MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA

AND

THE REPUBLIC OF INDONESIA

MILLENNIUM CHALLENGE COMPACT

TABLE OF CONTENTS

Page

MILLENNIUM CHALLENGE COMPACT

PREAMBLE

This MILLENNIUM CHALLENGE COMPACT (this "***Compact***") is between the United States of America (the "***United States***"), and the Republic of Indonesia (the "***Government***").

The United States and the Government are collectively referred to as the "***Parties***" and each individually as a "***Party.***"

Recalling that the Parties successfully concluded an initial Millennium Challenge Compact (which entered into force on April 2, 2013, and expired by its terms on April 2, 2018) that advanced the progress of Indonesia in achieving lasting economic growth and poverty reduction, demonstrated the strong partnership between the Parties, and was implemented in accordance with the core policies and standards of the Millennium Challenge Corporation ("***MCC***");

Recognizing that the Parties are committed to the shared goals of promoting economic growth and the elimination of extreme poverty in Indonesia and that assistance under this Compact supports Indonesia's demonstrated commitment to strengthening good governance, economic freedom and investments in its people;

Recalling that the Government consulted with the private sector, academia, and civil society of Indonesia to determine the priorities for the use of assistance under this Compact and developed and submitted to MCC a proposal for such assistance to achieve lasting economic growth and poverty reduction;

Recognizing that the United States wishes to help the Government implement the program described herein to achieve the goal and objectives described herein (as such program description and objectives may be amended from time to time in accordance with the terms of this Compact, the "***Program***"); and

Recognizing that MCC shall serve as an implementing agency for the United States under this Compact.

The Parties hereby agree as follows:

ARTICLE 1.

GOAL AND OBJECTIVES

Section 1.1 Compact Goal. The goal of this Compact is to reduce poverty through economic growth in Indonesia (the "***Compact Goal***"). MCC shall provide assistance in a manner that strengthens good governance, economic freedom, and investments in the people of Indonesia.

Section 1.2 Project Objectives. The Program consists of the three projects described in Annex I (each a "***Project***" and collectively, the "***Projects***"). The objective of each of the respective Projects (each a "***Project Objective***" and collectively, the "***Project Objectives***") is:

(a) to improve transport planning and preparation in the Target Provinces (as defined below) ("***ATLAS Project Objective***");

(b) to reach financial close on transactions using structured finance, including deals with institutional investors and with a focus on local currency transactions ("***FMD Project Objective***"); and

(c) to increase lending by formal financial service providers ("***FSPs***") to micro-, small and medium enterprises owned by women or men in the Target Provinces ("***MSME Finance Project Objective***").

ARTICLE 2.

FUNDING AND RESOURCES

Section 2.1 Program Funding.

Upon entry into force of this Compact in accordance with Section 7.3, MCC shall grant to the Government, under the terms of this Compact, an amount not to exceed Six Hundred Twenty-Four Million Eight Hundred Twenty-Four Thousand Five Hundred Forty-Three United States Dollars (US$624,824,543) ("***Program Funding***") for use by the Government to implement the Program. The multi-year allocation of Program Funding is generally described in Annex II.

Section 2.2 Compact Facilitation Funding.

(a) Upon the signing of this Compact, MCC shall grant to the Government, under the terms of this Compact and in addition to the Program Funding described in Section 2.1, an amount not to exceed Twenty-Four Million One Hundred Seventy-Five Thousand Four Hundred Fifty-Seven United States Dollars (US$24,175,457) ("***Compact Facilitation Funding***" or "***CFF***") under Section 609(g) of the Millennium Challenge Act of 2003, as amended (the "***MCA Act***"), for use by the Government to facilitate implementation of this Compact, including for the following purposes:

(i) financial management and procurement activities;

(ii) administrative support expenses such as staff salaries, rent and associated improvements, publication costs, costs to hire short-term experts, and the costs of information technology and equipment requirements;

(iii) monitoring and evaluation activities;

(iv) feasibility, design, and other project preparatory studies;

(v) transaction advisory services;

(vi) pilot testing the capacity development program in two Target Provinces for the Climate Resilience Sub-activity (as defined below); and

(vii) other activities to facilitate compact implementation as approved by MCC.

The allocation of Compact Facilitation Funding is generally described in Annex II.

(b) In accordance with Section 7.5, this Section 2.2 and other provisions of this Compact applicable to Compact Facilitation Funding shall be effective, for purposes of Compact Facilitation Funding only, as of the date this Compact is signed by the Parties.

