

CONFORMED COPY

LOAN NUMBER 8105-ID

Loan Agreement

(Eighth Development Policy Loan)

between

REPUBLIC OF INDONESIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 2, 2011

LOAN AGREEMENT

AGREEMENT dated, December 2, 2011, 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 adequate macroeconomic 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 four hundred million United States Dollars (US\$400,000,000), 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. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-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(e) of the General Conditions.

- 2.05. The Payment Dates are April 1 and October 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (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, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; 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 3 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 Borrower’s macroeconomic policy framework and 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 Additional Condition of Effectiveness consists of the following: The Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.
- 5.02. 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:

Facsimile:

FINMINISTRY
Jakarta

(21) 381 2859

6.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

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

REPUBLIC OF INDONESIA

By: /s/ Rahmat Waluyanto

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Shubham Chaudhuri

Authorized Representative

SCHEDULE 1**Program Actions; Availability of Loan Proceeds****Section I. Actions Taken Under the Program**

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

1. The Borrower, through the Coordinating Ministry for Economic Affairs, has developed standard operating procedures within the Indonesia National Single Window for regular private sector consultative meetings on Indonesia National Single Window implementation issues, and has started holding the meetings.
2. The Borrower, through the Coordinating Ministry for Economic Affairs, has developed work plans for the phased implementation of a Single Sign On procedure for two key agencies of Indonesia National Single Window: BPOM and the Directorate General of Customs.
3. The Borrower, through the Ministry of Trade, has issued a Ministerial Decree (No. 709/M-DAG/KEP/9/2011) establishing a team to formulate Non-Tariff Measures under the Ministry of Trade, with clear standard operating procedures for the issuance of Non-Tariff Measures.
4. The Borrower has issued a Presidential Regulation (No. 32/2011), a Ministerial Regulation (No. PER-06/M.EKON/08/2011) and two Ministerial Decrees (No. KEP-35//M.EKON/08/2011 and No. KEP-36//M.EKON/08/2011), that put in place institutional mechanisms to enhance Connectivity in Indonesia.
5. The Borrower has based Ministry/Agency Budget and Work Plans (RKA-K/L) for 2012 on Government Regulation (No. 90/2010) as evidenced by:
 - (a) separate treatment of baselines and new initiatives in the budget submission document following new guidelines on RKA-K/L;
 - (b) a manual for line ministries on formulation of new initiatives, which enables a review of rationale and cost information; and
 - (c) consistency between Government Work Plan (RKP) and RKA-K/L regarding performance and budget information.
6. The Borrower, through the LKPP, has completed the strategy and policy for human resources development for the procurement function in government agencies.

7. The Borrower has issued a Presidential Instruction (No.4/2011) on government internal audit systems, which clarifies the roles and responsibilities in internal controls.
8. The Borrower has issued a Government Regulation (No. 71/2010) on accrual-based accounting
9. The Borrower, through the Directorate General of Treasury, has submitted a draft regulation to the Minister of Finance detailing accounting policies and chart of accounts.
10. The Borrower, through the National Team, has instructed agencies implementing Cluster 1 poverty programs to use the Unified Database.
11. The Borrower's National Team Executive Secretariat working group has submitted a policy note on cost scenarios for health insurance for the poor (Jamkesmas) and a proposed health management information system to the chair of the National Team.

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 is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. 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 USD)
Single Withdrawal Tranche	400,000,000
TOTAL AMOUNT	400,000,000

- C. Payment of Front-end Fee.** No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.
- D. Withdrawal Tranche Release Conditions.** No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework.
- E. 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.

F. 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.

G. Closing Date. The Closing Date is March 31, 2012.

SCHEDULE 2**Amortization Schedule**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
April 1, 2021	2.17
October 1, 2021	2.22
April 1, 2022	2.28
October 1, 2022	2.34
April 1, 2023	2.40
October 1, 2023	2.46
April 1, 2024	2.52
October 1, 2024	2.58
April 1, 2025	2.64
October 1, 2025	2.71
April 1, 2026	2.78
October 1, 2026	2.85
April 1, 2027	2.92
October 1, 2027	2.99
April 1, 2028	3.07
October 1, 2028	3.14
April 1, 2029	3.22
October 1, 2029	3.30
April 1, 2030	3.38
October 1, 2030	3.47
April 1, 2031	3.56
October 1, 2031	3.65
April 1, 2032	3.74
October 1, 2032	3.83
April 1, 2033	3.93

