

CONFORMED COPY

LOAN NUMBER 7730-ID

Loan Agreement

(Urban Water Supply and Sanitation Project)

between

REPUBLIC OF INDONESIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 1, 2009

LOAN AGREEMENT

AGREEMENT dated September 1, 2009, between REPUBLIC OF INDONESIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II – LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of twenty three million five hundred sixty thousand Dollars (\$23,560,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02(d) of the General Conditions.

- 2.05. The Payment Dates are May 1 and November 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.07. (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, withdrawn 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 Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable 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 the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III – PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall, through MoPW, cause each Participating PEMDA to carry out the Project through its respective Participating PDAM in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV – REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) any Participating PEMDA shall have failed to perform any obligation under its respective PEMDA Subsidiary Loan Agreement or any Participating PDAM shall have failed to perform any obligation under its respective PDAM Performance Agreement; or

- (b) any of the PDAM Regulations are amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower, any Participating PEMDA or any Participating PDAM to perform any of its obligations under this Agreement.
- 4.02. The Additional Event of Acceleration consists of the following: Any event specified in Section 4.01 of this Agreement occurs.

ARTICLE V – EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following: MoPW and each Participating PDAM shall have adopted the Project Management Manual, satisfactory to the Borrower and the Bank.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI – REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower’s Representative is the Minister of Finance.
- 6.02. The Borrower’s Address is:

Ministry of Finance
c/o Directorate General of Debt Management
Jalan Lapangan Banteng Timur 2-4
P. O. Box 1139
Jakarta 10710
Indonesia

Cable address:	Telex:	Facsimile:
FINMINISTRY Jakarta	45799 DJMLN-IA 44319 DEPKEU-IA	(21) 381 2859

- 6.03. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD	248423(MCI) or	1-202-477-6391

Washington, D.C. 64145(MCI)

AGREED at Jakarta, Republic of Indonesia, as of the day and year first above written.

REPUBLIC OF INDONESIA

By: /s/ Rahmat Waluyanto

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Joachim von Amsberg

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve and expand water supply services in the Project Areas by strengthening local water utilities to become operationally efficient and financially sustainable.

The Project consists of the following parts:

Part 1. Kota Bogor. Improving the water supply system for Kota Bogor, including:

- (a) construction of: (i) a new water treatment plant adjacent to the Dekeng water treatment plant; (ii) two (2) units of rapid sand filters with new filter back washing facilities at the Dekeng water treatment plant; (iii) a water reservoir; and (iv) water distribution networks and new household connections; and
- (b) carrying out a non-revenue water reduction program, including the installation of new water meters and replacement of old pipelines.

Part 2. Kabupaten Kapuas. Improving the water distribution system of Kabupaten Kapuas, including the construction of: (a) a water reservoir; and (b) water distribution pipelines.

Part 3. Kabupaten Muara Enim. Improving the water supply system for Kabupaten Muara Enim, including:

- (a) Upgrading and expanding of the Pelita Sari water treatment plant, including the construction of: (i) a water intake structure; (ii) a raw water transmission main; and (iii) new water treatment facilities including, but not limited to, additional filters and sedimentation tanks to add and improve water treatment capacity;
- (b) Upgrading of the Talang Jawa water treatment plant, including the construction of: (i) a water intake structure; (ii) a raw water transmission main; and (iii) new water treatment facilities including, but not limited to, sedimentation tanks and booster pumping station to add and improve water treatment capacity;
- (c) Improving the water distribution network in the Muara Enim and Tanjung Enim urban areas; and
- (d) Upgrading the Karang Asam water treatment plant, including the construction of: (i) a water intake structure; (ii) a raw water transmission main; and (iii) new water treatment facilities, including but not limited to, additional filters and sedimentation tanks to add and improve water treatment capacity.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional and Implementation Arrangements**

