
LOAN NUMBER 2361-INO

LOAN AGREEMENT
(Ordinary Operations)

(Poverty Reduction and Millennium Development Goals Acceleration Program Cluster –
Subprogram 1)

between

REPUBLIC OF INDONESIA

and

ASIAN DEVELOPMENT BANK

DATED 23 NOVEMBER 2007

LPO:INO 40003

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 23 November 2007 between 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 25 September 2007 (hereinafter called the "Policy Letter"), setting forth certain objectives, policies and actions designed to (i) support and enhance strategic cross-sectoral reforms and initiatives; (ii) support policy reforms for universal basic education; and (iii) support expanded access by the poor to quality health services to attain the millennium development goals in child and maternal mortality and reduction of communicable diseases, under the Poverty Reduction and Millennium Development Goals Acceleration Program Cluster (hereinafter called the "Program Cluster"), as more fully described in Schedule 1 to this Loan Agreement;

(B) Subprogram I comprises the first subprogram of the Program Cluster (hereinafter called "Subprogram I"). Certain of the objectives, policies and actions set forth in the Policy Letter shall be implemented under Subprogram I of the Program Cluster and the Borrower has applied to the ADB for a loan from its ordinary capital resources for the purposes of Subprogram I, as more fully described in Schedule 1 to this Loan Agreement; and

(C) 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 "Subprogram I" means the first subprogram as referred to in Recital (B) and as described in this 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 "Subprogram I".

(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 Subprogram I 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 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 Subprogram I and to be financed under the Loan Agreement.

(f) 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.

- (g) 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.

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 the Borrower's National Development Planning Agency and any successor thereto;

(b) "Bank Indonesia" means the Borrower's central bank and any successor thereto;

(c) "Counterpart Funds" means the Rupiah accruing to the Borrower and generated from the Loan proceeds under Subprogram I and referred to in paragraph 6 of Schedule 5 to this Loan Agreement;

- (d) "Eligible Items" means the goods imported under Subprogram I (except those specifically excluded pursuant to the Attachment to Schedule 3 to this Loan Agreement), the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;
- (e) "MDG" means millennium development goal;
- (f) "MOH" means the Borrower's Ministry of Health and any successor thereto;
- (g) "MONE" means the Borrower's Ministry of National Education and any successor thereto;
- (h) "MORA" means the Borrower's Ministry of Religious Affairs and any successor thereto
- (i) "Policy Letter" has the meaning specified in Recital (A) hereto;
- (j) "Policy Matrix" means the policy matrix agreed to between the Borrower and ADB which sets forth the objectives, policies and actions accomplished by the Borrower under Subprogram I and the objectives, policies and actions to be achieved under the Program Cluster;
- (k) "Program Cluster" has the meaning specified in recital (A) to this Loan Agreement;
- (l) "Program Cluster Period" means the period during which the Program Cluster will be implemented as agreed between the Borrower and ADB;
- (m) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, BAPPENAS, which is responsible for the carrying out of Subprogram I;
- (n) "Subprogram I Period" means the period commencing on 1 April 2005 and ending on 31 March 2007 or such other date as may from time to time be agreed between the Borrower and ADB; and
- (o) "Rupiah" means rupiah, the lawful currency of the Borrower.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of four hundred million United States Dollars (\$400,000,000), 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 principal repayment period of fifteen (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 April and 1 October 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 for Subprogram I 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 foreign currency expenditures incurred for Eligible Items under Subprogram I 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 Eligible Items to be financed out of the proceeds of the Loan shall be produced in, and procured from, ADB's member countries in accordance with the provisions of Schedule 4 to this Loan Agreement.

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 and 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.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause Subprogram I to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, educational, health and governance practices.

(b) In the carrying out of Subprogram I, 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 of Subprogram I.

Section 4.03. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of Subprogram I 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 Subprogram I.

(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 Cluster, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(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 semiannual reports on the carrying out of the Program Cluster and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

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 Schedule 10.01(f) of the Loan Regulations: all reform actions and measures, as specified in the Policy Matrix for Subprogram I, have been carried out.

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) 381-2859

For ADB

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

Facsimile Numbers:

(632) 636-2444
(632) 636-2305

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 

RAHMAT WALUYANTO
Authorized Representative

ASIAN DEVELOPMENT BANK

By 

Authorized Representative

SCHEDULE 1

Description of the Program Cluster and Subprogram I

1. The goal of the Program Cluster is to accelerate progress towards achieving selected MDGs in accordance with the Borrower's national priorities as reflected in its current medium term development plan and by assisting in the orientation of fiscal expenditures to the social sectors and the reduction of regional disparities. Subprogram I is the first subprogram of the Program Cluster. The principal objectives of Subprogram I are to achieve the MDGs in education (MDG 2) and health (MDGs 4, 5 and 6), and contribute to the Borrower's poverty reduction agenda (MDG 1) and gender equality (MDG 3). The scope of Subprogram I includes improving access, equity and quality of service delivery in the education and health sectors to accelerate progress toward meeting the MDGs. The Program Cluster scope includes (i) cross-sectoral reforms to accelerate MDG achievement by addressing budgetary allocations, improving performance incentives and geographical resource allocation, initiating a uniform system for identifying the poor, improving gender equity in access to education and health facilities, and developing a national planning framework for the achievement of the MDGs; (ii) policy reforms in education to accelerate MDG achievement by improving access to junior secondary schools and improving operations and maintenance in underserved areas, increasing affordability, enhancing the quality and equitable deployment of teachers, meeting minimum service standards, improving planning and implementation of education services, and improving transparency of education outcomes; and (iii) policy reforms in the health sector to accelerate MDG achievement by increasing public financing, better targeting to reach the poor, improving effectiveness of maternal, neonatal and child health care and reproductive health service delivery, improving communicable disease control, improving performance and monitoring, and improving financial information. The Program Cluster and Subprogram I are described in more detail in the Policy Letter. Subprogram I has been implemented during the Subprogram I Period.

