

CONFORMED COPY

LOAN NUMBER 4132 IND

Loan Agreement
(Solar Home Systems Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated March 11, 1997

LOAN NUMBER 4132 IND

LOAN AGREEMENT

AGREEMENT, dated March 11, 1997, 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, has requested the Bank to assist in the financing of the Project; and

(B) the Borrower has requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of the Project, the Bank has determined that such assistance would be in accordance with Resolution No. 94-2 of the Executive Directors dated May 24, 1994, establishing the GEF Trust Fund, and, by an agreement of even date herewith between the Borrower and the Bank, acting as an implementing agency of the GEF (the GEF Grant Agreement), GEF is agreeing to provide such assistance in an aggregate principal amount equivalent to sixteen million eight hundred thousand Special Drawing Rights (SDR 16,800,000) (the GEF Grant); 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;

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

(d) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BAPPENAS" means Borrower's National Development Planning Agency, and includes any successor or successors thereto.

(b) "BI" means Bank Indonesia, the central bank of the Borrower, established and operating under Law No. 13 of 1968 of the Borrower.

(c) "BI Subsidiary Loan Agreement" means the agreement entered into between the Borrower and BI pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the BI Subsidiary Loan Agreement, and the term "BI Subsidiary Loan" means the loan provided under the BI Subsidiary Loan Agreement.

(d) "BPPT" means Borrower's Agency for the Assessment and Application of Technology, and includes any successor or successors thereto.

(e) "Dealer" means an individual resident in Indonesia and cooperatives and private enterprises established and operating under the laws of the Borrower, which is engaged in the sale of Solar Home Systems or other products in rural areas of Indonesia and to which a Participating Bank proposes to make or has made a Subloan.

(f) "Dealer Obligations" means the standards for Dealer conduct referred to in paragraph B.2.c. of Schedule 4 to this Agreement.

(g) "DGEED" means the Directorate General of Electricity and Energy Development in the Borrower's Ministry of Mines and Energy.

(h) "Fiscal Year" means the twelve (12) month period corresponding to any of the Borrower's fiscal years, which period commences on April 1 and ends on March 31 in each calendar year.

(i) "ISO 25" means the General Requirements for the Competence of Calibration and Testing Laboratory Accreditation, standard number 25 of the International Standards Organization.

(j) "ISO 25 Action Plan" means the plan prepared by the Borrower in accordance with paragraph C.2.b. of Schedule 4 to this Agreement.

(k) "Participating Banks" means, collectively, the Private Commercial Banks and the State-owned Commercial Banks, and "Participating Bank" means any one of them.

(l) "Participating Bank Agreements" means, collectively, the Private Bank On-lending Agreements and the State Bank Subsidiary Loan Agreements, and "Participating Bank Agreement" means any one of them.

(m) "Private Bank On-lending Agreement" means any agreement entered into between BI and a privately-owned commercial bank pursuant to Section 3.02 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to such Private Bank On-lending Agreement.

(n) "Private Commercial Banks" means the commercial banks other than commercial banks owned by the Borrower which propose to make or have made a Subloan to a Dealer and which have entered into a Private Bank On-lending Agreement with BI, and "Private Commercial Bank" means any one of them.

(o) "Project Area" means the Borrower's provinces of Lampung, South Sulawesi and West Java (excluding the kecamatan of Surade, Agrabinta, Ciemas and Sagarantan) together with any kabupaten which is immediately contiguous to any of such provinces, and any other rural areas within the territory of the Borrower as may be agreed by the Borrower and the Bank.

(p) "PSG" means the Project Support Group established by the Borrower and maintained in accordance with paragraph A.1.a. of Schedule 4 to this Agreement.

(q) "PT PLN" means Perseroan Terbatas Perusahaan Perseroan (PERSERO) P.T. Perusahaan Listrik Negara, a limited liability company established and existing under the laws of the Borrower, and includes any successor or successors thereto.

(r) "RESC" means the Rural Electrification Steering Committee established by the Borrower and maintained in accordance with paragraph A.2 of Schedule 4 to this Agreement.

(s) "Remedial Date" means the date referred to in Section 3.02 (e) of this Agreement.