1. (a) The Borrower shall maintain until completion of the Project, the PCU established on May 11, 2009, and shall ensure that the PCU is provided at all times with adequate funds and other resources, and is staffed with qualified and experienced personnel with terms of reference and in adequate numbers acceptable to the Bank and the Borrower (including the PCU Management Consultants) and in all cases as shall be necessary to accomplish its functions, responsibilities and objectives.
- (b) The Borrower shall ensure that the PCU shall coordinate Project implementation with PIUs; concerned ministries and departments including MoPW, MoH, MoHA, MoE and MoF; and Participating PDAMs and Participating PEMDAs.
- (c) The Borrower, through MoPW, shall provide funding for each Fiscal Year during Project implementation for the PCU Management Consultants, including a team leader, water supply expert, institutional and management expert, financial management specialist, and a procurement specialist for each PIU. The MoPW shall ensure that the procurement for the PCU Management Consultants, shall be undertaken using the terms of reference agreed between the MoPW and the Bank dated May 28, 2009. The MoPW shall ensure that the PCU Management Consultants are engaged by no later than September 30, 2009, and MoPW shall present the final PCU Management Consultants staffing to the Bank for no objection. The MoPW shall ensure that the staffing of the PCU Management Consultants shall be at all times acceptable to the Borrower and the Bank.
- (d) The Borrower, through MoPW, shall provide funding for each Fiscal Year during Project implementation for the Construction Supervision Consultant for each PIU. The MoPW shall ensure that the procurement of each Construction Supervision Consultant shall be undertaken using the terms of reference agreed between the Borrower and the Bank, dated May 28, 2009. The MoPW shall ensure that each Construction Supervision Consultant is engaged by no later than September 30, 2009, and MoPW shall present each final Construction Supervision Consultants staffing to the Bank for no objection. The MoPW shall ensure that each

Construction Supervision Consultant shall be at all times acceptable to the Borrower and the Bank.

2. (a) The Borrower shall, through each Participating PEMDA, ensure that each Participating PDAM shall establish, prior to the commencement of Project activities by such Participating PDAM, and thereafter maintain until completion of the Project, a PIU responsible for implementation of the Project in accordance with the Project Management Manual.
- (b) The Borrower shall ensure that the mandate, composition and terms of reference of each PIU shall be acceptable to the Bank and the Borrower, and shall include technical experts/engineers, directors of the technical and financial departments, and the procurement specialist for such PIU from the PCU Management Consultants and a Construction Supervision Consultant. The Borrower shall ensure that each such PIU is provided at all times with adequate funds and other resources, and with qualified and experienced personnel in adequate numbers, acceptable to the Bank and the Borrower and in all cases as shall be necessary to accomplish its functions, responsibilities and objectives.
3. (a) The Borrower shall adopt, and, through each Participating PEMDA, shall cause each respective Participating PDAM to adopt, the Project Management Manual, acceptable to the Bank and the Borrower, prior to the commencement of any Project activities in each Participating PEMDA and Participating PDAM, respectively.
- (b) The Project Management Manual shall include: (i) implementation arrangements; (ii) the procurement procedures set forth in Section III of this Schedule 2 and standard procurement documentation; (iii) reporting requirements, financial management procedures, expenditure verification procedures, and audit arrangements and procedures consistent with those set forth in Section II of this Schedule 2; (iv) annual budget and work plan procedures; (v) monitoring and evaluation criteria; (vi) the Environmental Management Plans; (vii) each LARAP; and (viii) the Anti-Corruption Action Plan, in each case acceptable to the Bank and the Borrower.
- (c) The Borrower shall, through MoPW, cause each Participating PEMDA to cause each Participating PDAM to implement its respective Part of the Project in accordance with the Project Management Manual.
- (d) Except as the Bank shall otherwise agree, the Borrower shall not waive, amend or abrogate, or allow any Participating PEMDA or Participating PDAM to waive, amend or abrogate, any provision of the Project Management Manual, including the Anti-Corruption Action Plan, the

Environmental Management Plans, any LARAP, or the Procurement Plan contained therein, without the prior agreement of the Bank and the Borrower.

