

CONFORMED COPY

LOAN NUMBER 7975-ID

Loan Agreement

(Seventh Development Policy Loan)

between

REPUBLIC OF INDONESIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 24, 2010

LOAN AGREEMENT

AGREEMENT dated November 24, 2010, 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 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 six hundred million United States Dollars (USD600,000,000), 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by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 Rate; 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 4 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 consist 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:	Telex:	Facsimile:
FINMINISTRY Jakarta	45799 DJMLN-IA 44319 DEPKEU-IA	(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/ Chris Hoban

Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds; Access to Information

Section I. Actions Taken Under the Program

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

1. The Borrower has issued a Presidential Regulation (Perpres No. 36/2010) on the Investment Negative List which updates restrictions on investment, including preferential treatment for ASEAN investors, and clarifies the grandfather clause, the treatment of publicly listed companies, and mergers and acquisitions.
2. The Borrower has submitted to the President a draft Presidential Regulation on the national logistics system (Sislognas) development blueprint.
3. The Borrower has issued advertisements (invitations for bids) for PINTAR procurement as an initial step in the development of business process improvements and a new integrated information system.
4. The Borrower has (a) implemented a revised program structure with measurable results and targets aligned with the organizational structure in the Borrower's National Medium Term Development Plan (RPJM) for 2010-2014; and (b) based both indicative ceilings and budget proposals (RKA-KL) from all Line Ministries for the Fiscal Year 2011 budget on the revised structure.
5. The Borrower has finalized academic papers for a draft procurement law and prepared a draft of the procurement law, ready for the public consultation process.
6. BPKP has submitted to the Ministry of Finance a draft Presidential Regulation on government internal audit systems as required by Article 58 of Government Regulation No. 60/2008.
7. The Ministry of Finance has submitted to the President the draft Government Regulation on accrual-based accounting.
8. The Borrower has established an inter-ministerial National Team for the Acceleration of Poverty Reduction (National Team) by Presidential Regulation (Perpres 15/2010).
9. The Borrower has revised the methodology to calculate the national poverty line by: (a) completing national poverty line simulations using alternative measurement methodologies; (b) conducting internal consultations in BPS and key government stakeholders to identify a poverty measurement methodology for

consideration; and (c) holding external consultations about the implications of adopting the revised methodology with universities, NGOs and key Line Ministries.

10. The Borrower has strengthened PNPM fiduciary systems as outlined in the action plan dated February 16, 2010 by: (i) having documented and publicized major complaints and the steps taken to address these; (ii) the BPKP in partnership with the BAWASDA having been explicitly tasked with the systematic auditing of PNPM funds; and (iii) the Ministry of Home Affairs and the Ministry of Public Works having submitted quarterly reports detailing the status of all known complaints to the National Team and to the Joint Management Committee members.

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	600,000,000
TOTAL AMOUNT	600,000,000

- 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 appropriateness of the Borrower's macroeconomic policy framework.
- E. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
- 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
 - 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, 2011.

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 01, 2020	2.17
October 01, 2020	2.22
April 01, 2021	2.28
October 01, 2021	2.34
April 01, 2022	2.40
October 01, 2022	2.46
April 01, 2023	2.52
October 01, 2023	2.58
April 01, 2024	2.64
October 01, 2024	2.71
April 01, 2025	2.78
October 01, 2025	2.85
April 01, 2026	2.92
October 01, 2026	2.99
April 01, 2027	3.07
October 01, 2027	3.14
April 01, 2028	3.22
October 01, 2028	3.30
April 01, 2029	3.38
October 01, 2029	3.47
April 01, 2030	3.56
October 01, 2030	3.65
April 01, 2031	3.74
October 01, 2031	3.83
April 01, 2032	3.93
October 01, 2032	4.02

April 01, 2033	4.12
October 01, 2033	4.23
April 01, 2034	4.33
October 01, 2034	4.44
April 01, 2035	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. “ASEAN” means the Association of Southeast Asian Nations, an international organization.
2. “BAWASDA” means *Badan Pengawas Daerah*, the supervisory boards constituted at the district level by the Borrower, and any successors thereto.
3. “BPKP” means *Badan Pengawasan Keuangan dan Pembangunan*, the Borrower’s Financial and Development Supervisory Board, and any successor thereto.
4. “BPS” means *Badan Pusat Statistik*, the Borrower’s Central Bureau of Statistics, and any successor thereto.
5. “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.
6. "Fiscal Year" or "FY" means the Borrower's fiscal year commencing January 1 and ending December 31.
 7. "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.
 8. "Government Regulation" means *Peraturan Pemerintah*, a regulation issued by the government of the Borrower.

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. “Joint Management Committee” means the Joint Management Committee established by the Borrower to manage PNPM, including representatives from key Line Ministries and other development partners.
11. “Line Ministry” means an operational ministry or institution of the government of the Borrower, and “Line Ministries” means more than one Line Ministry.
12. “Ministry of Finance” means the Ministry of Finance of the Borrower, and any successor thereto.
13. “Ministry of Home Affairs” means the Ministry of Home Affairs of the Borrower, and any successor thereto.
14. “Ministry of Public Works” means the Ministry of Public Works of the Borrower, and any successor thereto.
15. “National Team” means the Borrower’s national Team for the Acceleration of Poverty Reduction, established pursuant to Perpres 15/2010, and any successor thereto.
16. “NGOs” means non-governmental organizations.
17. “President” means the head of state of the Borrower.
18. “Presidential Regulation” is the English language definition of a *Perpres*, a regulation of the President of the Borrower.
19. “Perpres” means a *Peraturan Presiden*, a regulation of the President of the Borrower.
20. “PINTAR” means the Borrower’s Program for Indonesian Tax Reform, financed in part by Bank Loan No. 7631-ID, dated February 9, 2009.
21. “PNPM” means the Borrower’s *Program Nasional Pemberdayaan Masyarakat*, or National Program for Community Empowerment, as set out in the PNPM General Guidelines (*Pedoman Umum*), issued by Tim Pengendali, dated, July 30, 2007, and to which the Bank provides financing under Credit Nos. 4384-ID and 4385-ID and Loan Nos. 7504-ID, 7505-ID, 7664-ID, 7666-ID, 7866-ID and 7867-ID.

22. “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 12, 2010, 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.
23. “RKA-KL” means a *Rencana Kerja dan Anggaran Kementerian/Lembaga*, a work and budget of a ministry or institution of the Borrower.
24. “RPJM” means the Borrower’s *Rencana Pembangunan Jangka Menengah Nasional 2010-2014*, or National Medium Term Development Plan.
25. “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.
26. “Sislognas” means *sistem logistik nasional*, the Borrower’s national logistics system.

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 4 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 4 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 4 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."