

CONFORMED COPY

LOAN NUMBER 7658 -ID

Loan Agreement

**(Public Expenditure Support Facility Development Policy Loan
with Deferred Drawdown Option)**

between

REPUBLIC OF INDONESIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated March 4, 2009

LOAN AGREEMENT

Agreement dated March 4, 2009, 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 this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of two billion United States Dollars (\$2,000,000,000) 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the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 February 15 and August 15 in each year.
- 2.06. (a) Except as otherwise provided in paragraph (b) of this Section, the principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- (b) The Borrower may at the time of requesting a Withdrawal also request repayment provisions different from those set out in Schedule 2 to this Agreement for such Withdrawal, provided that: (i) the average maturity of such Withdrawal does not exceed eighteen (18) years from the Withdrawal Date and the final maturity of such Withdrawal does not exceed thirty (30) years from the Withdrawal Date (or such other average maturity and/or final maturity as may be generally applicable to loans made by the Bank to the Borrower at the time of such agreement) and (ii) such repayment provisions have been agreed between the Borrower and the Bank prior to the Withdrawal Date of such Withdrawal.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the 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 5.08 of the General Conditions (renumbered as such pursuant to paragraph 2 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), 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, and further to Section 5.08 of the General Conditions:
- (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;
 - (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 promptly inform the Bank of any situation that 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: 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; TERMINATION

- 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 | 45799 DJMLN-IA | (21) 381 2859 |
| Jakarta | 44319 DEPKEU-IA | |

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, Republic of Indonesia, as of the day and year first above written.

REPUBLIC OF INDONESIA

By: Rahmat Waluyanto
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: Chris Hoban
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:

Policy Area: Reassuring Financial Markets and Maintaining Financial System Stability

1. The Borrower has issued a financial safety net government regulation in lieu of law (Perpu No. 4/2008) that establishes the roles, responsibilities and procedures that will govern the actions and responsibility of Bank Indonesia, the Ministry of Finance, and the Deposit Insurance Corporation in the event of the failure of a financial institution.
2. The Borrower has taken steps to maintain the stability of its banking system by: (a) issuing a government regulation in lieu of law (Perpu No. 3/2008) increasing the ceiling on deposit insurance from 100 million to 2 billion Rupiah and allowing the Borrower to provide a blanket guarantee of all bank deposits if necessary; and (b) issuing a government regulation in lieu of law (Perpu No. 2/2008) that amends the Bank Indonesia Law clarifying the types of assets that banks can use as collateral for borrowing from the central bank.
3. The Borrower, through a letter of the Minister of Finance and the Governor of Bank Indonesia, has initiated a financial sector assessment program (Letter dated December 24, 2008).
4. The Borrower has issued and committed to implementation of the Financing Plan for Fiscal Year 2009 that specifies the terms and circumstances under which the Borrower would draw on financing support that is available from the Public Expenditure Support Facility and from Indonesia's development partners providing related support (Director General of Debt Management Decree No. KEP04/PU/2009, dated January 27, 2009).

Policy Area: Sustaining Critical Public Expenditures while Maintaining Budget Discipline

5. The Borrower has established a crisis monitoring and response system in anticipation of a possible growth slowdown or crisis (BAPPENAS Ministerial Directive (Surat Penugasan) 0014/M.PPN/01/2009 dated January 27, 2009).
6. The Borrower has submitted a Presidential Decree on Coordination of National Poverty Reduction efforts to the President for signature.

7. The Borrower has included specific provisions in the 2009 budget law (Law No. 41/2008) to sustain, and if necessary, increase critical public expenditures in the event of a pronounced growth slowdown.
8. The Borrower has implemented specific regulatory measures (Regulation Nos. 240/PMK.05/2008; 06/PMK.02/2009; and 15/KMK.05/2009) and socialization efforts to expedite budget disbursements and enhance the ability of the Borrower to rapidly direct public expenditures to preempt, as well as mitigate, any adverse impacts of a growth slowdown.