4. (a) The Borrower shall make funds available out of the proceeds of the Loan allocated from time to time to Category (1), Category (2) and Category (3) of the table in paragraph 2 of Section IV of this Schedule 2 to each Participating PDAM by: (i) entering into a PEMDA Subsidiary Loan Agreement with each Participating PEMDA for the on-lending to such Participating PEMDA of a portion of the proceeds of the Loan for the purpose of such Participating PEMDA providing financing to its respective Participating PDAM for activities under the Project; and (ii) causing each Participating PEMDA and each respective Participating PDAM to enter into a PDAM Performance Agreement pursuant to which the Participating PDAM shall carry out its respective activities under the Project in accordance with the Project Management Manual, in each case on terms and conditions acceptable to the Bank and the Borrower.
- (b) Without limitation on the provisions of paragraph 4(a) above, the terms and conditions of each PEMDA Subsidiary Loan Agreement shall include the following terms and conditions, as appropriate:
 - (i) the proceeds of such PEMDA Subsidiary Loan Agreement shall be provided to the respective Participating PDAM in accordance with this Agreement;
 - (ii) the amount to be provided under each PEMDA Subsidiary Loan Agreement shall be Rupiah denominated;
 - (iii) the amount to be provided under each PEMDA Subsidiary Loan Agreement shall not exceed the equivalent US Dollar amount allocated to such PEMDA Table in Section IV of this Schedule 2;
 - (iv) each Participating PEMDA shall repay the principal amount of Rupiah withdrawn and shall pay interest on the principal amount withdrawn and outstanding of each PEMDA Subsidiary Loan Agreement at an annual rate not to exceed the rate applicable to this Agreement plus a percentage to be agreed in the PEMDA Subsidiary Loan Agreement;
 - (v) the repayment period of each PEMDA Subsidiary Loan Agreement shall be at least 24.5 years and shall include a grace period of at least 9 years;

- (vi) the right of the Borrower to suspend or terminate the rights of each beneficiary to use the proceeds of the Loan upon such beneficiary's failure to perform its obligations under such agreement; and the right of the Borrower and the Bank to inspect the portion of the Project and any relevant records and documents and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.
- (c) Without limitation on the provisions of paragraph 4(a) above each Participating PEMDA and each Participating PDAM shall agree in its respective PDAM Performance Agreement as follows:
- (i) to undertake its respective activities under the Project in accordance with the Project Management Manual and the Anti-Corruption Guidelines applicable to recipients of Loan proceeds other than the Borrower;
 - (ii) to include the right of the Participating PEMDA to suspend or terminate the rights of each beneficiary to use the proceeds of the Loan upon such beneficiary's failure to perform its obligations under such agreement; and the right of the Borrower and the Bank to inspect the Project and any relevant records and documents and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing;
 - (iii) agreements on financial indicators, cost recovery tariffs and the relevant performance indicators, in each case acceptable to the Bank and the Borrower;
 - (iv) the PDAM Performance Agreement between PEMDA Muara Enim and PDAM Muara Enim shall include a provision that the proceeds of the PEMDA Subsidiary Loan Agreement for PEMDA Muara Enim shall be provided to PDAM Muara Enim as an equity contribution;
 - (v) the PDAM Performance Agreement between PEMDA Kapuas and PDAM Kapuas shall include a provision that the proceeds of the PEMDA Subsidiary Loan Agreement for PEMDA Kapuas shall be provided to PDAM Kapuas as an equity contribution; and
 - (vi) the PDAM Performance Agreement between PEMDA Kota Bogor and PDAM Kota Bogor shall include a provision that the

proceeds of the PEMDA Subsidiary Loan Agreement for PEMDA Kota Bogor shall be on-lent to PDAM Kota Bogor on terms and conditions at least as beneficial with respect to payment of principal and interest and repayment period as set out in the PEMDA Subsidiary Loan Agreement for PEMDA Kota Bogor.

- (d) The Borrower shall exercise its rights under each PEMDA Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any PEMDA Subsidiary Loan Agreement or any of its provisions.
- (e) Each Participating PEMDA shall exercise its rights under each PDAM Performance Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any PDAM Performance Agreement or any of its provisions.

