcharge.

(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.

- (g) Section 6.01(a) is deleted and the following is substituted therefor:

(a) Subject to any conditions or restrictions specified in the Loan Agreement, the Borrower shall be entitled to withdraw from the Loan Account such amounts as shall be required to meet payments for expenditures required for the Program and to be financed under the Loan Agreement.

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) "Bapepam-LK" means Badan Pengawas Pasar Modal dan Lembaga Keuangan, the Capital Market and Non Bank Financial Institutions Supervisory 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) "Bappenas" means Badan Perencanaan Pembangunan Nasional, the National Development Planning Agency of the Borrower, or any successor thereto;

(d) "Counterpart Funds" means the Rupiah proceeds accruing to the Borrower and generated from the proceeds of the Loan under the Program and referred to in Schedules 1 and 5 to this Loan Agreement;

(e) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;

(f) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement), the costs of which are eligible for financing out of the proceeds of the Loan;

(g) "Financial System Stability Forum" means the Financial System Stability Forum of the Borrower, or any successor thereto;

(h) "Meneg. BUMN" means Kementerian Negara Badan Usaha Milik Negara, the State Ministry of State Owned Enterprise of the Borrower, or any successor thereto;

(i) "MOF" means the Ministry of Finance of the Borrower, or any successor thereto;

(j) "Policy Letter" means the development policy letter dated 10 October 2007 addressed by the Borrower to ADB and referred to in Recital (A) of this Loan Agreement;

(k) "Policy Matrix" means the policy matrix attached to the Policy Letter, as agreed between the Borrower and ADB which sets forth actions accomplished or to be accomplished by the Borrower under the Program Cluster;

(l) "Program Cluster" has the meaning specified in Recital (A) to this Loan Agreement;

(m) "Program Cluster Period" means the period from 1 January 2006 to December 2010 during which the Program Cluster will be implemented;

(n) "Program Executing Agency" means for the purposes and within the meaning of the Loan Regulations, Bapepam-LK, which is responsible for the carrying out of the Program;

(o) "Program Period" means the period from 1 January 2006 until 31 December 2007;

(p) "Rupiah" or "Rp" means the currency of the Borrower;

(q) "Subprogram Two" means the second subprogram under the Program Cluster, the terms of which are to be agreed between the Borrower and ADB; and

(r) "TA project" has the meaning specified in Recital (C) to this Loan Agreement.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of three hundred million Dollars (\$300,000,000), 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 term of 15 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 determined by Section 3.02 of the Loan Regulations.

Section 2.03. The Borrower shall pay to ADB a commitment charge at the rate of three-fourths of one percent (0.75%) per annum on the unwithdrawn amount of the Loan. Such charge shall accrue from a date sixty (60) days after the date of this Loan Agreement to the respective dates on which amounts shall be withdrawn from the Loan Account or shall be cancelled.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 1 May and 1 November 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 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 for the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing expenditures incurred for Eligible Items under the Program 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. Withdrawals from the Loan Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and are supplied from, such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, in accordance with the provisions of Schedule 4 to this Loan Agreement and
- (b) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.04. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred eighty (180) days prior to the Effective Date.

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 31 March 2008 or such other date as may from time to time be agreed between the Borrower and ADB.

Section 3.06. (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.

Section 3.07. (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.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, public financial management, and governance practices.

(b) In the carrying out of the Program, 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, the funds, facilities, services, and other resources, which are required, in addition to the proceeds of the Loan, for the carrying out and continuation of the Program.

Section 4.03. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.05. (a) As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, and the accomplishment of the targets and carrying out of the actions set out in the Policy Letter and Policy Matrix.

(b) Without limiting the generality of the foregoing or Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter and Policy Matrix. Subject to Subprogram Two being agreed between ADB and the Borrower, these reports shall be used at the completion of the Program Cluster to produce a comprehensive report on the overall impact of the policy reforms described in the Policy Letter and Policy Matrix.

ARTICLE V

Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(l) of the Loan Regulations: all reform actions and measures, as specified in the Policy Matrix relating to the Program, shall be continuing.

Section 5.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 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

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

Facsimile Number:

+62 21 381 6516
+62 21 381 2859

For ADB

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

Facsimile Numbers:

+63 2 636 2444
+63 2 636 2388

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.