October 1, 2033	4.02
April 1, 2034	4.12
October 1, 2034	4.23
April 1, 2035	4.33
October 1, 2035	4.44
April 1, 2036	4.71

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3.
 - (a) Amounts of the Loan withdrawn within two (2) calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is

repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX**Section I. Definitions**

1. “BPOM” means *Badan Pengawas Obat dan Makanan*, the Borrower’s National Agency for Drug and Food Control, or any successor thereto.
2. “Cluster 1” means the grouping of the Borrower’s household-based social assistance programs, including but not limited to health service fee waivers, subsidized rice distribution programs, cash transfers for poor students and conditional cash transfers.
3. “Connectivity” means the connectivity policy focus of the Borrower that emphasizes intra-island, inter-island and international connections including, but not limited to, infrastructure, transportation, communications, trade and logistics.
4. “Coordinating Ministry for Economic Affairs” means *Kementerian Koordinator Bidang Perekonomian*, the Borrower’s Coordinating Ministry for Economic Affairs, or any successor thereto.
5. “Directorate General of Customs” means *Direktorat Jenderal Bea Cukai*, the Borrower’s Directorate General of Customs of the Ministry of Finance, or any successor thereto.
6. “Directorate General of Treasury” means *Direktorat Jenderal Perbendaharaan*, the Borrower’s Directorate General of Treasury of the Ministry of Finance, or any successor thereto.
7. “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.

8. “Executive Secretariat” means the executive secretariat of National Team, or any successor thereto.
9. “Fiscal Year” means the Borrower’s fiscal year, commencing on January 1 and ending on December 31 of each such year.
10. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.
11. “Government Regulation” means a *Peraturan Pemerintah*, a regulation of the government of the Borrower.
12. “Government Work Plan” means the annual government work plan of the Borrower (*Rencana Kerja Pemerintah, or RKP*).
13. “Indonesia National Single Window” or “INSW” means the Borrower’s national trade facilitation system that enables single submission of data and information, single and synchronous processing of data and information and single decision-making for customs release and clearance of cargo.
14. “Jamkesmas” means *Jaminan Kesehatan Masyarakat*, the Borrower’s national health insurance scheme.
15. “LKPP” means *Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah*, the Borrower’s National Public Procurement Agency, or any successor thereto.
16. “Minister of Finance” means the Borrower’s Minister of Finance, the senior official in the Ministry of Finance.
17. “Ministerial Decree” means a *Keputusan Menteri* or *Kepmen*, a decree of a line ministry of the Borrower, and “Ministerial Decrees” means more than one (1) Ministerial Decree.
18. “Ministerial Regulation” means a *Peraturan Menteri*, or *Permen*, a regulation of a line ministry of the Borrower.
19. “Ministry/Agency Budget and Work Plan” means a budget and annual work plan (*Rencana Kerja dan Anggaran Kementerian/Lembaga*,) of a line ministry or agency of the Borrower, and Ministry/Agency Budget and Work Plans means more than one such budget and work plan.

20. “Ministry of Finance” means *Kementerian Keuangan*, the Borrower’s Ministry of Finance, or any successor thereto.
21. “Ministry of Trade” means *Kementerian Perdagangan*, the Borrower’s Ministry of Trade, or any successor thereto.
22. “National Team” means *Tim Nasional Percepatan Penanggulangan Kemiskinan (TNP2K)*, the National Team for the Acceleration of Poverty Reduction, which is a cabinet-level committee chaired by the Vice President of the Borrower, or any successor thereto.
23. “Non-Tariff Measures” means policy measures of the Borrower, other than tariffs, that affect trade.
24. “President” means the head of state of the Borrower.
25. “Presidential Instruction” means *Instruksi Presiden* or *Inpres*, an instruction of the President of the Borrower.
26. “Presidential Regulation” means a *Peraturan Presiden* or *Perpres*, a regulation of the President of the Borrower.
27. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated October 19, 2011 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.
28. “RKA-K/L” means *Rencana Kerja dan Anggaran Kementerian/Lembaga*, a budget and annual work plan of a line ministry or agency of the Borrower.
29. “RKP” means *Rencana Kerja Pemerintah*, the annual government work plan of the Borrower.
30. “Single Sign On” means the mechanism under the Indonesia National Single Window whereby a single action of user authentication and authorization can permit a user to access all public services by multiple government agencies.
31. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
32. “Unified Database” means the database of poor households and families maintained by the National Team.

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 “Eligible Expenditure” is modified to read as follows:

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

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

- (c) 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.”