B. Safeguards

- 1. In carrying out the Project, the Borrower shall, through each Participating PEMDA, ensure that each respective Participating PDAM shall implement the LARAP applicable to such Participating PDAM in accordance with the Project Management Manual, including:
 - (a) taking all appropriate measures to avoid or minimize the acquisition of land or assets of people and to avoid the displacement of such people;
 - (b) where the acquisition of land or assets or the displacement of residents is unavoidable for a Project activity, ensuring that all Displaced Persons thereunder shall have been compensated and provided with resettlement and rehabilitation measures prior to the implementation of such Project activity;
 - (c) in the event that there are two hundred (200) or more Displaced Persons as a result of a Project activity:
 - (i) preparing a LARAP and furnishing such plan to the Bank for approval; and

- (ii) prior to implementing the Project activity, ensuring that all Displaced Persons shall have been compensated in accordance with the provisions of such LARAP; and
 - (d) in the event that there are fewer than two hundred (200) Displaced Persons as a result of a Project activity:
 - (i) preparing an abbreviated LARAP and furnishing such plan to the Bank for approval; and
 - (ii) prior to the carrying out of the Project activity, ensuring that all Displaced Persons shall have been compensated in accordance with the provisions of such abbreviated LARAP.
2. The Borrower shall, through each Participating PEMDA, ensure that each respective Participating PDAM shall:
- (a) take all measures and actions set out in the Environmental Management Plan for the elimination or offsetting of adverse environmental impacts under the Project; and
 - (b) include in requests for proposals and bidding documents for the Project all requirements of the Environmental Management Plan relevant to the activities that are the subject of such proposals/bidding documents.
3. The Borrower shall include in each Project Report provided for in paragraph 1(b) of Section II(A) of this Schedule 2, a summary of any environmental issues encountered and proposed mitigation measures developed and/or implemented during the six (6) month period covered in such Project Report.

C. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Financial Ratios

1. *Debt Service Coverage Ratio for PDAM Kota Bogor*
- (a) Except as the Bank shall otherwise agree commencing with the Fiscal Year ending December 31, 2010, the Borrower, through PEMDA Kota Bogor, shall ensure that PDAM Kota Bogor shall not incur any debt unless the net cash revenues of the PDAM Kota Bogor for the Fiscal Year immediately preceding the date of such incurrence, or for a later twelve (12) month period ended prior to the date of such incurrence,

whichever is the greater, shall be at least 1.3 times the estimated maximum debt service requirements of the PDAM Kota Bogor for any succeeding Fiscal Year on all debt of the PDAM Kota Bogor, including the debt to be incurred.

- (b) For the purposes of this paragraph 1:
- (i) The term “debt” means any indebtedness of the PDAM Kota Bogor maturing by its terms more than one (1) year after the date on which it is originally incurred.
 - (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
 - (iii) The term “net revenues” means the difference between:
 - (A) the sum of revenues from all sources related to operations, adjusted to take account of the PDAM Kota Bogor’s tariffs and fees in effect at the time of the incurrence of debt even though they were not in effect during the twelve (12) month period to which such revenues relate; and
 - (B) the sum of all expenses related to operations including administration, adequate maintenance, depreciation, interest payments, taxes and payments in lieu of taxes.
 - (iv) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on debt.
 - (v) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing Bank Indonesia rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.
- (c) Before March in each of its Fiscal Years commencing in January 2010, the Borrower shall ensure that PEMDA Kota Bogor shall, on the basis of

forecasts prepared by PDAM Kota Bogor and satisfactory to the Bank and the Borrower, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following Fiscal Year, and shall furnish to the Bank the results of such review upon its completion.

- (d) If any such review shows PDAM Kota Bogor would not meet the requirements set forth in paragraph (a) for the Fiscal Years covered by such review, the Borrower shall ensure that PEMDA Kota Bogor and PDAM Kota Bogor shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs and fees) in order to meet such requirements.