(c) Each Disbursement of Compact Facilitation Funding is subject to satisfaction of the conditions precedent to such disbursement as set forth in Annex IV.

(d) If MCC determines that the full amount of Compact Facilitation Funding available under Section 2.2(a) exceeds the amount that reasonably can be utilized for the purposes set forth in Section 2.2(a), MCC, by written notice to the Government, may withdraw the excess amount, thereby reducing the amount of Compact Facilitation Funding available under Section 2.2(a) (such excess, the "***Excess CFF Amount***"). In such event, the amount of Compact Facilitation Funding granted to the Government under Section 2.2(a) shall be reduced by the Excess CFF Amount, and the United States shall have no further obligations with respect to such Excess CFF Amount.

(e) MCC, at its option by written notice to the Government, may elect to grant to the Government an amount equal to all or a portion of such Excess CFF Amount as an increase in the Program Funding, and such additional Program Funding shall be subject to the terms and conditions of this Compact applicable to Program Funding.

Section 2.3 <u>MCC Funding</u>.

Program Funding and Compact Facilitation Funding are collectively referred to in this Compact as "***MCC Funding***," and includes any refunds or reimbursements of Program Funding or Compact Facilitation Funding paid by the Government in accordance with this Compact.

Section 2.4 <u>Disbursement</u>.

In accordance with this Compact and the Program Implementation Agreement, MCC shall disburse MCC Funding for expenditures incurred in furtherance of the Program (each instance, a "***Disbursement***"). Subject to the satisfaction of all applicable conditions precedent, the proceeds of Disbursements shall be made available to the Government, at MCC's sole election, by (a) deposit to one or more bank accounts established by the Government and acceptable to MCC (each, a "***Permitted Account***") or (b) direct payment to a third party as payment for an amount from MCA-Indonesia II for the implementation of the Program. MCC Funding may be expended only for Program expenditures.

Section 2.5 <u>Interest</u>. The Government shall pay or transfer to MCC, in accordance with the Program Implementation Agreement, any interest or other earnings that accrue on MCC Funding prior to such funding being used for a Program purpose.

Section 2.6 <u>Government Resources; Budget</u>.

(a) Consistent with Section 609(b)(2) of the MCA Act and the *Guidelines for Country Contributions*, the Government shall make a contribution of no less than Forty-Eight Million Six Hundred Seventy-Five Thousand United States Dollars (US$48,675,000) over the period from the signing of this Compact to the end of the Compact Term toward meeting the Project Objectives (the "***Government Contribution***"). The overall allocation of the Government Contribution is generally described in Annex II, and a more detailed allocation shall be described in the Program Implementation Agreement, along with additional terms and conditions applicable to the Government Contribution. The Government Contribution shall be subject to the prevailing laws and regulations of Indonesia for the budgeting and appropriation of such contribution. At MCC's request, the Government shall provide evidence that it has budgeted and appropriated or otherwise ensured that the Government Contribution shall be made available for Program requirements. During implementation of the Program, the Government Contribution may be modified with MCC approval as provided in the *Guidelines for Country Contributions*, *provided* that the modified contribution continues to advance the Project Objectives. In addition, the Government shall provide all funds and other resources, and shall take all other actions, that are necessary to carry out the Government's responsibilities under this Compact.

(b) The Government shall use its best efforts to ensure that all MCC Funding it receives or is projected to receive in each of its fiscal years is fully accounted for and identified in its annual budget for the duration of the Program.

(c) The Government shall not reduce the normal and expected resources that it would otherwise budget for the activities contemplated under this Compact and the Program. In addition, unless the Government discloses otherwise to MCC in writing, MCC Funding shall be in addition to such resources.

Section 2.7 <u>Limitations on the Use of MCC Funding</u>. The Government shall ensure that MCC Funding is not used for any purpose that would violate United States law or policy, as specified in this Compact or as further notified to the Government in writing, including but not limited to the following purposes:

(a) for assistance to, or training of, the military, police, militia, national guard, or other quasi-military organization or unit;

(b) for any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production;

(c) to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard, as further described in MCC's *Environmental Guidelines* and any guidance documents issued in connection with such guidelines (collectively, the "***Environmental Guidelines***"); or

(d) to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilizations as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations or to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning.

Section 2.8 Taxes.