Crowding in Private Investment and Supporting Exports

9. The Borrower has prepared and has undertaken inter-ministerial review of a draft of a Presidential Regulation on the implementation of the 2007 Investment Law and Investment Negative List (DNI) that accommodates Indonesia's international commitments on sectoral restrictions and clarifies the status of publicly listed companies, foreign equity limits for direct investment, grandfathering and the creation of investment restrictions beyond those stipulated in the Investment Negative List.
10. The Borrower has taken steps to increase transparency regarding revenues from extractive industries by: (a) issuing a memorandum of understanding among the Coordinating Minister for Economic Affairs, the Minister of Finance and the Minister for Energy and Mineral Resources (MOU-01/M.EKON/01/2009; MOU-54/MK/2009; 0274/05/MEM/2009) on *Transparansi Pendapatan Negara Yang Diperoleh dari Industri Ekstraktif*; and (b) issuing a letter from the Coordinating Minister for Economic Affairs to the Secretariat of the EITI initiating the process of application to the EITI (Letter No. S-125/M.EKON/12/2008).
11. The Borrower has: (a) opened a re-discount window for trade finance through Bank Indonesia (Regulation No. 10/34/PBI/2008); and (b) created an export financing agency (Law No. 2/2009).

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 in one or more installments. The allocation of the amounts of the Loan to this end is set out in the table below:

| Allocations | Amount of the Loan Allocated (expressed in US Dollars) |
|---------------------|---|
| Single Tranche | 1,995,000,000 |
| Front-end Fee | 5,000,000 |
| TOTAL AMOUNT | 2,000,000,000 |

- C. Withdrawal of Loan Proceeds.** If, at any time prior to the receipt by the Bank of a request for withdrawal of an amount of the Loan, the Bank determines that a review of the Borrower's macroeconomic policy framework or of its progress in carrying out the Program, including the Financing Plan, is warranted, the Bank shall give notice to the Borrower to that effect. Upon the giving of such notice, no withdrawals shall be made of the Unwithdrawn Loan Balance unless and until the Bank has notified the Borrower of its satisfaction, after an exchange of views as described in paragraphs (a) and (b) of said Section 3.01, with (1) the progress achieved by the Borrower in carrying out the Program, including the Financing Plan and (2) the appropriateness of the Borrower's macroeconomic policy framework.
- D. 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.
- E. 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.
- F. Closing Date.** The Closing Date is December 31, 2010.

SCHEDULE 2

Amortization Schedule

1. Subject to the provisions of paragraph 2 of this Schedule, the Borrower shall repay each Disbursed Amount in semi-annual installments payable on each February 15 and August 15, the first installment to be payable on the 21st Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount and the last installment to be payable on the 49th Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount. The following table sets forth the percentage of Disbursed Amount payable on each Principal Payment Date.

| Installment | Installment Share (Expressed as a Percentage) |
|--|--|
| First through and including 28 th | 3.45% |
| 29th | 3.40% |

2. The Bank shall notify the Loan Parties of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for the Disbursed Amount.
3. Notwithstanding the provisions of paragraphs 1 through 3 of this Schedule, in the event of a Currency Conversion of all or any portion of a Disbursed Amount 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.
4. 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.

APPENDIX

Section I. Definitions

1. “Bank Indonesia” means the central bank of the Borrower, and any successor thereto.
2. “BAPPENAS” means *Badan Perencanaan Pembangunan Nasional*, the Borrower’s National Development Planning Agency, and any successor thereto.
3. “Deposit Insurance Corporation” means *Lembaga Penjamin Simpanan*, the Deposit Insurance Corporation of the Borrower, and any successor thereto.
4. “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.
5. "EITI" means the Extractive Industries Transparency Initiative, a coalition of governments, companies, civil society groups, investors and international organizations which supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining (www.eitransparency.org).
6. "Financing Plan" means the Borrower's financing plan for public expenditure support for Fiscal Year 2009, issued by Director General of Debt Management Decree No. KEP04/PU/2009, dated January 27, 2009, that specifies: (a) the Borrower's financing targets for Fiscal Year 2009; (b) the terms and circumstances under which the Borrower would draw on financing support that is available from the Public Expenditure Support Facility and from Indonesia's

development partners providing related support; and (c) the terms under which such Financing Plan may be rolled over and re-issued for Fiscal Year 2010.