(t) "Sehat" means the classification of a Participating Bank as financially sound made by BI, from time to time, pursuant to Law No. 7 of 1992 of the Borrower.

(u) "Solar Home System" and the acronym "SHS" mean a system of one or more solar photovoltaic panels, battery storage and battery charge and discharge controllers, suitable for powering energy-efficient home appliances, and at least

three lighting fixtures with bulbs.

(v) "Solar Home System Action Plan" means the plan developed and adopted by the Borrower in accordance with paragraph C.1.c. of Schedule 4 to this Agreement.

(w) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

(x) "State Bank Subsidiary Loan Agreement" means any agreement entered into between the Borrower and a commercial bank owned by the Borrower pursuant to Section 3.02 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to such State Bank Subsidiary Loan Agreement.

(y) "State-owned Commercial Banks" means the commercial banks owned by the Borrower which propose to make or have made a Subloan to a Dealer and which have entered into a State Bank Subsidiary Loan Agreement with the Borrower, and "State-owned Commercial Bank" means any one of them.

(z) "Subgrant" means a portion of the proceeds of the GEF Grant provided through a Participating Bank to a Dealer pursuant to the terms of the GEF Grant Agreement.

(aa) "Subloan" means a loan made or proposed to be made by a Participating Bank to a Dealer to finance a Subproject, funded in part out of the equivalent of the proceeds of the Loan relent to such Participating Bank under the respective State Bank Subsidiary Loan Agreement or Private Bank On-lending Agreement, as the case may be, and "Subloan Agreement" means the agreement to be entered into between a Participating Bank and a Dealer setting forth the terms and conditions under which a Subloan is to be made.

(bb) "Subproject" means a specific investment project for the sale to customers and installation of Solar Home Systems in the Project Area, to be carried out by a Dealer utilizing the proceeds of a Subloan.

(cc) "Subsidiary Loan" means a loan provided for in the respective State Bank Subsidiary Loan Agreement or Private Bank On-lending Agreement, as the case may be.

(dd) "Supervision Date" means the date referred to in Section 3.02(e) of this Agreement.

(ee) "Uncommitted Funds" means, as of a given date, the aggregate amount of the proceeds of the Loan on-lent to a Participating Bank pursuant to this Agreement, which at such date has not been committed by such Participating Bank to finance Subloans approved by the Bank.

(ff) "Working Group" means the Solar Home Systems working group established by the Borrower and maintained in accordance with paragraph A.1.b. of Schedule 4 to this Agreement.

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, various currencies that shall have an aggregate value equivalent to the amount of twenty million Dollars (\$20,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Bank shall so agree, to be paid) by a Participating Bank on account of withdrawals made by a Dealer under a Subloan to finance the Subproject in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in Bank Indonesia or in a commercial bank on terms

and conditions satisfactory to the Bank, including, in the case of a commercial bank, appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be April 30, 2002 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 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.

Section 2.05. (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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semi-annually on February 15 and August 15 in each year.

Section 2.07. 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 as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) The Borrower shall relend to BI an amount out of the proceeds of the Loan corresponding to the aggregate amount of Subloans to be made from time to time by the Private Commercial Banks, under a subsidiary loan agreement to be entered into between the Borrower and BI, under terms and conditions which shall have been approved by the Bank which shall include the terms and conditions set forth in paragraph B.1 of Schedule 4 to this Agreement.

(b) The Borrower shall cause BI to on-lend to each Private Commercial Bank the amount out of the proceeds of the BI Subsidiary Loan corresponding to the aggregate amount of Subloans approved to be made by such Private Commercial Bank from time to time, under an on-lending agreement entered into between BI and such Private Commercial Bank, under terms and conditions which shall have been approved by the Bank which shall include the terms and conditions set forth in paragraph B.2 of Schedule 4 to this Agreement.

(c) The Borrower shall relend to each State-owned Commercial Bank the amount out of the proceeds of the Loan corresponding to the aggregate amount of Subloans approved to be made by such State-owned Commercial Bank from time to time, under a subsidiary loan agreement entered into between the Borrower and such State-owned Commercial Bank, under terms and conditions which shall have been approved by the Bank which shall include the terms and conditions set forth in paragraph B.2 of Schedule 4 to this Agreement.

