

CONFORMED COPY

LOAN NUMBER 7664-ID

Loan Agreement

**(Additional Financing for the National Program
for Community Empowerment in Urban Areas Project)**

between

REPUBLIC OF INDONESIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 1, 2009

LOAN AGREEMENT

Agreement dated May 1, 2009, between REPUBLIC OF INDONESIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

This Agreement: (i) sets out the terms and conditions related to the Additional Financing for the National Program for Community Empowerment in Urban Areas Project to provide additional financing to existing Participating Kelurahan and to extend the Project to include additional Kelurahan; and (ii) incorporates by reference the relevant provisions of the Financing Agreement between the Borrower and the International Development Association, dated June 6, 2008, for the Project (Credit No. 4384) (as amended through the date of this Agreement) (herein referred to as the “Original Financing Agreement”) and the Loan Agreement, dated June 6, 2008, between the Borrower and the Bank for the Project (Loan No. 7504-ID) (as amended through the date of this Agreement) (herein referred to as the “Original Loan Agreement”).

The Borrower and the Bank hereby agree as follows:

ARTICLE I — IBRD GENERAL CONDITIONS; DEFINITIONS

- 1.01. The International Bank for Reconstruction and Development General Conditions for Loans, dated July 1, 2005 (as amended through February 12, 2008) (“IBRD General Conditions”) 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 IBRD 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 one hundred fifteen million United States Dollars (US\$115,000,000), 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 Fixed 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 IBRD 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 IBRD General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 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 withdrawn and outstanding 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 IBRD General Conditions, and shall be effected in accordance with the provisions of Article IV of the IBRD 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 carry out the Project, through the Ministry of Public Works, in accordance with the provisions of Article V of the IBRD General Conditions.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement and subject to Section 3.03 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, Sections 3.01 and 3.02 of the Original Financing Agreement, Schedules 1 and 2 (other than Section IV of Schedule 2) and the Annexes and the Appendix thereto (except Annex 2 thereto), are incorporated in and constitute an integral part of this Agreement with the following modifications to such Sections, Schedules and Annexes, and Appendix, unless the context otherwise requires:
- (a) references to the “Financing Agreement” shall be construed as references to “Loan Agreement”;
 - (b) references to the “Association” shall be construed as references to the “Bank”;
 - (c) references to “Credit” or “Financing” shall be construed as references to the “Loan”;
 - (d) references to the “Recipient” shall be construed as references to the “Borrower”;
 - (e) references to provisions of the IDA General Conditions shall be construed as references to the corresponding provisions of the IBRD General Conditions;
 - (f) Schedule 2 to the Original Financing Agreement is modified for the purposes of the Loan as set out in Schedule 2 to this Agreement; and
 - (g) the Appendix to the Original Financing Agreement is modified for the purposes of the Loan as set out in the Appendix to this Agreement.
- 3.03. So long as any part of the Credit provided for under the Original Financing Agreement shall remain outstanding, and unless the Borrower has been notified otherwise by the Bank:
- (a) all actions taken, including approvals given by the Association, pursuant to any of the Sections of, and Schedules to, the Original Financing Agreement enumerated in Section 3.02 of this Agreement shall be deemed to have been 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 Recipient to the Association pursuant to the provisions of any of such Sections of the

Original Financing Agreement or Schedules thereto shall be deemed to have been furnished to both the Association and Bank.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following: (a) Amendment No. 1 to the Original Financing Agreement and Amendment No. 1 to the Original Loan Agreement, in form and substance satisfactory to the Bank and the Borrower, shall have been become effective; and (b) revisions to the Project Manual, acceptable to the Borrower and the Bank, to reflect the Additional Financing shall have been adopted by the Borrower.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower's Representative is the Minister of Finance of the Borrower.
- 5.02. The Borrower's Address is:

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

Cable address:	Telex:	Facsimile:
FINMINISTRY45799 Jakarta	DJMLN-IA 44319 DEPKEU-IA	(21) 381 2859

- 5.03. 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 Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

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/ William Wallace

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient to ensure that the urban poor in Participating Kelurahan benefit from improved socio-economic and local governance conditions.

