

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4045-1-IND

Financing Agreement

(Additional Financing for Third Kecamatan Development Project, Phase II)

Public Disclosure Authorized

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 25, 2007

CREDIT NUMBER 4045-1-IND

FINANCING AGREEMENT

AGREEMENT dated May 25, 2007, between REPUBLIC OF INDONESIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The International Development Association General Conditions for Credits and Grants, dated July 1, 2005 (“IDA General Conditions”) constitute an integral part of this Agreement (“Additional Credit Agreement”).
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Additional Credit Agreement have the meanings ascribed to them in the IDA General Conditions or in the Appendix to this Additional Credit Agreement.

ARTICLE II – FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to eighty one million nine hundred fifty thousand Special Drawing Rights (SDR 81,950,000) (“Additional Credit”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are February 1 and August 1 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III – PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through the Directorate General of Community Empowerment of its Ministry of Home Affairs, in accordance with the provisions of Article IV of the IDA General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Additional Credit Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Additional Credit Agreement.

ARTICLE IV – EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following, namely, that the Project Manual has been duly updated and revised to reflect the impact of the Additional Credit, and to incorporate an enhanced anti-corruption action plan, acceptable to the Association, and designed to reduce or eliminate the fiduciary risks associated with the Project.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Additional Credit Agreement.
- 4.03. For purposes of Section 8.05(b) of the IDA General Conditions, the date on which the obligations of the Recipient under Section 3.01 of this Additional Credit Agreement shall terminate is fifteen (15) years after the date of this Additional Credit Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Recipient's Minister of Finance.
- 5.02. The Recipient's Address is:

Ministry of Finance
 c/o Directorate General of Debt Management
 Jalan Lapangan Banteng Timur 2-4
 Jakarta 10710
 Indonesia

Cable address:

Telex:

Facsimile:

FINMINISTRY 45799
 Jakarta

DJMLN-IA
 44319 DEPKEU-IA

(21) 381 2859

5.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS 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 DEVELOPMENT ASSOCIATION

By: /s/ Joel Hellman
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in reducing poverty and improving local level governance in rural villages, through: (a) institutionalization of participatory processes in local government; (b) cost-effective provision of basic social and economic infrastructure; (c) strengthening of the capacity of micro-finance institutions to manage and monitor funds in a sustainable manner; and (d) reconstruction of communities in areas affected by natural disasters.

The Project consists of the Original Project, subject to the following modification of Part E.3 of Schedule 2 to the Original Development Credit Agreement, which is revised to read as follows:

3. Carrying out of pilot programs on: (i) legal assistance to villagers on dispute resolution; (ii) provision of training support to women engineers on Sub-project supervision; (iii) development of pilot community radio programming on activities under Part A of the Project; (iv) education and health service delivery in poor villages; (v) information dissemination in villages participating in the Project on the implementation of Part A of the Project in such villages, including provision of technical assistance; and (vi) using community managed conditional cash transfers to improve performance on MDG indicators.

SCHEDULE 2**Project Execution****Section I. Institutional Arrangements and Other Implementation Obligations**

1. Schedule 4 to the Original Development Credit Agreement is incorporated by reference in this Additional Credit Agreement, and the provisions thereof shall apply *mutatis mutandis* to this Additional Credit Agreement, subject, however, to the following modifications, unless the context otherwise requires:
 - (a) references to the “Borrower” shall be construed as references to the Recipient; and
 - (b) references to the “Project” shall be construed as references to the Project as further defined in this Additional Credit Agreement.
2.
 - (a) Subject to sub-paragraph (b) of this paragraph, the Recipient undertakes to comply with the provisions referred to in paragraph 1 of this Section as if those provisions had been set out and reproduced in full in this Additional Credit Agreement.
 - (b) So long as any part of the credit provided for under the Original Development Credit Agreement shall remain outstanding, and unless the Recipient has been notified otherwise by the Association:
 - (i) all actions taken, including approvals given by the Association, pursuant to any of the provisions referred to in paragraph 1 of this Section, shall be deemed to have been taken or given pursuant to this Additional Credit Agreement; and
 - (ii) all information or documentation furnished by the Recipient to the Association pursuant to any of the provisions referred to in paragraph 1 of this Section shall be deemed to have been furnished pursuant to this Additional Credit Agreement.

Section II. Project Monitoring, Reporting, Evaluation**A. Project Reports.**

1.
 - (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one (1) calendar quarter, and shall be

furnished to the Association not later than one (1) month after the end of the period covered by such report.

- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

	Performance Indicators	Target
	Inputs	
1.	No. of Project Kecamatans	1,800
2.	No. of villages with Sub-Projects	28,800
3.	% of women in Village meetings	40%
4.	% of Community Grants disbursed	80%
5.	% of UPKs receiving training	75%
	Outputs	
1.	% of sub-project implementation agreement	80%
2.	% of work agreed completed, by type, value, workdays	80%
3.	% of sub-projects coming from women meeting	45%
4.	% of Desas visited by Project staff	75%
5.	% of complaints database resolved	50%
	Impacts	
1.	EIRR	>30%
2.	# of Beneficiaries (000,000)	29
3.	% of beneficiaries who are women	40%
4.	% of beneficiaries who are poor	65%
5.	% of infrastructures reviewed as "Good" to "Excellent"	75%
6.	% of infrastructures built well maintained	75%
7.	% of bad education facilities now improved	75%
8.	% of bad health facilities now improved	75%
9.	% of complaints database published	50%
10.	Studies on long term maintenance	1

2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than June 30, 2009.

B. Financial Management, Financial Reports and Audits.

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report, not later than (1) one month after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) Fiscal Year. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General.

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule and the additional provisions governing procurement procedures as set forth in the Annex to Schedule 3 to the Original Development Credit Agreement.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule and the additional provisions governing procurement procedures as set forth in the Annex to Schedule 3 to the Original Development Credit Agreement.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works.

1. **Community Participation in Procurement.** Goods and works required for Sub-projects shall be procured in accordance with procedures acceptable to the Association.

C. Particular Methods of Procurement of Consultants’ Services.

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Selection Based on Consultant’s Qualifications
(b) Single-Source Selection
(c) Individual Consultants

D. Review by the Bank of Procurement Decisions.

1. The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General.

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the IDA General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the Categories that may be financed out of the proceeds of the Additional Credit, the allocations of the amounts of the Additional Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

	<u>Category</u>	<u>Amount of Additional Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
1.	(a) Grants under Part A of the Project	67,780,000	30% of Grant amount disbursed for Sub-projects in Kabupatens with above average financial capacity, 60% of Grant amount disbursed for Sub-projects in Kabupatens with average financial capacity, and 80% of Grant amount disbursed for Sub-projects in Kabupatens with below average financial capacity
	(b) Kecamatan Planning Grants	--	100% of Grant amount disbursed
	(c) Grants under Part F of the Project	--	100% of Grant amount disbursed
	(d) Reconstruction Planning Grants under Part F of the Project	--	100% of Grant amount disbursed
2.	Training under Parts B through E of the Project, facilitation support under Parts B through F of the Project, and workshops	9,870,000	100%
3.	Consultants' services under: (a) Part C of the Project (b) Part D, E, and F of the Project	-- 4,300,000	100%
4.	Incremental operating costs	--	100%
	TOTAL	<u>81,950,000</u>	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Additional Credit Agreement.
2. The Closing Date is December 31, 2008.

SCHEDULE 3**Repayment Schedule**

<u>Date Payment Due</u>	Principal Amount of the Credit repayable <u>(expressed as a percentage)*</u>
On each February 1 and August 1:	
commencing August 1, 2017 to and including February 1, 2027	1.25%
commencing August 1, 2027 to and including February 1, 2042	2.50%

*The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX**Section I. Definitions**

1. “Additional Credit” means the Credit or Financing provided for in this Additional Credit Agreement for the Project.
2. “Additional Credit Agreement” means this Financing Agreement providing for the Additional Credit between the Recipient and the Association, as such agreement may be amended from time to time.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
5. “Fiscal Year” means the Recipient’s fiscal year beginning on January 1 and ending on December 31 of the next following year.
6. “MDG” means Millennium Development Goals, a set of time-bound and measurable goals and targets for combating poverty, hunger, disease, illiteracy, environmental degradation and discrimination against women, which was formally approved by the international community at the United Nations Millennium Summit in September 2000.
7. “Original Development Credit Agreement” means the development credit agreement for the Original Project between the Recipient and the Association, dated August 2, 2005 (Credit # 4045-IND).
8. “Original Project” means the Third Kecamatan Development Project, Phase II, as more fully described in the Original Development Credit Agreement.
9. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 9, 2007 (Letter Number 414.2./155/BPK/II), and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

Section II. Additional Definitions

The following terms used in this Additional Credit Agreement have the meanings ascribed to them in the Original Development Credit Agreement:

- Grant
- Incremental Operating Costs
- Kabupaten with Above Average Financial Capability
- Kecamatan Planning Grant
- Project Manual
- Reconstruction Planning Grant
- Sub-project