④ REPUBLIC OF INDONESIA

By 
DR. RAHMAT WALUYANTO
Authorized Representative

ASIAN DEVELOPMENT BANK



By 
JEAN-MARIE LACOMBE
Officer-in-Charge
Indonesia Resident Mission

SCHEDULE 1**Description of the Program**

1. The principal objectives of the Program Cluster are to enhance information disclosure and improve price discovery, promote deeper and more liquid financial markets, improve market surveillance and investor protection and strengthen governance and human resource capacity. The Program Cluster is described in more detail in the Policy Letter and the Policy Matrix. The reform agenda for Subprogram Two will be jointly refined by the Borrower and ADB to reflect the progress made under the Program and the evolving circumstances in the Borrower's capital markets and financial sector.
2. The Program is the first of two subprograms in the Program Cluster and its scope includes addressing fundamental weaknesses in the investment climate by promoting development of the nascent capital markets, strengthening regulation and supervision, promoting enhanced financial governance and market efficiency, and reducing systemic risks. The Program actions are being implemented during the Program Period.
3. In support of the Program:
 - (a) the proceeds of the Loan shall be used to finance the costs of Eligible Items; and
 - (b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 7 of Schedule 5 to this Loan Agreement.
4. The proceeds of the Loan are expected to be disbursed in a single tranche and utilized by 31 March 2008.

SCHEDULE 2**Amortization Schedule****(Capital Market Development Program Cluster - Subprogram 1)**

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 (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 %)
1 May 2011	4.166667
1 November 2011	4.166667
1 May 2012	4.166667
1 November 2012	4.166667
1 May 2013	4.166667
1 November 2013	4.166667
1 May 2014	4.166667
1 November 2014	4.166667
1 May 2015	4.166667
1 November 2015	4.166667
1 May 2016	4.166667
1 November 2016	4.166667
1 May 2017	4.166667
1 November 2017	4.166667
1 May 2018	4.166667
1 November 2018	4.166667
1 May 2019	4.166667
1 November 2019	4.166667
1 May 2020	4.166667
1 November 2020	4.166667
1 May 2021	4.166667
1 November 2021	4.166667
1 May 2022	4.166667
1 November 2022	4.166659
TOTAL	100.00

Schedule 2

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**Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures, which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that (i) in case the proceeds of the Loan will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal, or (ii) in case the proceeds of the Loan will finance items to be imported, the value of Eligible Imports in the immediately preceding one hundred eighty (180) days was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding one-year period.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in the Attachment to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account (the Deposit Account) at BI into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) The Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. The loan proceeds shall be disbursed in a single tranche upon effectiveness of the Loan Agreement.

List of Ineligible Items

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Program.
2. No withdrawals will be made for the following:
 - (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

Table A12: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics; and
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party; and
- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in paragraph 2(b) below, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items, which are commonly traded commodities, shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 5

Program Implementation and Other Matters

Program Management

1. Bapepam-LK shall be the Program Executing Agency responsible for Program implementation activities, and reporting to ADB. MOF shall be responsible for administering and disbursing the Loan proceeds, and maintaining accounts. MOF's Directorate General of Debt Management and Directorate General of Taxes, Bapepam-LK, Menneg. BUMN, and the Financial System Stability Forum will be the Implementing Agencies.
2. The Program Coordination Committee (the Committee) chaired by the Bapepam-LK chairman, and comprising representatives from the MOF's Directorate General of Debt Management and Directorate General of Taxes, and Bapepam-LK, Menneg. BUMN, Bappenas, and the Financial System Stability Forum, shall be responsible for coordinating the implementation and the sustaining of the Program actions. The Committee shall oversee the implementation of the policy actions detailed in the Policy Letter and Policy Matrix, and provide guidance and direction to the Executing Agency, the Implementing Agencies, and other relevant line agencies of the Borrower. The Committee may invite ADB to participate in its meetings as an observer.

Implementation of the Policy Letter

3. The Borrower shall ensure that the policies adopted and actions taken prior to the date of this Loan Agreement under the Program as described in the Policy Letter and the Policy Matrix, continue in effect.

Policy Dialogue

4. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on sector issues, policy reforms and additional reforms arising during the implementation of the TA project, that may be considered necessary or desirable, including the progress made in carrying out policies and actions set out in the Policy Letter and the Policy Matrix.
5. The Borrower shall promptly discuss with ADB problems and constraints encountered during implementation of the Program Cluster and the TA project, and appropriate measures to overcome or mitigate such problems and constraints.
6. The Borrower shall keep ADB informed of policy discussions with other multilateral or bilateral agencies that have implications for implementation of the Program Cluster and the TA project, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.

Counterpart Funds

7. The Borrower shall ensure that the Counterpart Funds are used to finance the local currency costs relating to the implementation of the Program and other activities consistent with the objectives of the Program and shall provide the necessary budget appropriations to finance the structural adjustment costs relating to the implementation of reforms under the Program.

Monitoring of the Program

8. The Borrower shall ensure that reporting on progress and outcome of the Program following the Program Period through periodic meetings is made by relevant line agencies of the Borrower to the Executing Agency which will in turn, report to ADB. The Executing Agency will, as needed, hold consultative meetings with stakeholders and development partner community to solicit their feedback on emerging regulations and the progress and outcome of Program.

9. The Borrower and ADB shall jointly assess the impact and evaluate the benefits of the Program within six months after Loan Effectiveness, in accordance with ADB's Performance Management System. The Borrower and ADB may use the findings of such assessment and evaluation in refining the Program Cluster.