
LOAN NUMBER 2654-INO

LOAN AGREEMENT
(Ordinary Operations)

(Metropolitan Sanitation Management and Health Project)

between

REPUBLIC OF INDONESIA

and

ASIAN DEVELOPMENT BANK

DATED 21 September 2010

LAL: INO 39071

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 21 September 2010 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 of the Project described in Schedule 1 to this Loan Agreement; 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 (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) "CIT" means the Community Implementation Team;
- (b) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2010, as amended from time to time);
- (c) "Consulting Services" means the services to be financed out of the proceeds of the Loan as described in paragraph 3 of Schedule 1 to this Loan Agreement, but excluding any services provided in relation to Goods and Works;
- (d) "CPMU" means the Central Project Management Unit as further described in the PAM;
- (e) "CPSC" means the Central Project Steering Committee as further described in the PAM;
- (f) "Directorate General of Human Settlements" means the Directorate General of Human Settlements within MPW or any successor thereto;
- (g) "Gender Action Plan" means the Gender Action Plan as set out in one of the linked documents to the RRP;
- (h) "Goods" means equipment and materials to be financed out of the proceeds of the Loan; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;
- (i) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook, dated January 2007, as amended from time to time;
- (j) "LPMU" means the Local Project Management Unit as further described in the PAM;
- (k) "MPW" means the Ministry of Public Works of the Borrower or any successor thereto;
- (l) "O&M" means operation and maintenance;
- (m) "PAM" means the project administration manual for the Project dated 2 June 2010 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;

(n) “Part” means part of the Project as described in Schedule 1 to this Loan Agreement;

(o) “Participating Cities” means the cities that will participate in the Project, namely Kota Medan, Kota Yogyakarta, Kabupaten Sleman and Kabupaten Bantul;

(p) “PPMU” means the Provincial Project Management Unit as further described in the PAM;

(q) “PPSC” means the Provincial Project Steering Committee as further described in the PAM;

(r) “Procurement Guidelines” means ADB’s Procurement Guidelines (2010, as amended from time to time);

(s) “Procurement Plan” means the procurement plan for the Project dated 2 June 2010 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;

(t) “Project Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations means, Directorate General of Human Settlements or any successor thereto acceptable to ADB, which shall be responsible for the carrying out of the Project;

(u) “Project facilities” means the facilities to be constructed and financed under the Project;

(v) “RRP” means the Report and Recommendation of the President of ADB to the Board of Directors of ADB for the Loan;

(w) “SOE” means statement of expenditures; and

(x) “Works” means construction or civil works to be financed out of the proceeds of the Loan, and including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding Consulting Services.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of thirty five million Dollars (\$35,000,000), 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 twenty (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 1 February and 1 August 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 proceeds of the Loan shall be allocated and withdrawn 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 June 2015 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 sanitation management 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, 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 and contractors, 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 inspect the Project, the Goods and Works, 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 applicable technical, financial, business, development, operational and maintenance 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

Ministry of Finance
Directorate General of Debt Management
P.O. Box 1139
Jakarta 10710, Indonesia

Facsimile Number:

(62-21) 381-2859 (for Correspondences)
(62-21) 384-3712 (for Disbursements and Repayments).

For ADB


Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2336.

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
Director General of Debt Management
Ministry of Finance

ASIAN DEVELOPMENT BANK

By 

JAMES NUGENT
Country Director
Indonesia Resident Mission

SCHEDULE 1

Description of the Project

1. The expected impact of the Project is reduced environmental pollution of surface water and shallow groundwater in the Participating Cities. The expected outcome of the Project is increased access to improved wastewater services in the Participating Cities.

2. The Project shall include the following Parts:

Part 1: Community Mobilization for Improved Health and Hygiene

This Part consists of two sub-parts:

(a) Community Mobilization and Empowerment for Communal Sanitary Facilities.

Under this sub-part, the Project shall (i) conduct social marketing and awareness campaigns to eligible community groups; (ii) establish the CIT; (iii) prepare community action plans; (iv) provide training to CIT in administrative procedures; (v) conduct environmental screening of sites; (vi) supervise and monitor CIT activities; and (vii) provide training in O&M.