2. *Operating Ratio*

- (a) Except as the Bank shall otherwise agree, the Borrower, through each Participating PEMDA, shall ensure that each respective Participating PDAM shall maintain, for each of its Fiscal Years commencing with its Fiscal Year ending on December 31, 2010, a ratio of total operating expenses to total operating revenues not higher than 1.0.
- (b) Before March in each of its Fiscal Years commencing in January 2010, the Borrower shall ensure that each Participating PEMDA shall, through the relevant PDAM Performance Agreement, ensure that the Participating PDAM shall, on the basis of forecasts prepared by the Participating PDAM and satisfactory to the Bank and the Borrower, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following Fiscal Year, and shall furnish to the Bank the results of such review upon its completion.
- (c) If any such review shows that the Participating PDAM would not meet the requirements set forth in paragraph (a) for the Fiscal Years covered by such review, the Borrower shall ensure that the respective Participating PEMDA shall, through the relevant PDAM Performance Agreement, ensure that the relevant Participating PDAM shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs and fees) in order to ensure that the Participating PDAM shall meet such requirements.
- (d) For the purposes of this paragraph 2:
 - (i) The term “total operating expenses” means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 5%

per annum of the average current gross value of the Participating PDAM's fixed assets in operation, or other basis acceptable to the Bank, and including interest and other charges on debt.

- (ii) The term "total operating revenues" means revenues from all sources related to operations.
 - (iii) The average current gross value of the Participating PDAM's fixed assets in operation shall be calculated as one half of the sum of the gross value of the Participating PDAM's fixed assets in operation at the beginning and at the end of the Fiscal Year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank and the Borrower.
3. Except as the Bank shall otherwise agree, the Borrower, through each Participating PEMDA, shall ensure that, for each respective Participating PDAM:
- (a) the Participating PEMDA shall provide funds to the relevant Participating PDAM budgets, in such amounts as are necessary to ensure that the Participating PDAM shall meet the financial covenants set out in the preceding paragraphs 1 and 2 of this Section I(C), until the Closing Date; and
 - (b) the Participating PEMDA shall not withdraw dividends from the relevant Participating PDAM until the Closing Date.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

- 1. (a) The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank not later than one (1) month after the end of the period covered by such report.
- (b) The Borrower, through each Participating PEMDA, shall ensure that each PIU shall prepare a report covering each calendar semester during Project implementation in accordance with the Project Management Manual and shall submit such semi-annual report to the PCU in a timely manner for inclusion in the relevant Project Report.

2. The Borrower, through each Participating PEMDA, shall ensure that each Participating PDAM shall review with the Borrower and the Bank, by January 31 and July 31 in each year during Project implementation, or such later date as the Bank shall request, the report most recently furnished to the Borrower and the Bank pursuant to the provisions of paragraph 1 of this Section II(A) and, thereafter, take all measures required to ensure the efficient carrying out of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of such report and the Bank's views on the matter.
3.
 - (a) The Borrower shall prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31, 2012 a mid-term report integrating the results of: (i) the monitoring and evaluation activities performed pursuant to paragraph 1 of this Section II(A) of this Schedule 2; and (ii) the audit reports performed pursuant to paragraph 3 of Section II(B) of this Schedule 2, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient completion of the Project and the achievement of the objectives thereof during the remainder of the Project.
 - (b) The Borrower shall review with the Bank, by June 30, 2013, or such later date as the Bank shall request, the report referred to in sub-paragraph (a) of this paragraph 3, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of such report and the Bank's views on the matter; and make publicly available such report at the same time as it is furnished to the Bank pursuant to this sub-paragraph.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain and, through each Participating PEMDA, cause each Participating PDAM to maintain, a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank as part of the Project Report not later than one (1) month after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall, through each Participating PEMDA, ensure that each respective Participating PDAM shall have its financial statements and the financial statements for the Project accounts audited annually by an auditor

acceptable to the Bank and the Borrower and in accordance with the requirements of the Project Management Manual.

4. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) Fiscal Year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.
5. The Borrower shall ensure that auditing activities described in the foregoing paragraphs 3 and 4 of this Section II(B) are carried out in accordance with terms of reference agreed with the Bank.
6. The Borrower shall make publicly available in a manner acceptable to the Bank and the Borrower all final audit reports described in paragraph 3 of this Section II(B).

