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CONFORMED COPY

LOAN NUMBER 7495-IND

Loan Agreement

(Fourth Development Policy Loan)

between

REPUBLIC OF INDONESIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 12, 2007

LOAN NUMBER 7495-IND

LOAN AGREEMENT

Agreement dated December 12, 2007 entered into between REPUBLIC OF INDONESIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore 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 the Loan Agreement have the meanings ascribed to them in the General Conditions or in 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 six hundred million Dollars (\$600,000,000), 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”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 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.
- 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 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment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 April 1 and October 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 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; and (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.

(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.
- 2.08. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III – PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end:
 - (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program, and the actions specified in Section I of Schedule 1 to this Agreement;
 - (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and

- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV – REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V – EFFECTIVENESS

- 5.01. The Effectiveness Deadline is the date sixty (60) 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 Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Jakarta, 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**Program Actions; Availability of Loan Proceeds****Section I. Actions Taken Under the Program**

The actions taken by the Borrower under the Program include the following:

1. The Borrower has taken steps to improve the implementation of its Value-Added Tax (“VAT”) provisions through settlement of the bulk of the backlog of outstanding VAT claims and reduction in the processing time for VAT refunds in accordance with the Decree No. 122/PJ/2006 issued by the Director-General of Tax, prescribing maximum time limits for the processing of the refunds.
2. The Borrower has through MOF enacted a law which provides for tax audit procedures enabling taxpayers to seek and obtain details of audit findings along with the legal basis for audit decisions, as well as a review of the findings in the case of disputes after the closing conference but before completion of the audits.
3. The Borrower has taken appropriate steps to roll out a National Single Window, including a mechanism for on-line clearance of merchandise.
4. The Borrower has enhanced its procedure for tariff setting through the introduction of the requisite methodology, improved research capability and appropriate information technology.
5. The Borrower has taken steps to implement its recently-enacted Investment Law and supporting regulations, including provision for new operating procedures along with the necessary legal and institutional framework to facilitate implementation of both the law and associated regulations.
6. The Borrower has taken steps to reduce the time required for the establishment of a business enterprise and facilitate start-up time through the removal of unnecessary or redundant registration procedures, simplification of required formalities and elimination of multiple requirements.
7. The Borrower has issued a policy reform package for the empowerment of MSMEs, with emphasis on the need to facilitate the access of MSMEs to financial services, and taken steps to implement its recently-enacted Warehouse Receipts Law.
8. The Borrower has taken steps to implement appropriate good corporate governance and risk management standards in relation to both private and state-owned banks, and continued the implementation of the financial sector safety net.

9. The Borrower has taken steps to implement a Medium-Term Expenditure Framework for the 2008 budget through submission of a budget which includes aggregate revenue and expenditure forward estimates based on macro-economic forecasts.
10. The Borrower has taken steps to consolidate core government bank accounts through continued implementation of a single treasure account regime, expansion of zero-balance banking arrangements to cover all KPPNs and adoption of a government regulation on principles of cash management and transparent accountability, giving the Minister of Finance power to close unauthorized bank accounts.
11. The Borrower has taken steps to implement transparent accountability arrangements in the management of central government investment funds (“RDI”) and regional development accounts (“RDA”), including adoption and implementation of regulations on the principles governing the improved management and transparent accountability of RDIs, along with the corresponding decrees prescribing the operating procedures governing RDIs.
12. The Borrower has taken steps to have a new Presidential Decree issued for the establishment of a fully independent LPKPP.
13. The Borrower has taken necessary steps to establish a Remuneration Commission or interdepartmental team to make recommendations on remuneration policy and pay levels for high-ranking state officials, and developed a comprehensive reform of the structure and remuneration framework for such officials to be adopted and considered for inclusion in the FY 2008 budget.
14. The Borrower has taken steps to develop and implement a comprehensive civil service reform plan for MOF to be used as a pilot for civil service reforms by other reform-minded ministries and agencies.
15. The Borrower has developed an enhanced assessment framework for the monitoring and evaluation of CDD and micro-finance programs, and other selected service delivery programs.
16. The Borrower has established competency standards for teacher certification, along with the tools and instruments for measuring actual compliance with such standards.
17. The Borrower has taken steps to facilitate sub-national borrowing by sub-national governments through the completion of the regulatory framework for the issuance of sub-national bonds.

18. The Borrower has taken steps to remove critical constraints on national budget-funded CDD programs, through a) introduction of a mechanism to facilitate community funding of multiyear programs, and b) clarification of the rules governing the applicability of government procurement procedures to such programs.

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. **Allocation of Loan Amounts.** The Loan shall (except for amounts required to pay the Front-end Fee) be withdrawn in a single tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

<u>Allocations</u>	<u>Amount of the Loan Allocated (expressed in Dollars)</u>
Single Tranche	598,500,000
Front-end Fee	1,500,000
TOTAL AMOUNT	<u>600,000,000</u>

- C. **Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
 2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.
- D. **Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
- E. **Closing Date.** The Closing Date is March 31, 2008.

SCHEDULE 2

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.

<u>Principal Repayment Date</u>	<u>Installment Share (Expressed as a Percentage)</u>
April 1, 2013	1.93
October 1, 2013	2.00
April 1, 2014	2.07
October 1, 2014	2.14
April 1, 2015	2.21
October 1, 2015	2.29
April 1, 2016	2.37
October 1, 2016	2.46
April 1, 2017	2.54
October 1, 2017	2.63
April 1, 2018	2.72
October 1, 2018	2.82
April 1, 2019	2.92
October 1, 2019	3.02
April 1, 2020	3.12
October 1, 2020	3.23
April 1, 2021	3.35
October 1, 2021	3.46
April 1, 2022	3.58
October 1, 2022	3.71

April 1, 2023	3.84
October 1, 2023	3.97
April 1, 2024	4.11
October 1, 2024	4.26
April 1, 2025	4.41
October 1, 2025	4.56
April 1, 2026	4.72
October 1, 2026	4.89
April 1, 2027	5.06
October 1, 2027	5.61

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. “CDD” means community-driven development.
2. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
3. “Fiscal Year” or “FY” mean the Borrower’s fiscal year commencing January 1 and ending December 31.
 4. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007) with the modifications set forth in Section II of this Appendix.
 5. “KPPN” means *Kantor Pelayanan Perbendaharaan Negara*, a local payment office operating under DG-Treasury, and responsible for the disbursement of central budget funds.
 6. “LPKPP” means *Lembaga Pengembangan Kebijakan Pengadaan Pemerintah*, a Goods and Services Procurement Policy Development Institution.
 7. “MOF” means the Borrower’s Ministry of Finance or any successor thereto.
 8. “MSME” means micro, small and medium enterprises.
 9. “National Single Window” means a trade facilitation mechanism which enables exporters and importers to apply simultaneously and in a single transaction to multiple government agencies for approvals for the import or export of goods.
 10. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated October 31, 2007 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and

requesting assistance from the Bank in support of the Program during its execution.

11. “Rupiah” or “Rp” means the Borrower’s currency.
12. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to *Applications for Withdrawal*) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two (2) years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.07. Program Monitoring and Evaluation

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six (6) months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

7. 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 “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.