LOAN NUMBER 8280-ID

Project Agreement

(Second Power Transmission Development Project/Scattered Transmission Lines and Substations in Indonesia Phase II)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

PT PERUSAHAAN LISTRIK NEGARA (Persero)

Dated AUGUST 28, 2013
LOAN NUMBER 8280-ID

PROJECT AGREEMENT

Agreement dated August 28, 2013, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and PT PERUSAHAAN LISTRIK NEGARA (Persero) ("Project Implementing Entity") ("Project Agreement") in connection with the Loan Agreement ("Loan Agreement") of same date between REPUBLIC OF INDONESIA ("Borrower") and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I -- GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Loan 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 Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

3.01. The Project Implementing Entity's Representative is its President Director.

3.02. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: INTBAFRAD Telex 248423(MCI) or 64145(MCI) Facsimile: 1-202-477-6391
3.03. The Project Implementing Entity's Address is:

Jalan Trunojoyo Blok M 1/135
Jakarta 12160
Kebayoran Baru
Indonesia

Telex: Facsimile
4715647248 62-21-72(-4929)

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

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

B: [Signature]

Authorized Representative

Name: JOSEPHINE BACSONETTE

Title: ACTING COUNTRY DIRECTOR

P: PERUSAHAAN LISTRIK NEGARA (Persero)

B: [Signature]

Authorized Representative

Name: MURTAQI SYAMSUDDIN

Title: DIRECTOR

(PLANNING & AFFILIATION DEVELOPMENT)
SCHEDULE

Execution of the Project

Section I.  Implementation Arrangements

A.  Institutional Arrangements

1.  The Project Implementing Entity shall be responsible for Project implementation, management, and monitoring and evaluation, including administrative and financial management, disbursement and procurement, in accordance with the institutional arrangements set out in this Schedule.

Directorates of Planning and Affiliation Development, Finance, and Strategic Procurement and Primary Energy

2.  The Project Implementing Entity shall maintain, throughout Project implementation, the Directorate of Planning and Affiliation Development, Directorate of Finance, and Directorate of Strategic Procurement and Primary Energy with an adequate institutional framework, functions, and resources, including competent personnel in adequate numbers, as shall be required for the purposes of Project implementation.

3.  The Directorate of Planning and Affiliation Development, particularly the Project Management Unit, shall be responsible for Project implementation, management, and monitoring and evaluation, including administrative management. The Directorate of Finance shall be responsible for Project financial management and disbursement. The Directorate of Strategic Procurement and Primary Energy, particularly the Procurement Committee, shall be responsible for Project procurement.

4.  The Project Implementing Entity shall maintain, throughout Project implementation, the Project Management Unit, under the Directorate of Planning and Affiliation Development, an adequate institutional framework functions, and resources, including competent personnel in adequate numbers, as shall be required for the purposes of Project implementation.

5.  The Project Implementing Entity shall establish, no later than one (1) month after the Effectiveness Date, and thereafter maintain throughout Project implementation, the Procurement Committee, under the Directorate of Strategic Procurement and Primary Energy, chaired by a manager of such directorate, and with an adequate composition, institutional framework, functions and resources, as shall be required for the purposes of Project implementation.

6.  The Project Implementing Entity shall finance out of its own resources, appoint by the date which is no later than one (1) month after the Effectiveness Date, and thereafter maintain throughout the Project, a project management consultant, on terms of reference satisfactory to the Project Implementing Entity and the Bank and including at least one each of technical, financial and environmental social safeguards specialists, to assist the Project Implementing Entity, including in coordinating procurement, financial management and reporting obligations for the Project.
Regional Project Management Offices

7. The Project Implementing Entity shall maintain, throughout Project implementation, its existing Regional Project Management Offices, which shall act as project implementing units and shall be responsible for parts of the Project as follows:

(a) **Unit Induk Pembangunan V (UIP-V)**, the construction principle unit, located in Jakarta city and responsible for the Project in those Provinces in Java-Bali which are assigned to such unit in the Project Implementation Plan;

(b) **Unit Induk Pembangunan VII (UIP-VII)**, the construction principle unit, located in Surabaya city and responsible for the Project in those Provinces in Java-Bali which are assigned to such unit in the Project Implementation Plan;