(d) The Borrower shall exercise its rights under the BI Subsidiary Loan Agreement and the State Bank Subsidiary Loan Agreements, and shall ensure that BI shall exercise its rights under the Private Bank On-lending Agreements 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 BI Subsidiary Loan Agreement or the State Bank Subsidiary Loan Agreements or any provision thereof, and shall ensure that BI shall not assign, amend, abrogate or waive the Private Bank On-lending Loan Agreements or any provision thereof.

(e) If at any time (the Supervision Date) the Borrower, through BI, determines that a Participating Bank is not in compliance with BI requirements so as to maintain its Sehat classification, the Borrower shall promptly, but in any event not later than thirty (30) days after the Supervision Date, require such Participating Bank to undertake measures to regain its Sehat status by a prescribed date (the Remedial Date). Promptly thereafter the Borrower shall inform the Bank that a situation has arisen that may require by the Remedial Date the reallocation of the Uncommitted Funds of such Participating Bank. If by the Remedial Date, in the opinion of BI, such Participating Bank has not regained its Sehat status, the Uncommitted Funds of such Participating Bank may, with the Bank's prior approval, be allocated, in part or in total, by the Borrower or BI, as the case may be, to other Participating Banks for the financing of Subloans and the amount of the Subsidiary Loans made to each of such Participating Banks shall be revised accordingly.

Section 3.03. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, Subloans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in paragraph B.3 of Schedule 4 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each Subsidiary Loan made to a State-owned Commercial Bank, and shall ensure that BI shall exercise its rights in relation to each Subsidiary Loan made to a Private Commercial Bank, in such manner as to:

- (i) protect the interests of the Bank and the Borrower;
- (ii) comply with its obligations under this Agreement; and
- (iii) achieve the purposes of the Project.

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the objectives of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project, of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof, and of BI and the Participating Banks.

(b) The Borrower shall, and shall cause BI and the Participating Banks to:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, 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, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(a) of this (i) maintain or cause to be maintained, in accordance with paragraph Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual

audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. Except as the Bank shall otherwise agree, the Borrower shall not provide to any Dealer, whether directly or indirectly, in cash or in kind, any loan, subsidy, grant, credit enhancement or financing of any kind other than out of the proceeds of the Loan pursuant to this Agreement and the proceeds of the GEF Grant pursuant to the terms of the GEF Grant Agreement.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified, namely, that the right of the Borrower to withdraw the proceeds of the GEF Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the GEF Grant Agreement.

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) the BI Subsidiary Loan Agreement has been executed on behalf of the Borrower and BI;

(b) the GEF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness, except only the effectiveness of this Agreement, have been fulfilled; and

(c) at least two of the Participating Bank Agreements have been entered into between the respective Participating Banks and the Borrower or BI, as the case may be.

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 BI Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and BI and is legally binding upon the Borrower and BI in accordance with its terms; and

(b) that the agreements referred to in Section 6.01 (c) of this Agreement have been duly authorized or ratified by the parties thereto and are legally binding upon such parties in accordance with their terms.

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 of 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 Budget
Jalan Lapangan Banteng Timur 2-4
Jakarta 10710, Indonesia

Cable address:

FINMINISTRY
Jakarta

Telex:

45799 DJMLN - IA
44319 DEPKEU - IA

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

REPUBLIC OF INDONESIA

By /s/ Arifin M. Siregar

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marianne Haug

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Category 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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
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(1) Subloans	20,000,000	80% of amounts disbursed
	<hr/>	
TOTAL	20,000,000	
	=====	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of a Subloan:

(a) unless the Subloan has been approved by the Bank in accordance with paragraph B.3. of Schedule 4 to this Agreement; and

(b) until the Participating Bank Agreement under which the Subloan is to be financed has been approved by the Bank and the Bank has been furnished with an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank to the effect that such Participating Bank Agreement has been duly authorized and ratified by the parties thereto, and is legally binding upon such parties in accordance with its terms.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for Subloans, in each case under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower to: (a) expand availability of electricity to rural customers in Indonesia who cannot be served economically or in a timely manner by conventional rural electrification; (b) facilitate participation by the private sector in advancing renewable energy commercialization; (c) promote environmentally sound energy resource development and reduce the dependence of the Borrower's energy sector on fossil fuels; (d) bring about cost effective mitigation of carbon dioxide (CO2) emissions; and (e) strengthen the Borrower's institutional capacity to support and sustain decentralized rural electrification.