(b) Construction of Community-Based Sanitation Facilities.

Under this sub-part, the Project shall construct approximately 280 communal sanitation facilities in the Participating Cities to include simplified community sewerage systems, communal toilet, washing and bathing units, and communal septic tanks.

Part 2: Infrastructure Development for Sewerage

Under this Part, the Project shall (a) rehabilitate and expand existing off-site sanitation systems in the Participating Cities; (b) provide approximately 28,000 additional house connections in the Participating Cities; and (c) construct 2 decentralized wastewater treatment systems for low-cost housing blocks in Medan.

Part 3: Project Implementation Support

Under this Part, the Project shall provide necessary support to the Project management units in (a) Project management and coordination; (b) Project performance monitoring; (c) reporting; (d) procurement and contracting; (e) construction supervision; and (f) social safeguard compliance.

3. The Project shall also provide Consulting Services. The Project is expected to be completed by 31 December 2014.

SCHEDULE 2

Amortization Schedule

(Metropolitan Sanitation Management and Health Project)

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.

Sequence	Date Payment Due	Installment Share (Expressed as a % based on 10% annuity)
1	01-Aug-15	0.827816
2	01-Feb-16	0.869207
3	01-Aug-16	0.912667
4	01-Feb-17	0.958301
5	01-Aug-17	1.006216
6	01-Feb-18	1.056526
7	01-Aug-18	1.109353
8	01-Feb-19	1.164820
9	01-Aug-19	1.223061
10	01-Feb-20	1.284214
11	01-Aug-20	1.348425
12	01-Feb-21	1.415846
13	01-Aug-21	1.486639
14	01-Feb-22	1.560971
15	01-Aug-22	1.639019
16	01-Feb-23	1.720970
17	01-Aug-23	1.807019
18	01-Feb-24	1.897369
19	01-Aug-24	1.992238
20	01-Feb-25	2.091850
21	01-Aug-25	2.196442
22	01-Feb-26	2.306264
23	01-Aug-26	2.421578
24	01-Feb-27	2.542657
25	01-Aug-27	2.669789
26	01-Feb-28	2.803279
27	01-Aug-28	2.943443

Schedule 2

28	01-Feb-29	3.090615
29	01-Aug-29	3.245146
30	01-Feb-30	3.407403
31	01-Aug-30	3.577773
32	01-Feb-31	3.756662
33	01-Aug-31	3.944495
34	01-Feb-32	4.141720
35	01-Aug-32	4.348806
36	01-Feb-33	4.566246
37	01-Aug-33	4.794558
38	01-Feb-34	5.034286
39	01-Aug-34	5.286000
40	01-Feb-35	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 2 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

Schedule 2

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 may, in consultation with the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with 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 the Loan Disbursement Handbook.

Imprest Account; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Borrower shall establish immediately after the Effective Date, an imprest account at a bank to be agreed upon by the Borrower and ADB. The imprest account shall be established, managed, replenished and liquidated in accordance with the Loan Disbursement Handbook, and detailed arrangements agreed upon between the Borrower and ADB. The currency of the imprest account shall be

Schedule 3

the Dollar. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first six (6) months of Project implementation, or (ii) the equivalent of ten percent (10%) of the Loan amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and liquidation and replenishment of the imprest account, in accordance with the Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of fifty thousand Dollars (\$50,000).