(c) **Unit Induk Pembangunan Pembangkit dan Jaringan Kalimantan X (UIP X)**, the construction principle unit, located in Balikpapan city, East Kalimantan and responsible for the Project in those Provinces of Kalimantan which are assigned to such unit in the Project Implementation Plan;

(d) **Unit Induk Pembangunan XIII (UIP XIII)**, the construction principle unit, located in Makassar City, South Sulawesi and responsible for the Project in those Provinces of Sulawesi which are assigned to such unit in the Project Implementation Plan;

(e) **Unit Induk Pembangunan II (UIP II)**, the construction principle unit, located in Medan city, North Sumatra and responsible for the Project in those Provinces of Sumatra which are assigned to such unit in the Project Implementation Plan; and

(f) **Unit Induk Pembangunan III (UIP III)**, the construction principle unit, located in Palembang City, South Sumatra and responsible for the Project in those Provinces of Sumatra which are assigned to such unit in the Project Implementation Plan.

The foregoing list of Regional Project Management Offices includes any successors thereto; provided, however, that in the event that any reorganization of the Regional Project Management Offices that is to be considered which may affect the implementation of the Project, the Project Implementing Entity shall apply the necessary measures that will ensure the successful implementation of the Project. The Bank and the Project Implementing Entity shall discuss and agree on any additional measures to ensure that the referred changes do not affect the successful implementation of the Project.

8. The Project Implementing Entity shall ensure that each such Regional Project Management Office shall at all times have an adequate institutional framework, functions, and resources, including competent personnel in adequate numbers, as shall be required for the purposes of Project implementation. Each Regional Project Management Office shall be responsible for regional-level technical supervision of the Project.
B. Implementation Arrangements

1. Project Implementation Plan. The Project Implementing Entity:

(a) shall: (i) adopt a Project Implementation Plan, agreed with the Bank and setting out implementation, organizational, administrative, monitoring and evaluation, environmental and social monitoring and mitigation, and financial management and disbursement arrangements and a time-bound roadmap for purposes of Project implementation; and (ii) thereafter ensure that the Project is carried out in accordance with such Plan; and

(b) except as the Bank shall otherwise agree in writing, shall not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the aforementioned, or any provision thereof.

2. In the event of any conflict between the provisions of the Project Implementation Plan and the provisions of the Loan Agreement or this Agreement, the provisions of the Loan Agreement or this Agreement, as applicable, shall prevail.

3. Sub-projects.

(a) No proposed Sub-project shall be eligible for financing under the Project unless, on the basis of a review and appraisal conducted in accordance with the provisions of this paragraph, it has been determined that the proposed Sub-project satisfied the Eligibility Criteria satisfactory to the Bank, described in further detail in the Project Implementation Plan, which shall include the following:

(i) the Sub-project will contribute to the achievement of the objective of the Project;

(ii) the Sub-project is consistent with the relevant technical, administrative, environmental and social standards and national sector policies;

(iii) all relevant approvals have been obtained from the Borrower for the purposes of the Sub-project, including with respect to the feasibility study and any environmental requirements;

(iv) the Sub-project is the least-cost option, as compared to alternative investments in the area;

(v) the Sub-project has an economic rate of return of at least ten percent (10%) calculated or the basis of methodology acceptable to the Bank;

(vi) an Environmental Management Plan (and where required by such plan, a site-specific addendum thereto for such Sub-project), a Land Acquisition and Resettlement Action Plan (where required by the terms of the Land Acquisition and Resettlement Policy Framework), and an Indigenous Peoples Plan (where required by the terms of the Indigenous Peoples Planning Framework) have each been prepared in form and substance acceptable to the Bank, adopted by the Project Implementing Entity, and disclosed;
(vii) financing, procurement and implementation plans in form and substance satisfactory to the Bank have been prepared and adopted for the purposes of the Sub-project; and

(viii) with respect to proposed Group 2 Sub-projects, the Bank has concurred in writing with the inclusion of such proposed Sub-projects in the Project.

(b) The Project Implementing Entity shall, by no later than January 15 in each year of Project implementation, commencing on January 15, 2013, provide to the Bank a list of the Project Implementing Entity’s rolling investment plan including for the year just-commenced and including those activities that constitute proposed Group 2 Sub-projects.