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) National Competitive Bidding, subject to the additional procedures set forth in the Annex to this Schedule 2.
(b) Shopping
(c) Direct Contracting

C. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

D. Additional Procurement Procedures

1. The Borrower shall make publicly available on the website of MoPW and promptly upon request by a member of the public (subject to payment of a reasonable fee to cover the cost of printing and delivery) the Procurement Plan, including all updates thereto, and each opportunity for procurement thereunder.
2. The Borrower shall establish, maintain and publish on the MoPW website a complaints handling system satisfactory to the Borrower and the Bank, and report on any corrupt or fraudulent practices.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods and Works under Part 1 of the Project	9,060,000	85%
(2) Goods and Works under Part 2 of the Project	4,150,000	100%
(3) Goods and Works under Part 3 of the Project	10,350,000	100%
TOTAL AMOUNT	23,560,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee; or
 - (b) for expenditures under Category 1 until the PEMDA Kota Bogor shall have entered into a PEMDA Subsidiary Loan Agreement and the PEMDA Kota Bogor and PDAM Kota Bogor have entered into a PDAM Performance Agreement, in each case acceptable to the Bank and the Borrower; or
 - (c) for expenditures under Category 2 until the PEMDA Kabupaten Kapuas shall have entered into a PEMDA Subsidiary Loan Agreement and the PEMDA Kabupaten Kapuas and PDAM Kabupaten Kapuas have entered into a PDAM Performance Agreement, in each case acceptable to the Bank and the Borrower; or
 - (d) for expenditures under Category 3 until the PEMDA Kabupaten Muara Enim shall have entered into a PEMDA Subsidiary Loan Agreement and the PEMDA Kabupaten Muara Enim and PDAM Kabupaten Muara Enim have entered into a PDAM Performance Agreement acceptable to the Bank and the Borrower.
2. The Closing Date is December 31, 2014.

ANNEX to Schedule 2
National Competitive Bidding Procedures

Clarifications Relating to National Competitive Bidding Procedures

1. General

The procedures to be followed for NCB shall be those set forth in Presidential Decree No. 80/2003 of the Republic of Indonesia with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the “Guidelines for Procurement under IBRD Loans and IDA Credits” dated May 2004 and revised in October 2006 (the Guidelines).

2. Registration

- (a) Bidding shall not be restricted to pre-registered firms and shall not be a condition for participation in the bidding process.
- (b) Where registration is required prior to award of contract, bidders (i) shall be allowed a reasonable time to complete the registration process, and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

3. Pre-qualification

- (a) Pre-qualification shall not be used for simple goods and works. Normally, post-qualification shall be used. Pre-qualification shall be required only for large or complex works with the prior ‘no objection’ of the Bank. When pre-qualification shall be required:
- (b) eligible bidders (both national and foreign) shall not be denied pre-qualification, and
- (c) invitations to pre-qualify for bidding shall be advertised in at least one (1) widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications.

4. Joint Ventures

A bidder declared the lowest evaluated responsive bidder shall not be required to form a joint venture or to sub-contract part of work or part of the supply of goods as a condition of award of the contract.

5. Preferences

- (a) No preference of any kind shall be given to national bidders.
- (b) Regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers shall not be applicable to procurement procedures under the Loan.

6. Advertising

- (a) Invitations to bid shall be advertised in at least one (1) widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids and allowing potential bidders to purchase bidding documents up to twenty-four (24) hours prior the deadline for the submission of bids.
- (b) Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee.
- (c) Bidders domiciled outside the area/district/province of the unit responsible for procurement shall be allowed to participate regardless of the estimated value of the contract.
- (d) Foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign firm declared the lowest evaluated bidder shall be given a reasonable opportunity for registering.

7. Bid Security

Bid security, at the bidder's option, shall be in the form of a letter of credit or bank guarantee from a reputable bank.

8. Bid Opening and Bid Evaluation

- (a) Bids shall be opened in public, immediately after the deadline for submission of bids, and if bids are invited in two (2) envelopes, both envelopes (technical and price) shall be opened at the same time.
- (b) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated bidder.
- (c) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.

- (d) No bidder shall be rejected merely on the basis of a comparison with the owner's estimate and budget ceiling without the Bank's prior concurrence.