The Project consists of the Project described in Schedule 1 to the Original Financing Agreement, which will be extended to include approximately 1,575 additional Participating Kelurahan and will provide additional financing to approximately 4,593 existing Participating Kelurahan.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

The implementation arrangements described in Section I of Schedule 2 to the Original Financing Agreement constitute an integral part of this Agreement and are incorporated by reference herein.

Section II. Project Monitoring, Reporting and Evaluation

The Project monitoring, reporting and evaluation arrangements described in, Section II of Schedule 2 to the Original Financing Agreement constitute an integral part of this Agreement and are incorporated by reference herein, except for Annex 2 (Performance Indicators) to Schedule 2 to the Original Financing Agreement, which is replaced by Section V of this Schedule 2.

Section III. Procurement

The procurement arrangements contained in Section I of Schedule 2 to the Original Financing Agreement, as amended by Amendment No. 1 to the Original Financing Agreement, constitute an integral part of this Agreement and are incorporated by reference herein.

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 IBRD 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) Kelurahan Grants and Kelurahan Sub-loans	81,826,500	100% of Kelurahan Grant or Kelurahan Sub-loan disbursed
(2) Goods and Consultants' services under Parts 1 and 3 of the Project	33,173,500	100%
TOTAL AMOUNT	<u>115,000,000</u>	

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 payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed US\$11,500,000 equivalent may be made for payments made prior to this date but on or after February 1, 2009, for Eligible Expenditures; or
 - (c) under Category (1) until the cumulative amount of least US\$70,000,000 of the advance of the proceeds of the Original Credit and the Original Loan in the "Designated Account" has been utilized and documented in a manner satisfactory to the Bank. For the purposes of this sub-paragraph (c), the term "Designated Account" means the account referred to in the letter, from the Bank to the Borrower, dated June 6, 2008, setting out additional instructions on disbursement for the Original Financing Agreement and the Original Loan Agreement.
2. The Closing Date is December 31, 2011.

Section V. Performance Indicators

Performance Indicators	2009	2010	2011
(i) Outcome Indicators			
(A) Improved household expenditure rates or improved access to economic and social services in 80% of Participating Kelurahan	-	-	4,900
(B) Infrastructure built is at least 20% cheaper than that built by non- community based approaches in 80% of Participating Kelurahan, and	-	-	4,900
(C) at least 80% satisfaction level of beneficiaries regarding improved services and local level governance.	-	-	80%
(ii) Results Indicators for Part 1 of the Project			
(A) Minimum 40% participation rate of poorest and vulnerable community members in planning and decision making meetings	<input type="checkbox"/> 40%	<input type="checkbox"/> 40%	<input type="checkbox"/> 40%
(B) Minimum 40% participation rate of women in planning and decision making meetings	<input type="checkbox"/> 40%	<input type="checkbox"/> 40%	<input type="checkbox"/> 40%
(C) Minimum 30% of the adult population voting in BKM elections at the neighborhood level	<input type="checkbox"/> 30%	<input type="checkbox"/> 30%	<input type="checkbox"/> 30%
(D) BKMs formed in minimum of 90% of Kelurahan	<input type="checkbox"/> 90%	<input type="checkbox"/> 90%	<input type="checkbox"/> 90%
(E) Minimum 90% of Participating Kelurahan with Community Development Plans (CDPs) completed and ratified	-	<input type="checkbox"/> 90%	<input type="checkbox"/> 90%
(F) Minimum 80% local governments provide cost-sharing: 20% cost sharing for local governments with Low Fiscal Capacity, and 50% cost-sharing for local governments with High Fiscal Capacity	<input type="checkbox"/> 50%	<input type="checkbox"/> 80%	<input type="checkbox"/> 80%
(iii) Results Indicators for Part 2 of the Project			
(A) Number of each type of infrastructure, economic, and social activities completed in 80% of Kelurahan	-	4,900 kel	4,900 kel
(B) Minimum 70% of infrastructure works evaluated as of good quality	-	<input type="checkbox"/> 70%	<input type="checkbox"/> 70%
(C) Minimum 70% of Kelurahan with revolving loan funds (RLFs) having a loans at risk (LAR) ratio <input type="checkbox"/> 3 months of < 10%	-	<input type="checkbox"/> 70%	<input type="checkbox"/> 70%
(D) Minimum 90% of Kelurahan with RLFs have a cost coverage ratio of > 125%	-	<input type="checkbox"/> 90%	<input type="checkbox"/> 90%
(E) Minimum 90% of Kelurahan with RLFs have annualized return on investment of > 10%	-	<input type="checkbox"/> 90%	<input type="checkbox"/> 90%
(F) Minimum 30% participation rate of women as	-	<input type="checkbox"/> 30%	<input type="checkbox"/> 30%