7. “Fiscal Year” means the Borrower’s fiscal year commencing January 1 and ending December 31.
8. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
9. “Investment Negative List” means the *Daftar Negatif Investasi* (DNI), the Borrower’s Investment Negative List establishing those sectors closed, or partially closed, to private foreign and/or domestic investment (Perpres No. 111/2007).
10. “Keppres” means a *Keputusan Presiden*, a decree issued by the President of the Borrower.
11. “Minister of Finance” means the person holding the position of Minister in the Ministry of Finance of the Borrower.
12. “Ministry of Finance” means the Ministry of Finance of the Borrower, and any successor thereto.
13. “Perpres” and “Presidential Regulation” means a *Peraturan Presiden*, a regulation of the President of the Borrower.
14. “Perpu” means a *Peraturan Pemerintah Pengganti Undang-undang*, a government regulation in lieu of law of the Borrower.
15. “Presidential Decree” means a *Peraturan Presiden (Perpres)*, a decree issued by the President of the Borrower
16. “Program” means the program of actions, objectives and policies, including the Financing Plan, designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated January 28, 2009, 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.
17. “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, which may be withdrawn in one or more installments.

Section II. Modifications to the General Conditions

The modifications to the General Conditions 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 years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Paragraph (c) of 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 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 “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”

- (b) 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.”

- (c) The term “Financial Statements” and its definition are deleted in their entirety.

- (d) The term “Fixed Spread” is modified to read as follows:

“‘Fixed Spread’ means, for each Withdrawal, the Bank’s fixed spread for the Loan Currency of the Withdrawal in effect at 12:01 a.m. Washington, D.C. time, on the Withdrawal Date; provided, that: (a) for purposes of determining the Default Interest Rate, pursuant to Section 3.02(d), that is applicable to an amount of the Withdrawn Loan Balance on which interest is payable at a Fixed Rate, the “Fixed Spread” means the Bank’s fixed spread in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement, for the Currency of denomination of such amount; (b) for purposes of fixing the Variable Spread pursuant to Section 4.02, “Fixed Spread” means the Bank’s fixed spread for the Loan Currency in effect at 12:01 a.m. Washington, D.C. time on the Conversion Date; and (c) upon a Currency Conversion of all or any amount of the Unwithdrawn Loan Balance pursuant to Section 4.04(a), the Fixed Spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines.”

- (e) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”

- (f) The term “Variable Spread” is modified to read as follows:

“‘Variable Spread’ means, for each Withdrawal and each Interest Period: (1) the Bank’s standard variable spread for Loans in effect at 12:01 a.m. Washington, D.C. time, on the Withdrawal Date; (2) minus (or plus) the weighted average margin, for the Interest Period, below (or above) LIBOR, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by it to fund loans that carry interest at a rate based on the Variable Spread; as reasonably determined by the Bank and expressed as a percentage per annum. In the case of a Loan denominated in more than one Currency, “Variable Spread” applies separately to each of such Currencies.”

- (g) A new term “Withdrawal” is added to read as follows:

“‘Withdrawal’ means each amount of the Loan withdrawn by the Borrower from the Loan Account pursuant to Section 2.01.”

- (h) A new term “Withdrawal Date” is added to read as follows:

“‘Withdrawal Date’ means, for each Withdrawal, the date on which the Bank pays the Withdrawal.”