(a) The Government shall ensure that all MCC Funding is free from all taxes, duties, levies, and other similar charges imposed in accordance with prevailing tax laws and regulations in Indonesia by or in Indonesia (whether at the national, regional, local or other level) (but not fees or charges for services that are generally applicable in Indonesia, reasonable in amount and imposed on a non-discriminatory basis) ("***Taxes***"). Without limiting the generality of the scope of the previous sentence, MCC Funding shall be free from any and all of the following, whether or not such Taxes currently exist in Indonesia: (i) tariffs, customs duties, import taxes, export taxes, and other similar charges on any goods, works or services introduced into Indonesia in connection with the Program; (ii) tariffs, customs duties, import taxes, export taxes, and other similar charges on any personal effects, vehicles, equipment, supplies, or other items imported into Indonesia by any personnel, including any providers of goods, works, or services to the Program, for their own use, which personnel or providers are present in the country to perform work in connection with the Program and are not citizens or permanent residents of Indonesia; (iii) sales tax, value added tax, excise tax, property transfer tax, and other similar charges on any transactions involving goods, works or services in connection with the Program; (iv) taxes and other similar charges on ownership, possession or use of any property in connection with the Program; and (v) taxes and other similar charges on income, profits or gross receipts attributable to work performed in connection with the Program and related social security taxes and other similar charges on all natural or legal persons performing work in connection with the Program except: (1) natural persons who are citizens or permanent residents of Indonesia; and (2) legal persons formed under the laws of Indonesia.

(b) The mechanisms that the Government shall use to implement the tax exemption required by Section 2.8(a) for certain principal Taxes are set forth in Annex VI of the Compact. Such mechanisms may include exemptions from the payment of Taxes that have been granted in accordance with applicable law or refund or reimbursement of Taxes by the Government to MCC, MCA-Indonesia II or to the taxpayer. For the avoidance of doubt, the identification (or lack of identification) of Taxes in Annex VI of the Compact shall in no way limit the scope of the tax-free treatment of MCC Funding required by this Section 2.8. In addition, the Government shall from time to time execute and deliver, or cause to be executed and delivered, such other instructions, instruments or documents, and to take or cause to be taken such other actions as MCC may advise is necessary or appropriate to implement the provisions of this Section 2.8.

(c) Unless otherwise specifically provided herein or in the PIA, if a Tax has been paid contrary to the requirements of Section 2.8(a) or Annex VI of the Compact, the Government shall refund promptly to MCC (or to another party as designated by MCC) the amount of such Tax in United States dollars or the currency of Indonesia within forty-five (45) days (or such other period as may be agreed in writing by the Parties) after the Government is notified in writing (whether by MCC or MCA-Indonesia II) that such Tax has been paid. Failure to refund such amount within the specified time shall result in interest accruing on the unpaid amount in accordance with Section 5.4.

(d) The Government shall not apply any MCC Funding, the Government Contribution, any proceeds thereof or any Program Assets to satisfy its obligations under Section 2.8(c).

Section 2.9 Lower Middle Income Countries. Section 606(b) of the MCA Act restricts the amount of assistance that MCC may provide to "lower middle income countries," a term that is defined in the MCA Act and includes Indonesia. To the extent that MCC determines, in MCC's reasonable discretion, that the amount of Program Funding granted to the Government in this Compact might exceed the limit stipulated in Section 606(b) of the MCA Act, MCC, at any time and from time to time upon written notice to the Government, may reduce the amount of Program Funding, or withhold any Disbursement of Program Funding.

ARTICLE 3.

IMPLEMENTATION

Section 3.1 Program Implementation Agreement. The Parties shall enter into an agreement providing further detail on the implementation arrangements, fiscal accountability and disbursement and use of MCC Funding and the Government Contribution, among other matters (the "***Program Implementation Agreement***" or "***PIA***"); and the Government shall implement the Program in accordance with this Compact, the PIA, any other Supplemental Agreement.

Section 3.2 Government Responsibilities.

(a) The Government has principal responsibility for overseeing and managing the implementation of the Program.