Performance Indicators	2009	2010	2011
members of community groups			
(iv) Results Indicators for Part 3 of the Project			
(A) 90% Oversight Consultants providing timely and accurate data through MIS	-	<input type="checkbox"/> 90%	<input type="checkbox"/> 90%
(B) Minimum 70% of BKMs with completed annual financial audits	-	<input type="checkbox"/> 70%	<input type="checkbox"/> 70%

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)
April 15, 2018	2.17
October 15, 2018	2.22
April 15, 2019	2.28
October 15, 2019	2.34
April 15, 2020	2.40
October 15, 2020	2.46
April 15, 2021	2.52
October 15, 2021	2.58
April 15, 2022	2.64
October 15, 2022	2.71
April 15, 2023	2.78
October 15, 2023	2.85
April 15, 2024	2.92
October 15, 2024	2.99
April 15, 2025	3.07
October 15, 2025	3.14
April 15, 2026	3.22
October 15, 2026	3.30
April 15, 2027	3.38
October 15, 2027	3.47
April 15, 2028	3.56
October 15, 2028	3.65
April 15, 2029	3.74
October 15, 2029	3.83
April 15, 2030	3.93

October 15, 2030	4.02
April 15, 2031	4.12
October 15, 2031	4.23
April 15, 2032	4.33
October 15, 2032	4.44
April 15, 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. Application of Appendix to the Original Financing Agreement. The Appendix to the Original Financing Agreement constitutes an integral part of this Agreement and is incorporated by reference herein, with the modifications set out in Section II to this Appendix.

Section II. Definitions Applicable to this Agreement

1. “Amendment No. 1 to the Original Financing Agreement”, means the amendment of even date herewith, between the Borrower and the International Development Association amending the Original Financing Agreement.
2. “Amendment No. 1 to the Original Loan Agreement”, means the amendment of even date herewith, between the Borrower and the Bank amending the Original Loan Agreement.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Loan” means the loan provided for in this Agreement
5. “Loan Agreement” means this Agreement.
6. “Original Credit” means the credit in the amount of seventy eight million six hundred thousand Special Drawing Rights (SDR78,600,000) made available to the Borrower pursuant to the Original Financing Agreement.
7. “Original Financing Agreement” means the agreement (Credit No. 4384), dated June 6, 2008, between the Recipient and the International Development Association for the Project, as such agreement has been and may be amended from time to time.
8. “Original Loan” means the loan in the amount of fifty two million six hundred eighty thousand Dollars (\$52,680,000) made available to the Borrower pursuant to the Original Loan Agreement.
9. “Original Loan Agreement” means the agreement (Loan No. 7504), dated June 6, 2008, between the Borrower and the International Bank for Reconstruction and Development for the Project, as such agreement has been and may be amended from time to time.

Section III. Modifications to the IBRD General Conditions

The modifications to the IBRD 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:

- (a) 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.”