Conditions of Withdrawal from the Loan Account

6. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account until the Borrower shall have established (a) the CPMU, including the appointment of the Project manager; (b) the 2 PPMUs, including the appointment of the head of each PPMU; (c) the 2 LPMUs, including the appointment of the head of each LPMU; (d) the CPSC; and (e) the 2 PPSCs.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Metropolitan Sanitation Management and Health Project)				
CATEGORY				ADB FINANCING BASIS
Number	Item	Total Amount Allocated for ADB Financing \$		Percentage of ADB Financing from the Loan Account
1	Works	25,660,000		100 percent of total expenditure claimed*
2	Goods	2,060,000		100 percent of total expenditure claimed*
3	Consulting Services	3,780,000		100 percent of total expenditure claimed*
4	Unallocated	3,500,000		
	Total	35,000,000		

*Exclusive of taxes and duties imposed within the territory of the Borrower

SCHEDULE 4

Procurement of Goods, Works, and Consulting Services

A. General

1. All Goods, Works and Consulting Services to be financed out of the proceeds of the Loan shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding
Shopping

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. National Competitive Bidding The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Borrower and ADB.

C. Selection of Consulting Services

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

D. Industrial or Intellectual Property Rights

6. (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.

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

E. ADB's Review of Procurement Decisions

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

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

Project Management

1. The Borrower shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

Social Impact

2. The Borrower shall ensure (a) the implementation and monitoring of the measures included in the Gender Action Plan; and (b) that the resources for their implementation and monitoring shall be made available in a timely manner. In particular, the Borrower shall (a) provide equal opportunity for women to seek employment under the Project; (b) ensure that equal wages are guaranteed for men and women for work of equal value; (c) ensure that child labor shall not be allowed under the Project; and (d) ensure that appropriate labor standards are maintained.

Safeguards

3. The Borrower shall ensure that the construction and operation of the Project facilities shall be carried out in accordance with (a) the initial environmental examinations prepared for the Project and approved by ADB; (b) the Borrower's environmental laws and regulations; and (c) ADB's *Environment Policy* (2002). In the event of discrepancy between the Borrower's laws and regulations, and ADB's *Environment Policy*, ADB's policy shall prevail. The Borrower shall also implement the environmental mitigation and monitoring measures, and other recommendations specified in the initial environmental examinations to minimize any adverse environmental impacts arising from the construction and operation of the Project facilities.

4. The Borrower shall ensure compliance with ADB's *Involuntary Resettlement Policy* (1995) and the provisions of the resettlement framework prepared for the Project. In the event involuntary resettlement occurs under the Project, the Borrower shall ensure the preparation of a resettlement plan and undertake other requirements according to the provisions of the resettlement framework.

Project Assets

5. The Borrower through the Project Executing Agency shall, upon completion of the Works related to the sewerage system located in Kota Medan, transfer the ownership of the related assets to the provincial government of North Sumatera in a manner consistent with the prevailing laws and regulations of the Borrower. Upon the transfer of ownership of the assets, the Borrower through the Project Executing Agency shall ensure that the provincial government of North Sumatera adequately finance the O&M expenditures of such assets.

6. The Borrower through the Project Executing Agency shall, upon completion of the Works related to the sewerage system located in Kota Yogyakarta, Kabupaten Sleman and Kabupaten Bantul, transfer the ownership of the related assets to the provincial government of Yogyakarta in a manner consistent with the prevailing laws and regulations of the Borrower. Upon the transfer of ownership of the assets, the Borrower through the Project Executing Agency shall ensure that the provincial government of Yogyakarta adequately finance the O&M expenditures of such assets.

7. The Borrower through the Project Executing Agency shall ensure that the relevant regional governments in the Participating Cities (a) set sewer tariff, by June 2014, at a level that will allow the O&M expenditures of piped sewerage services to be fully recovered through the tariff; and (b) continue thereafter to maintain the tariff at such level.

Wastewater Management

8. The Borrower through the Project Executing Agency shall ensure that the regional governments in the Participating Cities implement capacity development measures to improve wastewater management practices and the institutions involved in wastewater management.

Anti-corruption

9. The Borrower shall cause the Project Executing Agency 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.

10. 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 shall undertake the investigation with ADB, in accordance with procedures to be agreed between the Borrower and ADB.

11. Without limiting the generality of the preceding paragraph, the Borrower through CPMU shall have established within six (6) months of the Effective Date, a web-site that discloses the use of the Loan proceeds, including details of contract awards. The website shall be regularly updated within one (1) week of each award of contract.