(b) The Government hereby designates Millennium Challenge Account Indonesia II, established as a separate legal entity with legal personality created through the issuance of Minister of National Development Planning Regulation Number 5/2022 as promulgated on August 9, 2022, as further described in Annex I, as the accountable entity to implement the Program and to exercise and perform the Government's right and obligation to oversee, manage and implement the Program, including without limitation, managing implementation of the Projects and their Activities, allocating resources, and managing procurements. Such entity shall be referred to herein as "***MCA-Indonesia II***," and has the authority to bind the Government with regard to all Program activities. The Government hereby also designates MCA-Indonesia II to exercise and perform the Government's right and obligation to oversee, manage, and implement the activities described in the Grant and Implementation Agreement, dated as of February 4, 2021, by and between the Government and MCC (as amended or otherwise modified, the "***CDF Agreement***"). The Parties note the Government remains fully responsible for the performance of its obligations and responsibilities under this Compact notwithstanding the designation of this Section 3.2(b), and any provision of this Compact, the PIA or any other Supplemental Agreement obligating MCA-Indonesia II to take any action or refrain from taking any action, as the case may be, means the Government shall cause MCA-Indonesia II to take such action or refrain from taking such action, as the case may be. MCC hereby acknowledges and consents to the designation in this Section 3.2(b).

(c) The Government shall ensure that any Program Assets or services funded in whole or in part (directly or indirectly) by MCC Funding are used solely in furtherance of this Compact and the Program unless MCC approves otherwise in writing.

(d) The Government shall take all necessary or appropriate steps to achieve each of the Project Objectives during the Compact Term (including, without limiting Section 2.6(a), funding all costs that exceed MCC Funding and are required to carry out the terms hereof and achieve such objectives, unless MCC approves otherwise in writing).

(e) The Government shall ensure that the Program is implemented, and that the Government carries out its obligations hereunder, with due care, efficiency, and diligence in conformity with sound technical, financial, and management practices, and in conformity with this Compact, the Program Implementation Agreement, each other Supplemental Agreement, and the Program Guidelines.

(f) The Government shall retain ownership of any Intellectual Property developed, in whole or in part, with MCC Funding. The Government hereby grants to the United States a perpetual, irrevocable, royalty-free, worldwide, fully paid license (including the right to assign such license) to practice or have practiced on its behalf (including the right to produce, reproduce, publish, repurpose, use, store, modify, or make available) any portion or portions of such Intellectual Property as the United States sees fit in any medium, now known or hereafter developed, for any purpose whatsoever.

Section 3.3 <u>Policy Performance</u>. In addition to undertaking the specific policy, legal, and regulatory reform commitments identified in Annex I (if any), the Government shall seek to maintain and to improve its level of performance under the policy criteria identified in Section 607 of the MCA Act, and the selection criteria and methodology used by MCC.

Section 3.4 <u>Accuracy of Information</u>. The Government assures MCC that, as of the date this Compact is signed by the Government, the information provided to MCC by or on behalf of the Government in the course of reaching agreement on this Compact is true, correct, and complete in all material respects.

Section 3.5 <u>Implementation Letters</u>. From time to time, MCC may provide guidance to the Government in writing on any matters relating to this Compact, MCC Funding, or implementation of the Program. The Government shall use such guidance in implementing the Program. The Parties may also issue joint writings to confirm and record their mutual understanding on aspects related to the implementation of this Compact, the PIA or other related agreements, including to record any revisions, exceptions, or modifications that are permitted hereunder. Such writings are referred to herein as "***Implementation Letters***."

Section 3.6 <u>Procurement and Grants</u>.

(a) The Government shall ensure that the procurement of all goods, works, and services to implement the Program shall be in accordance with the *Program Procurement Guidelines*. The Program Procurement Guidelines include the following provisions, among others:

(i) open, fair, and competitive procedures must be used in a transparent manner to solicit, award, and administer contracts and to procure goods, works, and services;

(ii) solicitations for goods, works, and services must be based upon a clear and accurate description of the goods, works, and services to be acquired;

(iii) contracts must be awarded only to qualified and eligible contractors that have the capability and willingness to perform the contracts in accordance with their terms on a cost effective and timely basis; and

(iv) no more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, shall be paid to procure goods, works and services.

(b) The Government shall ensure that any grant issued in furtherance of the Program (each, a "***Grant***") is awarded, implemented, and managed pursuant to open, fair, and competitive procedures in accordance with the *Program Grant Guidelines*.

Section 3.7 Records; Accounting; Access.