9. Rejection of Bids

- (a) All bids shall not be rejected and new bids solicited without the Bank's prior concurrence.
- (b) When the number of responsive bids is less than three (3), re-bidding shall not be carried out without the Bank's prior concurrence.

SCHEDULE 3**Amortization Schedule**

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 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 the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
November 01, 2018	2.17
May 01, 2019	2.22
November 01, 2019	2.28
May 01, 2020	2.34
November 01, 2020	2.40
May 01, 2021	2.46
November 01, 2021	2.52
May 01, 2022	2.58
November 01, 2022	2.64
May 01, 2023	2.71
November 01, 2023	2.78
May 01, 2024	2.85
November 01, 2024	2.92
May 01, 2025	2.99
November 01, 2025	3.07
May 01, 2026	3.14
November 01, 2026	3.22
May 01, 2027	3.30
November 01, 2027	3.38
May 01, 2028	3.47
November 01, 2028	3.56
May 01, 2029	3.65
November 01, 2029	3.74
May 01, 2030	3.83
November 01, 2030	3.93
May 01, 2031	4.02

November 01, 2031	4.12
May 01, 2032	4.23
November 01, 2032	4.33
May 01, 2033	4.44
November 01, 2033	4.71

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn 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 the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two (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.
- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is

repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is 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.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Action Plan” means a stand-alone chapter of the Project Management Manual giving details of a program of actions, measures and policies designed to reduce or eliminate fraud and corruption in all its forms under the Project, including enhanced information disclosure provisions, civil society oversight provisions, mitigation measures to deal with the risks associated with collusion, forgery and fraud, a complaint handling mechanism, and an appropriate regime of sanctions and remedies in each case giving effect to the Anti-Corruption Guidelines.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Bank Indonesia” means the central bank of the Borrower.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Construction Supervision Consultant” means each consultant procured and financed using the Borrower’s own resources and not out of the proceeds of the Loan, providing construction supervision services to each Participating PDAM as set out in paragraph 1(d) of Section I.A of Schedule 2 to this Agreement and in accordance with the terms of reference agreed between the Borrower and the Bank dated May 28, 2009.
6. “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means, collectively, all such Displaced Persons.
7. “Environmental Management Plans” means each of the plans for Kota Bogor (dated and adopted by the Borrower on January 15, 2007), and Kabupaten Kapuas (dated and adopted by the Borrower on April 19, 2007), setting forth the measures to be taken during the implementation of Parts 1 and 2 of the Project to eliminate or offset adverse environmental impacts of such implementation or to reduce such impacts to acceptable levels, and setting forth the actions needed to

implement such measures, as such plan may be amended from time to time in agreement with the Bank.

8. “Fiscal Year” means the fiscal year of the Borrower, ending December 31 in each year.
9. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008).
10. “LARAP” mean each of the land acquisition and resettlement action plans for the compensation, rehabilitation and resettlement assistance to Displaced Persons developed in accordance with the provisions of paragraph 1 of Section I(B) of Schedule 2 to this Agreement, for Kabupaten Muara Enim, and for Kabupaten Kapuas, each dated July 17, 2007; and “LARAPs” refers to more than one LARAP.
11. “MoE” means the Borrower’s Ministry of Environment or any successor thereto.
12. “MoF” means the Borrower’s Ministry of Finance or any successor thereto.
13. “MoH” means the Borrower’s Ministry of Health or any successor thereto.
14. “MoHA” means the Borrower’s Ministry of Home Affairs or any successor thereto.
15. “MoPW” means the Borrower’s Ministry of Public Works or any successor thereto.
16. “Part” means each Part of the Project as described in Schedule 1 to the Loan Agreement.
17. “Participating PDAM” means each of PDAM Kota Bogor, PDAM Kabupaten Kapuas and PDAM Kabupaten Muara Enim, in each case upon the satisfaction by such PDAM of the requirement that it enter into a PDAM Performance Agreement in accordance with paragraph 4(c) of Section I(A) of Schedule 2 to this Agreement; and “Participating PDAMs” means more than one Participating PDAM.
18. “Participating PEMDA” means each of PEMDA Kota Bogor, PEMDA Kabupaten Kapuas and PEMDA Kabupaten Muara Enim, in each case upon the satisfaction by such PEMDA of the requirement that it enter into a PEMDA Subsidiary Loan Agreement and a PDAM Performance Agreement in accordance with paragraphs 4(b) and 4(c) of Section I(A) of Schedule 2 to this Agreement; and “Participating PEMDAs” more than one Participating PEMDAs.

