

CONFORMED COPY

LOAN NUMBER 4471 IND

Loan Agreement

(Social Safety Net Adjustment Loan)

between the

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated May 28, 1999

LOAN NUMBER 4471 IND

LOAN AGREEMENT

AGREEMENT, dated May 28, 1999, between the REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank):

WHEREAS (A) the Bank has received a letter dated April 26, 1999 from the Borrower describing a program of social safety net actions, objectives and policies designed to assist in achieving structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in two tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997, with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 18, is modified to read:

“‘Project’ means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.”;

(b) Section 4.01 is modified to read:

“Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement.”;

(c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions”;

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.07 (c) shall be modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”; and

(f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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

(a) “Rupiah” and “Rp” mean the currency of the Borrower.

(b) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement.

(c) “Fiscal Year” and “FY” mean the Borrower’s fiscal year commencing April 1 and ending March 31.

(d) “JPSBK” means Jaring Pengaman Sosial Bidang Kesehatan, the Borrower’s health social safety net program.

(e) “Key SSN Programs” means JPSBK, OPK, PDM-DKE, PKSPU-CK, and the School Scholarship and Block Grant Program.

(f) “OPK” means Operasi Pasar Khusus, the Borrower’s program to provide regular allocations of rice to poor families at a subsidized price.

(g) “PDM-DKE” means the “Program Pemberdayaan Daerah dalam Mengatasi Dampak Krisis Ekonomi, the Borrower’s crisis program for the provision of grants to selected community groups for (i) creating opportunities for employment and business, and (ii) developing social and economic infrastructure.

(h) “PKSPU-CK” means Padat Karya Sector Pekerjaan Umum Cipta Karya, the Borrower’s labor-intensive work program administered by the Borrower’s Public Works Department Directorate of Human Settlement.

(i) “PMTAS” means Program Makanan Tambahan Anak Sekolah, the Borrower’s food supplement program for school children.

(j) “School Scholarship and Block Grant Program” means the Borrower’s program

to provide (i) cash scholarships to poor students at the primary and secondary school level and (ii) grants to primary and secondary schools in poor districts for use in covering essential maintenance costs, obtaining essential office and classroom supplies, fee relief and teacher transport for KKG (teacher training).

(k) "Special Initiative for Women's Unemployment" means Prakarsa Khusus untuk Meningkatkan Peran Serta Wanita (PKM-PSW), the Borrower's initiative for the promotion of women's employment for the financing of Borrower and civil society proposals.

(l) "Tim Pengendali" means the Control Team established under Keppres 190/98.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to six hundred million dollars (\$600,000,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank, the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account in dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of three hundred million dollars (\$ 300,000,000), unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (i) with the progress achieved by the Borrower in the carrying out of Program; and (ii) that the actions described in Schedule 3 to this Agreement have been taken. If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be December 31, 1999 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 fee equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 2 to this Agreement.

Section 2.07. Interest and other charges shall be payable semiannually on May 15 and November 15 in each year. Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower undertakes to implement the Program with due, diligence to ensure that actions and policies adopted under the Program are put into effect.

(b) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 3 to this Agreement.

(c) 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.

(d) Without limitation upon the provisions of paragraph (b) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. 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, namely:

(a) The Borrower shall have established social safety net expenditure geographical allocations, acceptable to the Bank, within the framework of the Fiscal Year 1999/2000 fiscal budget approved by Parliament.

(b) The Borrower shall have disseminated information, in accordance with guidelines acceptable to the Bank, on the Key SSN Programs for the Fiscal Year 1998-1999 and on the budget allocations with respect thereto.

(c) For each of the Key SSN Programs to be funded under budgetary allocations in the Fiscal Year 1999-2000 the Borrower shall (A) have issued orders acceptable to the Bank for the following: (i) public information campaigns and information

dissemination procedures; (ii) complaint resolution and disciplinary procedures; (iii) reporting and verification arrangements with respect to performance targets; and (iv) independent performance monitoring arrangements; and (B) have made adequate budgetary provision (as determined on the basis of criteria acceptable to the Bank) for the carrying out of the activities referred to in (A) of this paragraph (c).

(d) (i) For each of the Key SSN Programs funded under budgetary allocations in the Fiscal Year 1998-1999, the Borrower shall have made available to interested groups (as determined on the basis of criteria acceptable to the Bank) detailed budget information thereon; and (ii) for each of the Key SSN Programs to be funded under budgetary allocations in the Fiscal Year 1999-2000, the Borrower shall have made available to said interested groups adequate budgetary information thereon and the Borrower's orders for the public information campaigns, information dissemination procedures and complaint resolution and disciplinary procedures referred to in Section 5.01 (c) of this Agreement.

(e) The Borrower shall have completed a program of corrective actions, acceptable to the Bank, with respect to the implementation of the Key SSN Programs.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. 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
P.O. Box 1139
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/ Dorodjatun Kuntjoro-Jakti

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Julian Schhweitzer

Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups 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 | Subgroup | Description of Items |
|-------------|----------|---|
| 112 | - | Alcoholic beverages |
| 121 | - | Tobacco, unmanufactured, 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 |
| fuel for | 718.7 | Nuclear reactors, and parts thereof; elements (cartridges), non-irradiated, nuclear reactors |
| 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)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means 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, and any other goods designated as environmentally hazardous by agreement between the Borrower and the Bank;

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Interest and Principal Repayment Provisions

A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.

(c) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement. (d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

(i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

(i) three-fourths of one percent (3/4 of 1%);

(ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

(i) three-fourths of one percent (3/4 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount; as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

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

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each May 15 and November 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the

last such installment to be payable on the twenty-fourth (24th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-eighteenth (1/18) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after November 15, 2014, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

SCHEDULE 3

Actions Referred to in Section 2.02 (d) of this Agreement

1. The Borrower shall have disseminated information, in accordance with guidelines acceptable to the Bank, on the Key SSN Programs for the Fiscal Year 1999 - 2000 and on the budget allocations with respect thereto.

2. The Borrower shall have established procedures, in accordance with guidelines acceptable to the Bank, for contracting with non-governmental organizations for the monitoring and implementation of each of the Key SSN Programs for the Fiscal Year 1999-2000.

3. For each of the Key SSN Programs and the Special Initiative for Women's Unemployment for the Fiscal Year 1999 - 2000, the Borrower shall have issued operational manuals and implementation procedures acceptable to the Bank. For PDM-DKE and PKSPU-CK for the Fiscal Year 1999-2000, the Borrower shall have issued such operational manuals and implementation procedures prior to the issuance of any spending authorization in respect thereof.

4. The Borrower shall have (a) developed a time-bound monitoring, evaluation and corrective action program satisfactory to the Bank for the Key SSN Programs and the Special Initiative for Women's Unemployment, and (b) implemented the actions set out in three of the monthly schedules established under such action program.

5. The Borrower shall have established at each district level a monitoring system in accordance with guidelines acceptable to the Bank.

6. The Borrower shall have (a) issued a report of a study and set of recommendations, carried out and distributed in accordance with terms of reference and distribution plan acceptable to the Bank, on the options for OPK distribution mechanisms to be made available to local governments in Indonesia; and (b) commenced implementation of an action program based on said report.

