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**LOAN NUMBER 4810-IND**

# **Loan Agreement**

**(Domestic Gas Market Development Project)**

**between**

**REPUBLIC OF INDONESIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated February 7, 2006**

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**LOAN NUMBER 4810-IND**

**LOAN AGREEMENT**

AGREEMENT, dated February 7, 2006, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by PT Perusahaan Gas Negara (Persero) Tbk (PGN) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to PGN, as set forth in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Bank and PGN (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through May 1, 2004) with the following modification (the General Conditions) constitute an integral part of this Agreement: 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".

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 following additional terms have the following meanings:

(a) “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: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) 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.

(b) “Environmental Management Plan” means the Environment Management Plan dated November 19, 2003, adopted by PGN President Director Decree No.000702.SERT/22/UT/2005 of February 15, 2005, which sets out the environmental protection measures in respect of the Project, as well as administrative arrangements to ensure the implementation of said plan, as the same may be revised from time to time with the agreement of the Bank.

(c) “Environmental Monitoring Plan” means the Environmental Monitoring Plan dated November 19, 2003, in respect of the Project, adopted by PGN President Director Decree No.000703.SERT/22/UT/2005 of February 15, 2005, which sets out the monitoring arrangements to assist in ensuring implementation of the Environmental Action Plan, as the same may be revised from time to time with the agreement of the Bank.

(d) “Financial Management Manual” means the manual adopted by PGN by a PGN President Director Decree to assist in the implementation of the Project in accordance with the provisions of paragraph 3 of Schedule 2 to the Project Agreement, as such manual may be amended from time to time with the agreement of the Bank.

(e) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement.

(f) “Land Acquisition and Resettlement Policy Framework” means the Land Acquisition and Resettlement Policy Framework dated January 31, 2005, in respect of the Project, adopted by PGN President Director Decree No.000500.SERT/22/UT/2005 of February 7, 2005, describing procedural and institutional aspects pertaining to land acquisition and the resettlement, rehabilitation and compensation of Displaced Persons under the Project, as such Framework may be amended from time to time with the agreement of the Bank.

(g) “Procurement Plan” means the Borrower’s procurement plan, dated September 29, 2005, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the

provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation.

(h) “Project Agreement” means the agreement between the Bank and PGN of even date herewith, as the same may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement.

(i) “Project Implementation Plan” means the plan to be adopted by PGN in accordance with the provisions of paragraph 2 of Schedule 2 of the Project Agreement to assist in the implementation of the Project, as such plan may be amended from time to time with the agreement of the Bank.

(j) “Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and PGN pursuant to Section 3.01(b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement.

(k) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in paragraph 5 of Schedule 1 to this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to PGN.

## **ARTICLE II**

### **The Loan**

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to eighty million Dollars (\$80,000,000).

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

Section 2.03. The Closing Date shall be March 31, 2011, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six (6) month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent ( $3/4$  of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six (6) month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that

include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause PGN to perform in accordance with the provisions of the Project Agreement all the obligations of PGN therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PGN to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall re-lend the proceeds of the Loan to PGN under a subsidiary loan agreement to be entered into between the Borrower and PGN, under terms and conditions which shall have been approved by the Bank which shall include the following terms and conditions:

- (i) PGN shall pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a variable rate per annum equal to the sum of the following: the interest rate calculated in accordance with Section 2.06 of this Agreement, plus a fee of up to a maximum of one percent (1%) per annum;
- (ii) PGN shall pay to the Borrower a front-end fee on the principal amount of the Subsidiary Loan at the rate specified in Section 2.04 of this Agreement (subject to any waiver thereof granted by the Bank as provided in said Section);
- (iii) PGN shall pay to the Borrower a commitment charge on the principal amount of the Subsidiary Loan not withdrawn from time to time at the rate specified in Section 2.05 of this Agreement; and
- (iv) The principal amount of the Subsidiary Loan shall be repaid over twenty (20) years including five (5) years' grace.

(c) The Borrower shall exercise its rights under the 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, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall cause PGN; (i) to update the Procurement Plan in accordance with guidelines acceptable to the Bank; and (ii) to furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.04. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by PGN pursuant to Section 2.03 of the Project Agreement.



## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall cause PGN to maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

- (b) The Borrower shall cause PGN to:
- (i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
  - (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
  - (iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

Section 4.02. (a) Without limitation upon PGN's reporting obligations set out in paragraph 7 of Schedule 2 to the Project Agreement, the Borrower shall cause PGN to prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The Borrower shall cause PGN to furnish the first FMR to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and to cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, the Borrower shall cause PGN to furnish each FMR to the Bank not later than 45 days after each subsequent calendar quarter, and to cover such calendar quarter.