(a) Government Books and Records. The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, accounting books, records, documents, and other evidence relating to the Program adequate to show, to MCC's satisfaction, the use of all MCC Funding, the Government Contribution, and the implementation and results of the Program ("***Compact Records***"). Compact Records must be maintained for at least five (5) years after the end of the Compact Term or for such longer period, if any, required in connection with any litigation, claims, audit findings, or applicable legal requirements. In addition, the Government shall furnish or cause to be furnished to MCC, upon its request, originals or copies of such Compact Records.

(b) Accounting. The Government shall maintain, and shall use its best efforts to ensure, that all Covered Providers maintain, Compact Records in accordance with generally accepted accounting principles prevailing in the United States, or at the Government's option and with MCC's prior written approval, other accounting principles, such as those (i) prescribed by the International Accounting Standards Board, or (ii) then prevailing in Indonesia.

(c) Access. Upon MCC's request, the Government, at all reasonable times, shall permit, or cause to be permitted, authorized representatives of MCC, the Inspector General of MCC ("***Inspector General***"), the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or the Government to conduct any assessment, review, or evaluation of the Program, the opportunity to audit, review, evaluate or inspect facilities, assets, and activities funded in whole or in part by MCC Funding or the Government Contribution.

Section 3.8 Audits; Reviews.

(a) Government Audits. The Government shall, on at least an annual basis (or on such other intermittent basis as requested by MCC in writing), conduct, or cause to be conducted, financial audits and review engagements of all disbursements of MCC Funding and the Government Contribution. The initial audit shall cover the period from signing of this Compact until the initial audit period end date specified in an audit plan developed and implemented by MCA-Indonesia II in accordance with the Audit Guidelines (as defined below) and Program Implementation Agreement (the "***Audit Plan***"). Subsequent audits shall cover each twelve-month period thereafter, through the end of the Compact Term, as well as the 120-day period following expiration of the Compact Term. All such audits and review engagements shall be performed in accordance with and subject to the terms of the *Accountable Entities Guidelines for Contracted Financial Audits* (the "***Audit Guidelines***") or such other processes and procedures as MCC may direct from time to time. In addition, the Government shall ensure that such audits are conducted by an independent auditor approved by MCC and selected in accordance with the Audit Guidelines. Each audit must be completed, and the draft audit report delivered to MCC, no later than 120 days after the applicable audit period, or such other period as the Parties may otherwise agree in writing. Any changes to the period to be audited shall be included in the Audit Plan as approved by MCC or as agreed by the Parties in writing.

(b) Audits of Other Entities. The Government shall ensure that MCC-financed agreements between the Government and any Covered Provider state that the Covered Provider is subject to audit in accordance with the Audit Guidelines.

(c) Corrective Actions. The Government shall use its best efforts to ensure that each Covered Provider (i) takes, where necessary, appropriate, and timely corrective actions in response to audits, (ii) considers whether the results of the Covered Provider's audits necessitate adjustment of the Government's records, and (iii) permits independent auditors to have access to its records and financial statements, as necessary.

(d) Audit by MCC. MCC shall have the right to arrange for audits of the Government's use of MCC Funding and of the Government Contribution.

(e) Cost of Audits, Reviews or Evaluations. MCC Funding may be used to fund the costs of any audits, reviews or evaluations required under this Compact.

ARTICLE 4.
COMMUNICATIONS

Section 4.1 Communications. Any document or communication required or submitted by either Party to the other under this Compact must be in writing and, except as otherwise approved by MCC, in English. All such documents or communication must be submitted to the address of each Party set forth below or to such other address as may be designated by any Party in a written notice to the other Party.

To the United States:

Millennium Challenge Corporation
Attention: Vice President, Compact Operations
(with a copy to the Vice President and General Counsel)
1099 Fourteenth Street, NW Suite 700
Washington, DC 20005
United States of America
Telephone: +1 (202) 521-3600
Email:
VPOperations@mcc.gov (Vice President, Compact Operations)
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

Ministry of National Development Planning/
National Development Planning Agency (BAPPENAS)
Attention: Secretary of the Ministry of National Development Planning/Executive
Secretary of the National Development Planning Agency
Jalan Taman Suropati 2, Jakarta Pusat 10310
Republic of Indonesia
Tel: + 62-21-3920353
Fax: + 62-21-394315