4. Annual Reviews. The Project Implementing Entity shall review jointly with the Borrower and the Bank, no later than one (1) month after the transmittal of each Project Report to the Bank, such Report, and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of such Report and the Borrower’s and the Bank’s views on the matter.

C. Anti-Corruption

The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines and the Governance and Accountability Framework.

D. Safeguards

General Provisions

1. The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Environmental and Social Management Framework, the Environmental Codes of Practice, each Environmental Management Plan, the Land Acquisition and Resettlement Framework, Policy Framework, (and each Land Acquisition and Resettlement Action Plan required thereunder), the Indigenous Peoples Planning Framework (and any Indigenous Peoples Plan required thereunder), and, except as the Bank shall otherwise agree, the Project Implementing Entity shall not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the aforementioned, or any provision thereof.

2. In the event of any conflict or inconsistency between the provisions of any of the Environmental and Social Framework, the Environmental Codes of Practice, each Environmental Management Plan, the Land Acquisition and Resettlement Framework, each Land Acquisition and Resettlement Action Plan, the Indigenous Peoples Planning Framework, and/or any Indigenous Peoples Plan and the provisions of the Loan Agreement or this Agreement, the provisions of the Loan Agreement or this Agreement, as applicable, shall prevail.
3. The Project Implementing Entity shall ensure that each bidding document and each contract for a Sub-project includes: the obligation of the relevant contractor to implement and monitor and evaluate the relevant Environmental Management Plan (including the Environmental Codes of Practice), any site-specific addenda to such plan, any Land Acquisition and Resettlement Action Plan and an Indigenous Peoples Plan applicable to such Sub-project.

4. The Project Implementing Entity shall take all measures necessary on its part regularly to collect, compile, and submit to the Bank, as part of the Project Reports, information on the status of compliance with the Environmental and Social Management Framework, the Environmental Codes of Practice, each Environmental Management Plan and any site specific addenda thereto, the Land Acquisition and Resettlement Policy Framework, each Land Acquisition and Resettlement Action Plan, the Indigenous Peoples Planning Framework, and any Indigenous Peoples Plan, giving details of: (a) measures taken in furtherance of such instruments; (b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of such Plans and addenda; and (c) remedial measures taken or required to be taken to address such conditions.

5. The Project Implementing Entity shall ensure that the Regional Project Management Offices are responsible for the implementation and monitoring and evaluation of such Plans and addenda in their respective provinces.

Provisions Specific to Environmental Management Plans

6. Wherever required in terms of the Environmental Management Plan for Group 1 Sub-projects, the Project Implementing Entity shall, for the purposes of any Sub-project, and prior to implementation thereof, proceed to have a site-specific addendum to such Environmental Management Plan: (a) prepared in form and substance satisfactory to the Borrower and the Bank; (b) except as otherwise agreed with the Bank, submitted to the Bank for review and approval; and (c) thereafter, accepted and locally disclosed.

7. For each Group 2 Sub-project, prior to commencing any activities for such Sub-project, the Project Implementing Entity shall:

(a) in accordance with the Environmental and Social Management Framework: (i) for a Group 2 Sub-project for expansion or rehabilitation, prepare an Environmental Management Plan that includes such Sub-project (it being understood that each Environmental Management Plan may cover more than one such Sub-project); and (ii) for a Group 2 Sub-project for new construction, prepare an Environmental Management Plan specifically for such Sub-project, in each case in form and substance satisfactory to the Borrower and the Bank;

(b) submit such Environmental Management Plan to the Bank for no-objection and receive from the Bank its written no-objection on such Environmental Management Plan;

(c) adopt and locally disclose such Environmental Management Plan; and
(d) thereafter implement such Environmental Management Plan.

8. Wherever required in terms of the Environmental Management Plan for any Group 2 Sub-project, and prior to implementation thereof, proceed to have a site-specific addendum to such Environmental Management Plan: (a) prepared in form and substance satisfactory to the Borrower and the Bank; (b) except as otherwise agreed with the Bank, submitted to the Bank for review and approval; and (c) thereafter, adopted and locally disclosed.