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:

Provision of Subloans and Subgrants to finance Subprojects consisting of the sale and installation in the Project Area of an aggregate of about 200,000 Solar Home Systems by Dealers.

Part B: Technical Assistance

1. Strengthening the Borrower's capacity for Project implementation through provision of consultants' services in connection with:

(a) the evaluation and monitoring of Dealer compliance with the terms and conditions of Subloans and the GEF Grant;

(b) assessment of business plans and Subproject applications submitted by Dealers;

(c) establishment of contacts with and assessing the capacity of prospective Dealers; and

(d) maintenance of contacts with actual and prospective Solar Home System customers.

2. Strengthening the Borrower's capacity to design and implement a long-term strategy for the utilization of appropriate solar photovoltaic technology, through:

(a) the conduct of a decentralized rural electrification study to complement Borrower's existing least-cost grid-based rural electrification plan;

(b) the development of the Solar Home Systems Action Plan; and

(c) provision of training and study tours in photovoltaic utilization for selected officials of the Borrower, including, without limitation, relevant officials of BPPT, DGEED and BAPPENAS, and for selected officials of private sector organizations involved in implementation of decentralized rural electrification by Solar Home Systems.

3. Strengthening BPPT's capability to technically certify Solar Home Systems and to monitor systems in the field, through the provision of training to selected BPPT staff in the use of appropriate testing equipment and techniques.

* * * * *

The Project is expected to be completed by October 31, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars) ¹
August 15, 2002	390,000
February 15, 2003	405,000
August 15, 2003	415,000
February 15, 2004	430,000
August 15, 2004	445,000
February 15, 2005	460,000
August 15, 2005	480,000
February 15, 2006	495,000
August 15, 2006	510,000
February 15, 2007	530,000
August 15, 2007	550,000
February 15, 2008	565,000
August 15, 2008	585,000
February 15, 2009	605,000
August 15, 2009	630,000
February 15, 2010	650,000
August 15, 2010	670,000
February 15, 2011	695,000
August 15, 2011	720,000
February 15, 2012	745,000
August 15, 2012	770,000
February 15, 2013	795,000
August 15, 2013	825,000
February 15, 2014	855,000
August 15, 2014	885,000
February 15, 2015	915,000
August 15, 2015	945,000
February 15, 2016	980,000
August 15, 2016	1,010,000
February 15, 2017	1,045,000

¹ The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Implementation Program

A. Project Management.

1. The Borrower shall establish:

a. no later than May 15, 1997, a project support group, to be responsible for, inter alia, monitoring compliance by Dealers with the Dealer Obligations and the development of contacts with prospective and actual Solar Home System customers; and

b. no later than November 30, 1997, a working group to be headed by the Director of Electric Power Planning of DGEED and with representation from BAPPENAS, BPPT, the Ministry of Finance and the Ministry of Cooperatives and Small Enterprise Development of the Borrower, and PT PLN, to be responsible for coordinating and assisting consultants engaged in connection with the implementation of subparagraphs (a) and (b) of Part B.2 of the Project; and shall maintain both groups throughout the period of implementation of the Project, with terms of reference, membership, staffing and other resources acceptable to the Bank.

2. The Borrower shall maintain throughout the period of implementation of the Project the Rural Electrification Steering Committee, to be responsible for, inter alia, coordinating the activities of the PSG and the Working Group.

B. Financial Arrangements.

1. BI Subsidiary Loan Agreement. The terms and conditions of the BI Subsidiary Loan Agreement shall include:

a. The obligation of BI to on-lend funds so re-lent under the BI Subsidiary Loan Agreement to the Private Commercial Banks, on terms and conditions satisfactory to the Bank which shall include, without limitation, the terms and conditions set forth in paragraph B.2 of this Schedule;

b. the obligation of BI to supervise the financial performance of each Participating Bank and to require that each Participating Bank undertakes measures to maintain or regain, as the case may be, its Sehat classification; and

c. the obligation of BI to require that Participating Banks party to Private Bank On-Lending Agreements agree to make Subloans to Dealers only on the terms and conditions set forth in paragraph B.3 of this Schedule.