Section 4.2 Representatives. For all purposes relevant to implementation of this Compact, the Government shall be represented by the individual holding the position of, or acting as, the Secretary of the Ministry of National Development Planning/Executive Secretary of the National Development Planning Agency of the Republic of Indonesia, and the United States shall be represented by the individual holding the position of, or acting as, Vice President, Compact Operations of MCC (each of the foregoing, a "***Principal Representative***"). Each Principal Representative may sign the PIA on behalf of its Party. Each Party, by written notice to the other Party, may designate one or more additional representatives of such Party (each, an "***Additional Representative***") for all purposes relevant to implementation of this Compact except for amending this Compact pursuant to Section 6.2(a). The Government hereby designates the Deputy Minister of Development Funding of the Ministry of National Development Planning/National Development Planning Agency, the Director of Bilateral Funding of the Ministry of National Development Planning/National Development Planning Agency, and the Executive Director of MCA-Indonesia II as Additional Representatives for the Government. The United States hereby designates MCC's Deputy Vice President, Department of Compact Operations EAPLA and Resident Country Director for Indonesia as Additional Representatives for the United States. A Party may change its Principal Representative to a new representative that holds a position of equal or higher authority upon written notice to the other Party.

Section 4.3 Signatures. Signatures to this Compact and to any amendment to this Compact shall be original signatures appearing on the same page or in an exchange of letters or diplomatic notes.

ARTICLE 5.

TERMINATION; SUSPENSION; REFUNDS

Section 5.1 Termination; Suspension.

(a) Either Party may terminate this Compact without cause in its entirety by giving the other Party thirty (30) days' prior written notice. MCC may also terminate MCC Funding without cause in part by giving the Government thirty (30) days' prior written notice.

(b) The United States may, immediately, upon written notice to the Government, suspend or terminate this Compact and MCC may, immediately, upon written notice to the Government, suspend or terminate MCC Funding, in each case, in whole or in part, and any obligation related thereto, if MCC determines that any circumstance identified by MCC as a basis for suspension or termination (as notified to the Government in writing) has occurred, which circumstances include but are not limited to the following:

(i) the Government fails to comply with its obligations under this Compact or any other agreement or arrangement entered into by the Government in connection with this Compact or the Program;

(ii) any statement, affirmation or assurance made or deemed made by the Government in this Compact, the Program Implementation Agreement, any other Supplemental Agreement, or in any certificate or other document delivered in connection with this Compact proves to have been incorrect or misleading in any material respect as of the date when made or deemed made;

(iii) an event or series of events has occurred that makes it probable that any of the Project Objectives is not going to be achieved during the Compact Term or that the Government is not going to be able to perform its obligations under this Compact;

(iv) a use of MCC Funding or continued implementation of this Compact or the Program violates applicable law or United States Government policy, whether now or hereafter in effect;

(v) the Government or any other person or entity receiving MCC Funding or using Program Assets is engaged in activities that are contrary to the national security interests of the United States;

(vi) an act has been committed or an omission or an event has occurred that would render Indonesia ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151 *et seq*.), by reason of the application of any provision of such act or any other provision of law; and

(vii) the Government has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of Indonesia for assistance under the MCA Act.

Section 5.2 Consequences of Termination, Suspension or Expiration.

(a) Upon the suspension or termination, in whole or in part, of this Compact or any MCC Funding, or upon the expiration of this Compact, the provisions of Section 4.2 of the Program Implementation Agreement shall govern the post-suspension, post-termination or post-expiration treatment of MCC Funding, any related Disbursements and Program Assets. Any portion of this Compact, MCC Funding, the Program Implementation Agreement, or any other Supplemental Agreement that is not suspended or terminated shall remain in full force and effect.

(b) MCC may reinstate any suspended or terminated MCC Funding under this Compact if MCC determines that the Government or other relevant person or entity has committed to correct each condition for which MCC Funding was suspended or terminated.

Section 5.3 Refunds; Violation.

(a) If any MCC Funding, any interest or earnings thereon, or any Program Asset is used for any purpose that violates the terms of this Compact, then the United States may require the Government to repay to MCC in United States Dollars the value of the misused MCC Funding, interest, earnings, or asset, plus interest thereon in accordance with Section 5.4 within thirty (30) days after the Government's receipt of MCC's request for repayment. The Government shall not use MCC Funding, the Government Contribution, proceeds thereof or any Program Assets to make such payment.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, the United States' right under Section 5.3(a) to obtain a refund shall continue during the Compact Term and for a period of (i) five (5) years thereafter or (ii) one (1) year after MCC receives actual knowledge of such violation, whichever is later.

