

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4026 IND

Development Credit Agreement

(Government Financial Management and Revenue Administration Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 22, 2004

CREDIT NUMBER 4026 IND

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 22, 2004, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated September 24, 2004, describing a program being undertaken by the Borrower designed to implement policy and process reforms to strengthen efficiency, governance and accountability in public financial management and the revenue administration (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) the Borrower has requested that the Association support the Borrower's execution of the Program through a series of loans and credits over a period of approximately 12 years to be utilized by the Borrower in the implementation of the Program; and

(C) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to the Loan Agreement between the Borrower and the International Bank for Reconstruction and Development (the Bank) of even date herewith (the Loan Agreement) (the Project), has requested the Association to assist in the financing of the Project, which Project forms an integral part of the Program;

(D) the Borrower has also requested the Bank to provide additional financial assistance towards the financing of the Project and by the Loan Agreement, the Bank is agreeing to provide such assistance in a principal amount equivalent to fifty five million Dollars (\$55,000,000) (the Loan);

(E) the Borrower and the Bank intend, to the extent practicable, that the proceeds of the credit provided for in the Development Credit Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in the Loan Agreement are made;

(F) the Borrower has also requested that additional financial assistance towards the financing of the Project be provided out of grant trust funds provided by Japan and administered by the Bank, and by the Japan Grant Agreement of even date herewith between the Republic of Indonesia and the Bank acting as administrator of said

trust funds, the Bank is agreeing to provide such assistance in a principal amount equivalent to five million Dollars (\$5,000,000); and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

(b) Paragraph (c) of Section 9.06 of the General Conditions is amended to read as follows:

“(c) Not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the term “Loan Agreement” means the agreement of even date herewith between the Borrower and the Bank for the Project, as such agreement may be amended from time to time, and such term also includes all schedules and agreements supplemental to the Loan Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to three million four hundred and ten thousand) Special Drawing Rights (SDR 3,410,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to the Loan Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to the Loan Agreement and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be June 30, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15, commencing January 15, 2015, and ending July 15, 2039. Each installment to and including the installment payable on July 15, 2024, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further

modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. Subject to Section 3.02 of this Agreement, Sections 2.02 (a), 3.01, 3.02, 3.03 and Articles IV and V of the Loan Agreement and Schedules 1, 2, 4, 5 and 6 thereto are incorporated in this Agreement, with the following modifications in said Sections and Schedules 2, 4, 5 and 6, unless the context requires otherwise:

- (a) the term “Bank” shall read as “Association”;
- (b) the term “Loan” and “Loan Account” shall read as “Credit” and “Credit Account”; and
- (c) the term “this Agreement” shall read as the “Development Credit Agreement”.

Section 3.02. So long as any part of the Loan provided for under the Loan Agreement shall remain outstanding and unless the Borrower has been notified otherwise by the Association:

- (a) all actions taken, including approvals given, by the Bank pursuant to any of the Sections of, and Schedules to, the Loan Agreement enumerated in Section 3.01 of this Agreement, as well as pursuant to Section 2.02 (a) of the Loan Agreement, shall be deemed to be taken or given in the name and on behalf of both the Association and the Bank; and
- (b) all information or documentation furnished by the Borrower to the Bank pursuant to the provisions of any of such Sections of the Loan Agreement or Schedules thereto shall be deemed to be furnished to both the Association and the Bank.

ARTICLE IV

Effective Date; Termination

Section 4.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that each of the Loan Agreement and the Japan Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled.

Section 4.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE V

Representative of the Borrower; Addresses

Section 5.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
c/o Directorate General of Treasury
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

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
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INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Jakarta, Republic of Indonesia, as of the day and year first above written.

REPUBLIC OF INDONESIA

By: /s/ Mulia Nasution

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Andrew Steer

Authorized Representative