Provisions Specific to Land Acquisition and Resettlement

9. The Project Implementing Entity shall:

(a) take all necessary actions to minimize to the extent possible any involuntary relocation of persons, or their loss of shelter, assets, or access to assets, or loss of income sources or means of livelihood, temporarily or permanently;

(b) apply the Land Acquisition and Resettlement Policy Framework to each Sub-project site, including to determine whether there are any Projected Affected People at such site;

(c) with respect to each Sub-project site at which Projected Affected People have been identified in accordance with the Land Acquisition and Resettlement Policy Framework, before commencing any land acquisition or resettlement or beginning any works or any preparation for works on any such Sub-project site:

(i) prepare in accordance with the Land Acquisition and Resettlement Policy Framework, a draft Land Acquisition and Resettlement Action Plan, with a timetable and budget, including adequate and timely provision of counterpart funds;

(ii) carry out consultations on such draft Land Acquisition and Resettlement Action Plan in accordance with the Land Acquisition and Resettlement Policy Framework and take such consultations into consideration in finalizing such Land Acquisition and Resettlement Action Plan;

(iii) submit such Land Acquisition and Resettlement Action Plan to the Bank for no objection and receive from the Bank its written no-objection;

(iv) adopt and locally disclose such Land Acquisition and Resettlement Action Plan; and

(v) ensure that all Projected Affected People shall have been fully compensated and provided with all applicable resettlement and rehabilitation benefits and other assistance in accordance with the provisions of such Land Acquisition and Resettlement Action Plan; and
(d) ensure that land acquisition and any compensation required pursuant to the Land Acquisition and Resettlement Policy Framework and each Land Acquisition and Resettlement Action Plan is financed exclusively out of its own or other resources and not out of the proceeds of the Loan;

Provisions Specific to Indigenous Peoples

10. The Project Implementing Entity shall:

(a) apply the Indigenous Peoples Planning Framework to each Sub-project site, including to determine whether there are any Indigenous Peoples at such site;

(b) with respect to each Sub-project site at which Indigenous Peoples have been identified in accordance with the Indigenous Peoples Planning Framework:

(i) avoid, and, if not possible, minimize cultural, social and economic adverse effects on Indigenous Peoples, caused or likely to be caused by the Project, by taking appropriate mitigating measures;

(ii) through a process of free, prior and informed consultation, involve concerned Indigenous Peoples in the design and implementation of Sub-projects in which such people reside or make their living, develop an Indigenous Peoples Plan, including the design and implementation of measures to ensure that the benefits received by the Indigenous Peoples under the Project are in harmony with their economic, social and cultural preferences, and likely to protect their customary user rights and reduce, mitigate and offset any adverse impacts of Sub-projects;

(iii) submit such Indigenous Peoples Plan to the Bank for no-objection and receive from the Bank its written no-objection;

(iv) adopt and locally disclose such Indigenous Peoples Plan; and

(v) thereafter implement such Indigenous Peoples Plan.

Section II. Project Monitoring, Reporting and Evaluation.

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of indicators acceptable to the Bank. Each such Project Report shall cover the period of one (1) calendar year, and shall be furnished to the Bank not later than one (1) month after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.
2. The Project Implementing Entity shall provide to the Borrower not later than nine (9) months prior to the Closing Date, for incorporation in the report referred to in Section 5.08 (c) of the General Conditions all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Borrower and the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank and the Borrower.

3. The Project Implementing Entity shall have its financial statements referred to in paragraph 1 above audited by independent auditors acceptable to the Borrower and the Bank, in accordance with consistently applied auditing standards acceptable to the Borrower and the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than six (6) months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Bank.

4. (a) Except as the Bank and the Project Implementing Entity shall otherwise agree in writing, the Project Implementing Entity shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Project Implementing Entity shows that the estimated net revenues of the Project Implementing Entity for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements of the Project Implementing Entity in such year on all debt of the Project Implementing Entity, including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term “debt” means any indebtedness of the Project Implementing Entity maturing by its terms more than one (1) year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement, or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term “net revenues” means the difference between:
(A) the sum of revenues from all sources related to operations and net non-operating income; and

(B) the sum of all expenses related to operations including administration, adequate maintenance, taxes, and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges, and interest and other charges on debt.

(iv) The term “net non-operating income” means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(v) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt, except for interest charges incurred in financing capital expenditures during construction.

(vi) The term “reasonable forecast” means a forecast prepared by the Project Implementing Entity not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and the Project Implementing Entity accept as reasonable and as to which the Bank has notified the Project Implementing Entity of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Project Implementing Entity.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section III. Procurement

All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.