Section 4.03. The Borrower shall cause PGN to make publicly available, and agrees that the Bank may also make publicly available, each final audit report referred to in Section 4.01 of this Agreement, promptly after its issuance by the independent auditors referred to therein.

## **ARTICLE V**

### **Remedies of the Bank**

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

- (a) PGN shall have failed to perform any of its obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that PGN will be able to perform its obligations under the Project Agreement.
- (c) The PGN Governing Laws shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of PGN to perform any of its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional events are specified:

(a) The event specified in paragraph (a) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) The event specified in paragraph (c) of Section 6.01 of this Agreement shall occur.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions:

(a) that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and PGN in accordance with the provisions of Section 3.01(b) of this Agreement;

(b) that the Financial Management Manual has been adopted by PGN in accordance with the provisions of paragraph 3 of Schedule 2 of the Project Agreement; and

(c) that the Project Implementation Plan has been adopted by PGN in accordance with the provisions of paragraph 2 of Schedule 2 of the Project Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by PGN, and is legally binding upon PGN in accordance with its terms;

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and PGN and is legally binding upon the Borrower and PGN in accordance with its terms;

(c) that a Project Implementation Plan acceptable to the Bank has been adopted by PGN; and

(d) the Environmental Management Plan and the Land Acquisition and Resettlement Policy Framework have each been adopted by PGN and are each legally binding upon PGN in accordance with the laws of the Republic of Indonesia.

Section 6.03. 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 VII

### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. 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 Bank:

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)	(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 P. Nasution

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew D. Steer

Authorized Representative

**SCHEDULE 1****Withdrawal of the Proceeds of the Loan**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Works	3,000,000	75 %
(2) Goods	66,230,000	100 % of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75 % of local expenditures for other items procured locally
(3) Consultants' services and training	10,570,000	100%
(4) Front-end fee	<u>200,000</u>	Amount due under Section 2.04 of this Agreement
<b>TOTAL</b>	<b><u>80,000,000</u></b>	

2. For the purposes of this Schedule:

(a) the term "consultants' services" means consultants' services for project management and engineering services;

(b) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(c) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$8,000,000 may be made in respect of the Categories set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after February 1, 2005.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$200,000 equivalent per contract; (b) works costing less than \$1,500,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; and (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements).

## SCHEDULE 2

### Description of the Project

The objective of the Project is to improve economic efficiency and reduce pollution in Indonesia by expanding the use of natural gas in the Borrower's domestic market.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

#### Part A. Gas Distribution Infrastructure

Expanding the gas distribution infrastructure in the Borrower's provinces of Banten and West Java through (i) the construction and laying down of class 300 steel pipelines of 4 to 16 inches in diameter with a cumulative length of about 185 kilometers, including the provision of control valves and corrosion control facilities; (ii) the construction and laying down of class 150 steel pipelines of 4 to 16 inches in diameter with a cumulative length of about 71 kilometers, including the provision of control valves and corrosion control facilities; (iii) the installation of five off-take and two pressure regulation stations; (iv) the installation of about 210 customer metering and regulating stations; (v) the installation of a Systems Control and Data Acquisition (SCADA) system; and (vi) the provision of radio and telecommunications equipment, information technology (IT) support, and emergency response equipment.

#### Part B. Institutional Strengthening

Upgrading (i) PGN's officials and staff expertise in financial management, infrastructure planning, gas marketing, gas utilization, distribution system safety and integrity management, gas transmission and compression, and (ii) overall PGN officials and staff skills.

\* \* \*

The Project is expected to be completed by September 30, 2010.



**SCHEDULE 3****Amortization Schedule**

<b>Date Payment Due</b>	<b>Payment of Principal</b>
August 15, 2011	1,925,000
February 15, 2012	1,965,000
August 15, 2012	2,010,000
February 15, 2013	2,055,000
August 15, 2013	2,095,000
February 15, 2014	2,140,000
August 15, 2014	2,190,000
February 15, 2015	2,235,000
August 15, 2015	2,285,000
February 15, 2016	2,330,000
August 15, 2016	2,385,000
February 15, 2017	2,435,000
August 15, 2017	2,485,000
February 15, 2018	2,540,000
August 15, 2018	2,595,000
February 15, 2019	2,650,000
August 15, 2019	2,705,000
February 15, 2020	2,765,000
August 15, 2020	2,825,000
February 15, 2021	2,885,000
August 15, 2021	2,945,000
February 15, 2022	3,010,000
August 15, 2022	3,075,000
February 15, 2023	3,140,000
August 15, 2023	3,210,000
February 15, 2024	3,280,000
August 15, 2024	3,350,000
February 15, 2025	3,420,000
August 15, 2025	3,495,000
February 15, 2026	3,575,000