Section 5.4 Late Payment Interest. If the Government fails to pay any amount under this Compact or the Program Implementation Agreement when due (including amounts under Section 2.8(c) and 5.3(a)), the Government shall pay interest on such past due amount. Interest shall accrue on such amount at a rate equal to the then current US Treasury Current Value of Funds Rate, calculated on a daily basis and a 360-day year from the due date of such payment until such amount is paid in full. Any such payment shall first be credited against interest due, and once the interest due amount is extinguished, then payments shall be credited against outstanding principal.

Section 5.5 Survival. The Government's responsibilities under this Section and Section 2.7 (Limitations on the Use of MCC Funding), Section 2.8 (Taxes), Section 3.2(f) (Government Responsibilities), Section 3.7 (Records; Accounting; Access), Section 3.8 (Audits; Reviews), Section 5.2 (Consequences of Termination, Suspension or Expiration), Section 5.3 (Refunds; Violation), Section 5.4 (Late Payment Interest), and Section 6.4 (Governing Law) shall survive the expiration, suspension, or termination of this Compact, provided that the terms of Section 2.8 shall survive for only 120 days following this Compact's expiration.

ARTICLE 6.

COMPACT ANNEXES; AMENDMENTS; GOVERNING LAW

Section 6.1 Annexes. Each annex to this Compact constitutes an integral part hereof, and references to "***Annex***" mean an annex to this Compact unless expressly stated otherwise.

Section 6.2 Amendments and Modifications.

(a) The Parties may amend this Compact only by a written agreement. Such agreement shall specify how it enters into force.

(b) Notwithstanding subsection (a), the Parties agree that the Government and MCC may by written agreement, which shall enter into force upon signature, modify any Annex to, in particular, but without limitation (i) suspend, terminate or modify any Project or Activity, (ii) change the allocations of funds as set forth in Annex II, (iii) modify the implementation framework described in Annex I, (iv) add, change or delete any Indicator, Baseline or Target or other information set forth in Annex III in accordance with the M&E Policy, or (v) add, modify or delete any condition precedent described in Annex IV or Annex VII; *provided that*, in each case, any such modification (A) is consistent in all material respects with the Project Objectives, (B) does not cause the amount of Program Funding to exceed the aggregate amount specified in Section 2.1 (as may be modified by operation of Section 2.2(e)), (C) does not cause the amount of Compact Facilitation Funding to exceed the aggregate amount specified in Section 2.2(a), (D) does not reduce the Government's responsibilities or contribution of resources required under Section 2.6(a), and (E) does not extend the Compact Term.

(c) The Parties understand that any amendment of this Compact or any modification of any Annex pursuant to this Section 6.2 may be entered into by the Government without the need for further action by the Government (including any parliamentary action), or satisfaction of any additional domestic requirements of Indonesia.

Section 6.3 Definitions; Inconsistencies.

(a) Capitalized terms used herein shall have the respective meanings given such terms in Annex V.

(b) In the event of any conflict or inconsistency between:

(i) any Annex and any of Articles 1 through 7, such Articles 1 through 7, as applicable, shall prevail; or

(ii) this Compact and any other agreement between the Parties regarding the Program, this Compact shall prevail.

Section 6.4 Governing Law. This Compact is an international agreement and as such shall be governed by international law.

Section 6.5 Additional Instruments. Any reference in this Compact to activities, obligations or rights existing under or in furtherance of this Compact shall include activities, obligations and rights existing under or in furtherance of any agreement, document or instrument related to this Compact and the Program.

Section 6.6 References to MCC Website. Unless expressly provided otherwise, any reference in this Compact, the PIA or any other agreement entered into in connection with this Compact, to a document or information available on, or notified by posting on the MCC Website shall be deemed a reference to such document or information as updated or substituted on the MCC Website from time to time.

Section 6.7 References to Laws, Regulations, Policies and Guidelines; References to Compact Expiration and Termination; Government Successors.

(a) Unless expressly provided otherwise, each reference in this Compact, the PIA or any other agreement entered into in connection with this Compact, to a law, regulation, policy, guideline or similar document shall be construed as a reference to such law, regulation, policy, guideline or similar document as it may, from time to time, be amended, revised, replaced, or extended, and shall include any law, regulation, policy, guideline or similar document issued under or otherwise applicable or related to such law, regulation, policy, guideline or similar document.