2. Private Bank On-lending Agreements and State Bank Subsidiary Loan Agreements. The terms and conditions of the respective Private Bank On-lending Agreements and the State Bank Subsidiary Loan Agreements shall include:

a. the obligation of each Participating Bank to:

(i) pay interest on the Subsidiary Loan at a variable rate per annum equal to the average six months interest rate per annum of Bank Indonesia's Sertifikat Bank Indonesia (SBI) with three month maturity. Such rate is to be adjusted on January 1 and July 1 of each year, commencing on July 1, 1997, and calculated based on the average of SBI three month maturity quotations during the preceding six months; provided, however, that the interest rate on the Subsidiary Loan for the period from the date of the Subsidiary Loan Agreement through July 1, 1997, shall be determined on the basis of the average of the per annum interest rate of SBI three month maturity quotations during the six months preceding July 1, 1997; provided further, however, that each Participating Bank and the Borrower or BI, as the case may be, may, with the Bank's approval, agree on an alternate basis for determining the interest rate payable by such Participating Bank on its Subsidiary Loan that better reflects the cost of domestic term funds;

(ii) repay the Subsidiary Loan over a period of 20 years, including a grace period of five years; and

(iii) pay the Borrower in the case of each State-owned Commercial Bank, or BI in the case of each Private Commercial Bank, a commitment charge on the undisbursed portion of its respective Subsidiary Loan at a per annum rate identical to the rate paid by the Borrower to the Bank pursuant to Section 2.04 of this Agreement;

b. the obligation of each Participating Bank to on-lend funds so re-lent under the Private Bank On-lending Agreements and the State Bank Subsidiary Loan Agreements to the Dealers, on terms and conditions satisfactory to the Bank which shall include the terms and conditions set forth in paragraph B.3.c. of this Schedule, and to exercise its rights in relation to each such Subloan made by it, in such manner as to protect the interests of the Borrower and such Participating Bank;

c. the obligation of Participating Banks to supervise the financial performance of each Dealer and to require that each Dealer comply with standards for Dealer conduct, reporting and consumer protection acceptable to the Bank;

d. the obligation of Participating Banks to ensure that Dealers have accounting and internal controls, including auditing arrangements, adequate to provide the financial information needed by the Participating Banks;

e. the obligation of Participating Banks to make disbursements in respect of Subloans only to Dealers of Solar Home Systems that have:

(i) current operations including sales of solar home systems or other products in rural areas of the Borrower;

(ii) prepared a business plan acceptable to the Bank for the sale of Solar Home Systems on a hire purchase basis and demonstrated capacity and intent to make installment payment collections;

(iii) prepared and submitted a credit application to a Participating Bank;

(iv) prepared and submitted consumer protection plans, including a

returns policy, warranties and aftersales service acceptable to the Bank; and

(v) agreed to abide by and are in compliance with the Dealer Obligations;

f. the agreement of the Participating Bank that:

(i) the Participating Bank Agreement to which it is a party will be amended from time to time to reflect the amount of the Subsidiary Loan made or proposed to be made to such Participating Bank; and

(ii) the Borrower or BI, as the case may be, may reduce the amount of such Participating Bank's Subsidiary Loan by an amount equal to such Participating Bank's Uncommitted Funds, and that the Participating Bank Agreement to which such Participating Bank is a party will be amended accordingly; and

g. no obligation to pay any administration or banking fee (other than interest charged in accordance with paragraph B.2.a.(i) of this Schedule) to the Borrower or BI, as the case may be, on the proceeds of the Subsidiary Loan disbursed to such Participating Bank.