2. In support of Subprogram I:

(a) the proceeds of the Loan shall be used to finance the foreign exchange 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 Subprogram I, pursuant to the provisions of paragraph 6 of Schedule 5 to this Loan Agreement.

3. The proceeds of the Loan are expected to be disbursed in a single tranche and utilized by 31 December 2008.

SCHEDULE 2

Amortization Schedule

(Poverty Reduction and Millennium Development Goals Acceleration Program Cluster – Subprogram I)

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.

Date	Percent (%)
01-Apr-2011	2.25
01-Oct-2011	2.36
01-Apr-2012	2.48
01-Oct-2012	2.60
01-Apr-2013	2.73
01-Oct-2013	2.87
01-Apr-2014	3.01
01-Oct-2014	3.16
01-Apr-2015	3.32
01-Oct-2015	3.49
01-Apr-2016	3.66
01-Oct-2016	3.84
01-Apr-2017	4.04
01-Oct-2017	4.24
01-Apr-2018	4.45
01-Oct-2018	4.67
01-Apr-2019	4.91
01-Oct-2019	5.15
01-Apr-2020	5.41
01-Oct-2020	5.68
01-Apr-2021	5.96
01-Oct-2021	6.26
01-Apr-2022	6.57
01-Oct-2022	6.89
Total	100.00

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 applications shall be accompanied by a certificate of the Borrower confirming that with respect to each year during which the proceeds of the Loan are expected to be disbursed, the value of the Eligible Imports is expected to be equal to or greater than the amount of the Loan expected to be disbursed during such year.

(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 first application to ADB for withdrawal from the Loan Account, the Borrower shall open an account (the Deposit Account) at Bank Indonesia 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) Throughout the Program Cluster Period, 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 this Loan Agreement.

Negative List

1. No withdrawals shall be made in respect of:

- (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 to the Borrower:

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)

- (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 loans from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (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. BAPPENAS shall be Program Executing Agency and shall be responsible for the coordination of overall implementation of the Program Cluster and reporting to ADB. The Ministry of Finance shall be responsible for the administration and disbursement of the Loan proceeds, and the maintenance of accounts. A Program Steering Committee and a program technical committee shall oversee Program Cluster implementation, shall be chaired by a representative from BAPPENAS and shall include representatives from, at least, the Ministry of Finance, MOH, MONE, MORA, Ministry of Women's Empowerment, the Ministry of Home Affairs and Central Board of Statistics. MOH, MONE and MORA shall be implementing agencies responsible for implementing actions within their respective area of responsibilities, and shall establish sectoral technical committees and secretariats for the education and health sectors.

Implementation of the Policy Letter

2. The Borrower shall ensure that the policies adopted and actions taken as described in the Policy Letter, including the Policy Matrix, prior to the date of this Loan Agreement continue in effect for the duration of the Program Cluster Period and subsequently.

Policy Dialogue

3. 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 during the Program Cluster Period 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.

4. The Borrower shall engage in policy dialogue with ADB, in a timely manner, on problems and constraints encountered during the implementation of the Program Cluster and on desirable changes to overcome or mitigate such problems and constraints.

5. 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 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

6. The Borrower shall ensure that the Counterpart Funds are used to finance the local currency costs relating to the implementation of Subprogram I and other activities consistent with the objectives of Subprogram I and shall provide the necessary budget

appropriations to finance the structural adjustment costs relating to the implementation of reforms under Subprogram I.

Monitoring of the Program Cluster

7. The Borrower shall cause BAPPENAS and its Ministry of Finance, MOH, MONE, MORA, Ministry of Women's Empowerment, and Ministry of Home Affairs as well as Central Board of Statistics to monitor the implementation of the Program Cluster and its impacts, and BAPPENAS shall submit to ADB semiannual reports on the implementation of the Program Cluster, including accomplishment of the measures and refinements thereto, set forth in the Policy Letter and the Policy Matrix.

8. The Borrower shall ensure that BAPPENAS conducts, jointly with ADB, a Subprogram I performance completion review at the end of the Subprogram I Period to evaluate the progress of the reform measures and their impact on the Borrower's achievement of the selected MDGs. The Borrower and ADB shall use the findings of such assessment and evaluation to refine the Program Cluster. The Borrower shall actively assist and support ongoing Program Cluster monitoring and evaluation including facilitating consultations with central and provincial agencies, civil society, and other key stakeholders as appropriate and shall ensure that these reports are used at the completion of the Program Cluster to produce a comprehensive report on the overall outcome of the policy reforms described in the Policy Letter and Policy Matrix within 12 months of the end of the Program Cluster Period. To facilitate such reviews, the Borrower shall assist ADB by providing relevant data and information in such detail as ADB may reasonably request.

Environment

9. The Borrower shall, where necessary, cause the entities covered under Subprogram I to comply with all applicable environmental laws, regulations and standards of the Borrower and ADB's *Environment Policy* (2002).