19. “PCU” means the Project Coordinating Unit described in paragraph 1 of Section I(A) of Schedule 2 to this Agreement responsible for the coordination and monitoring of Project activities.
20. “PCU Management Consultants” means the firm of consultants, procured and financed using the Borrower’s own resources and not out of the proceeds of the Loan, providing project management services to the PCU as set out in paragraph 1(c) of Section I(A) of Schedule 2 to this Agreement and in accordance with the terms of reference agreed between the Borrower and the Bank dated May 28, 2009.
21. “PDAM” means a *perusahaan daerah air minum*, a semi-autonomous local water supply enterprise established and operating in a municipality of the Borrower under the jurisdiction of the relevant local government (PEMDA) pursuant to the provisions of the PDAM Regulations.
22. “PDAM Kota Bogor” means the PDAM operating in the territory of PEMDA Kota Bogor.
23. “PDAM Kabupaten Kapuas” means the PDAM operating in the territory of PEMDA Kabupaten Kapuas.
24. “PDAM Muara Enim” means the PDAM operating in the territory of PEMDA Kabupaten Muara Enim.
25. “PDAM Performance Agreement” means each agreement between a Participating PEMDA and the Participating PDAM operating in the territory of such PEMDA, pursuant to which such Participating PEMDA shall make available, on terms and conditions acceptable to the Bank and the Borrower, in accordance with paragraph 4(c) of Section I(A) of Schedule 2 to this Agreement, the proceeds of the relevant PEMDA Subsidiary Loan Agreement to such Participating PDAM to finance activities under Part 1 of the Project for the Participating PDAM
26. “PDAM Regulations” means the Borrower’s Law No.5 of 1962, Law No.5 of 1974, Decree No.26 of 1975 of MOHA, and Joint Decree of MOHA No.3 of 1984 and KIMPRASWIL No.26/KPTS of 1984.
27. “PEMDA” means a *pemerintah daerah*, a local government of the Republic of Indonesia.
28. “PEMDA Kabupaten Kapuas” means the PEMDA in Kabupaten Kapuas.
29. “PEMDA Kota Bogor” means the PEMDA in Kota Bogor.

30. “PEMDA Kabupaten Muara Enim” means the PEMDA in Kabupaten Muara Enim.
31. “PEMDA Subsidiary Loan Agreement” means each agreement between the Borrower and a Participating PEMDA pursuant to which the Borrower shall make available a loan, on terms and conditions acceptable to the Bank and the Borrower, in accordance with paragraph 4(b) of Section I(A) of Schedule 2 to this Agreement, out of the proceeds of the Loan allocated to such Participating PEMDA in the table in paragraph 2 of Section IV of Schedule 2 to this Agreement to finance, pursuant to a PDAM Performance Agreement, activities under Part 1 of the Project for the Participating PDAM in the jurisdiction of such Participating PEMDA.
32. “PIU” means the Project Implementation Unit described in paragraph 2 of Section I(A) of Schedule 2 to this Agreement within each Participating PDAM, responsible for carrying out those Project implementation activities assigned to such Participating PDAM in accordance with the terms of this Agreement; and “PIUs” means collectively two or more of such PIUs.
33. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
34. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated May 28, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines, as the same shall be updated from time to time in accordance with the provisions of such paragraphs.
35. “Project Areas” means list Participating PDAM.
36. “Project Management Manual” means the manual setting out the implementation and management arrangements for the Project, acceptable to the Bank and the Borrower, as described in paragraph 3 of Section I(A) of Schedule 2 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Paragraph (l) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

... (l) *Ineligibility*. The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to

receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

2. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”