3. Subloans to Dealers.

a. No expenditures for goods required for a Subproject shall be eligible for financing out of the proceeds of the Loan unless the Subloan for such Subproject shall have been approved by the Bank.

b. When presenting a Subloan to the Bank for approval, the Participating Bank shall furnish to the Borrower and the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Dealer and an appraisal of the proposed Sub-project, including the Dealer's business plan; (ii) the proposed terms and conditions of the Subloan, including the schedule of amortization thereof; and (iii) such other information as the Bank shall reasonably request.

c. Subloans shall be made on terms whereby the Participating Bank shall obtain, by written contract with the Dealer or by other appropriate legal means, rights adequate to protect the interests of the Bank, the Borrower and the Participating Bank, including the right to:

(i) require the Dealer to carry out the Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards, and to maintain adequate records;

(ii) require that: (a) the goods to be financed out of the proceeds of the Loan shall be procured at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and (b) such goods shall be used exclusively in the carrying out of the Subproject;

(iii) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the operation thereof and any relevant records and documents;

(iv) require that: (a) the Dealer shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (b) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Dealer to replace or repair such goods;

(v) obtain all such information as the Bank, the Borrower or the PSG shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Dealer and to the benefits to be derived from the Subproject; and

(vi) suspend or terminate the right of the Dealer to the use of the proceeds of the Loan upon failure by such Dealer to perform its obligations under its contract with the Participating Bank.

d. The terms and conditions of the respective Subloan Agreements shall include the following:

(i) Subloans shall have a maximum repayment period of five (5) years, and shall bear interest at the prevailing market rate in Indonesia for similar loans;

(ii) without limitation to the proviso set forth in paragraph 2 (a) of Schedule 1 to this Agreement, no expenditures shall be eligible for financing out of the proceeds of the Loan unless the Sub-loan for such Subproject shall have been approved by the Bank;

(iii) undertakings by the Dealer to provide to the PSG from time to time and upon request certification, from testing facilities acceptable to the Bank, that the Solar Home Systems to be sold by such Dealer meet or exceed the technical specifications established by the Borrower and approved by the Bank; and

(iv) except as the Bank shall otherwise agree, only sales of Solar Home Systems to users within the Project Area will be eligible for financing under a Subloan.

4. Payment Procedures. Disbursement of the proceeds of the Subsidiary Loans by the Borrower and BI shall be made pursuant to procedures and subject to documentation acceptable to the Bank.

C. Implementation of Technical Assistance

1. Solar Home System Action Plan. The Borrower shall, through DGEED:

a. undertake and furnish to the Bank for review and comment no later than September 30, 1998, a draft final version of the decentralized rural electrification study under Part B.2.(a) of the Project, in accordance with terms of reference and in a manner satisfactory to the Bank;

b. promptly thereafter, exchange views with the Bank on the study referred to in sub-paragraph a. above; and

c. prepare and furnish to the Bank for review and comment no later than March 31, 1999, a draft decentralized rural electrification plan with a focus on solar photovoltaic technology under Part B.2.(b) of the Project and based on the study and review thereof referred to in sub-paragraphs a. and b. above, and, thereafter, finalize and adopt said plan no later than November 30, 1999, taking into account the Bank's comments thereon.

2. ISO 25 Action Plan. The Borrower shall, through BPPT:

a. no later than October 31, 1997, pursuant to terms of reference acceptable to the Bank and in accordance with the provisions of Schedule 3 of the GEF Grant Agreement, engage and mobilize consultants to assist in the implementation of Part B.3. of the Project;

b. prepare and furnish to the Bank for review and comment no later than February 28, 1998, a time-bound action plan for the achievement of ISO 25 status for BPPT's Energy Technology Laboratory; and

c. complete the implementation of the technical assistance to be provided

under Part B.3. of the Project no later than October 31, 1999.

D. Monitoring and Reporting

1. Without limitation to Section 9.07 of the General Conditions, the Borrower shall:

a. maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

b. prepare, or cause the PSG to prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31 in each year, commencing December 31, 1997, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph a. above, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

c. review with the Bank, by February 28 in each year, commencing February 28, 1998, or such later date as the Bank shall request, the report referred to in sub-paragraph b. above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Category (1) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures 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 allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,400,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$700,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$2,800,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Category, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Category shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account:

(i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or

(ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise

agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Performance Indicators

(PLEASE SEE ORIGINAL FOR PERFORMANCE INDICATORS TABLE, FORMAT IS TOO BIG)

