

CONFORMED COPY

CREDIT NUMBER 3658-1-IND

Financing Agreement

(Additional Financing for the Second Urban Poverty Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 7, 2007



FINANCING AGREEMENT

Agreement dated June 7, 2007 entered into between REPUBLIC OF INDONESIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Additional Financing Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (“IDA General Conditions”) constitute an integral part of this Agreement (“Additional Financing Agreement”).
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the IDA General Conditions, in the Appendix to this Additional Financing Agreement or in Section 1.02 of the Original Development Credit Agreement, as amended by the Amendment Agreement.

ARTICLE II – FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to eighty nine million five hundred fifty thousand Special Drawing Rights (SDR 89,550,000) (“Additional Credit”) to assist in financing the project described in Schedule 1 to this Additional Financing Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Additional Credit in accordance with Section IV of Schedule 2 to this Additional Financing Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 1 and October 1 in each year.
- 2.06. The principal amount of the Additional Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Additional Financing Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III – PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the IDA General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Additional Financing Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Additional Financing Agreement.

ARTICLE IV – EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) that the Revised Project Manual, acceptable to the Association, has been duly updated and revised to reflect the impact of the Additional Credit and adopted by the Recipient; and
 - (b) that Project Management Unit shall have entered into one or more memoranda of understanding on terms and conditions acceptable to the Association with one or more commercial banks acceptable to the Association for banking services arrangements to make available the proceeds of the Financing to be used for Kelurahan Grants and Sub-loans through the BKMs and for Oversight Consultants' salaries.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 4.03. For purposes of Section 8.05(b) of the IDA General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Recipient's Minister of Finance.
- 5.02. The Recipient'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:
FINMINISTRY 45799 Jakarta	DJMLN-IA 44319 DEPKEU-IA	(21) 381 2859

5.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (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 DEVELOPMENT ASSOCIATION

By: /s/ Joel Hellman
Authorized Representative

SCHEDULE 1**Project Description**

The objective of the Project is to assist the Recipient to: (i) establish or support representative, responsive and accountable community organizations that are able to provide services to the urban poor and increase the voice of the poor in local decision making; (ii) make local government more responsive to the needs of the poor through increased cooperation with community organizations; and (iii) improve services for the urban poor (financial services, social services and infrastructure).

The Project consists of Part A, Part B and Part D of the Original Project.

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

1. Schedule 4 to the Original Development Credit Agreement, as amended by the Amendment Agreement is incorporated by reference in this Additional Financing Agreement, and the provisions thereof shall apply *mutatis mutandis* to this Additional Financing Agreement, subject, however, to the following modifications, unless the context otherwise requires:
 - (a) references to the “Borrower” shall be construed as references to the Recipient; and
 - (b) references to the “Project” shall be construed as references to the Project as further defined in this Additional Financing Agreement.
2.
 - (a) Subject to sub-paragraph (b) of this paragraph, the Recipient undertakes to comply with the provisions referred to in paragraph 1 of this Section as if those provisions had been set out and reproduced in full in this Additional Financing Agreement.
 - (b) So long as any part of the Credit provided for under the Original Development Credit Agreement shall remain outstanding and unless the Recipient has been notified otherwise by the Association:
 - (i) all actions taken, including approvals given by the Association, pursuant to any of the provisions referred to in paragraph 1 of this Section, shall be deemed to have been taken or given pursuant to this Additional Financing Agreement; and
 - (ii) all information or documentation furnished by the Recipient to the Association pursuant to any of the provisions referred to in paragraph 1 of this Section shall be deemed to have been furnished pursuant to this Additional Financing Agreement.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports.**

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the IDA

General Conditions and on the basis of the indicators set forth in Schedule 5 to the Original Development Credit Agreement, as amended by the Amendment Agreement. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Association not later than one (1) month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits.

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the IDA General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the IDA General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

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 Financing 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. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

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.

<u>Procurement Method</u>
(a) Shopping
(b) Community Participation using procedures acceptable to the Association as set out in the Revised Project Manual

C. Particular Methods of Procurement of Consultants' Services.

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Selection based on Consultants' Qualifications
(b) Single Source Selection
(c) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions.

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

Section IV. Withdrawal of the Proceeds of the Financing

A. General.

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the IDA General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association 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 Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<u>Category</u>	<u>Amount of the Additional Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1)(a) Kelurahan Grants and Sub-loans	56,610,000	100% of Grant or Sub-loan amount disbursed
(1)(b) Special Kelurahan reconstruction Grants	0	100% of Grant or Sub-loan amount disbursed
(2) Poverty Alleviation Partnership Grants	0	100% of Grant amount disbursed
(3) Consultants’ services under Parts A and D of the Project	32,940,000	100%
(4) Fee	0	
(5) Unallocated	0	
TOTAL	<u>89,550,000</u>	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2008.

SCHEDULE 3**Repayment Schedule**

<u>Date Payment Due</u>	Principal Amount of the Credit repayable <u>(expressed as a percentage)*</u>
On each April 1 and October 1:	
commencing October 1, 2017 to and including April 1, 2027	1.25%
commencing October 1, 2027 to and including April 1, 2042	2.5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the IDA General Conditions.

APPENDIX**Definitions**

1. “Additional Credit” means the Credit provided for in this Additional Financing Agreement for the Project.
2. “Amendment Agreement” means the agreement amending the Original Development Credit Agreement and the Original Loan Agreement dated the date hereof.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
5. “IDA General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
6. “Original Development Credit Agreement” means the development credit agreement for the Second Urban Poverty Project between the Recipient and the Association, dated August 20, 2002 as amended to the date of this Agreement (Credit No.3658-IND).
7. “Original Loan Agreement” means the loan agreement for the Second Urban Poverty Project between the Recipient and the Bank, dated August 20, 2002 as amended to the date of this Agreement (Loan No.4664-IND).
8. “Original Project” means the Project described in Schedule 2 to the Original Development Credit Agreement.
9. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 13, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.