(b) Unless expressly provided otherwise, each reference in this Compact, the PIA, or any other agreement entered into in connection with this Compact, to a policy, guideline, guidance paper, or similar document shall be construed as a reference to an MCC policy, guideline, guidance paper, or similar document relating to the administration of MCC-funded assistance programs, in each case, as such may be posted from time to time on the MCC Website.

(c) Unless expressly provided otherwise, each reference in this Compact, the PIA, or any other agreement entered into in connection with this Compact, to a Government ministry shall be construed to include any successor ministry with the relevant subject matter or sector authority.

(d) Each reference in this Compact, the PIA or any other agreement entered into in connection with this Compact, to the Compact's "expiration" refers to the date on which the Compact Term ends if the Compact is not terminated earlier, which in accordance with Section 7.4 is five (5) years after its entry into force. Each reference in any of the aforementioned documents to the Compact's "termination" refers to this Compact ceasing to be in force prior to its expiration in accordance with Section 5.1.

Section 6.8 MCC Status. MCC is a United States government corporation acting on behalf of the United States in the implementation of this Compact. The United States, including MCC, assumes no liability for any claims or loss arising out of activities or omissions under this Compact. The Government waives any and all claims against the United States, including MCC, and any current or former officer or employee of the United States, including MCC, for all loss, damage, injury, or death arising out of activities or omissions under this Compact, and agrees that it shall not bring any claim or legal proceeding of any kind against any of the above entities or persons for any such loss, damage, injury, or death. The Government agrees that the United States, including MCC, and any current or former officer or employee of the United States, including MCC, shall be immune from the jurisdiction of all courts and tribunals of Indonesia for any claim or loss arising out of activities or omissions under this Compact.

ARTICLE 7.
ENTRY INTO FORCE

Section 7.1 Domestic Procedures. The Government shall proceed in a timely manner to complete all of its domestic requirements for this Compact and the PIA to enter into force.

Section 7.2 Conditions Precedent to Entry into Force. Each of the following conditions must be met to MCC's satisfaction before this Compact enters into force:

(a) the Program Implementation Agreement has been signed by the parties thereto;

(b) The Government has delivered to MCC:

(i) a letter signed and dated by the Principal Representative of the Government, or such other duly authorized representative of the Government acceptable to MCC, confirming that the Government has completed its domestic requirements necessary for this Compact to enter into force and that the other conditions precedent to entry into force in this Section 7.2 have been met;

(ii) a signed legal opinion from the Minister of Law and Human Rights of Indonesia (or such other legal representative of the Government acceptable to MCC), in form and substance satisfactory to MCC;

(iii) complete, certified copies of all decrees, legislation, regulations or other governmental documents relating to the Government's domestic requirements necessary for this Compact and the PIA to enter into force, which MCC may post on its website or otherwise make publicly available; and

(iv) Evidence that MCA-Indonesia II has been fully established as required by the laws of Indonesia and each of the Key Staff (as defined in the PIA) of MCA-Indonesia II has been contracted and commenced work.

(c) MCC has determined that after signature of this Compact, the Government has not engaged in a pattern of actions inconsistent with the eligibility criteria for MCC Funding; and

(d) The conditions set forth in Annex VII have been satisfied.

Section 7.3 Date of Entry into Force. This Compact shall enter into force on the date of the letter from MCC to the Government in an exchange of letters confirming that the Parties have completed their respective domestic requirements for entry into force of this Compact and that the conditions precedent to entry into force in Section 7.2 have been met to MCC's satisfaction.

Section 7.4 Compact Term. This Compact shall remain in force for five (5) years after its entry into force, unless terminated earlier under Section 5.1 (the "***Compact Term***").

Section 7.5 Provisional Application. Upon signature of this Compact, and until this Compact has entered into force in accordance with Section 7.3, the Parties shall provisionally apply the terms of this Compact; *provided that*, no MCC Funding, other than Compact Facilitation Funding, shall be made available or disbursed before this Compact enters into force.

SIGNATURE PAGE FOLLOWS ON THE NEXT PAGE

IN WITNESS WHEREOF, the undersigned duly authorized by their respective governments have signed this Compact.

Done at Washington, DC, this 13th day of April, 2023, in the English language and the Indonesian language, each language text being authentic. In case of divergence between the two language texts, the English shall prevail.

FOR THE UNITED STATES OF AMERICA

/s/

Name: Janet L. Yellen
Title: Secretary of the Treasury and Vice Chair, Board of Directors, Millennium Challenge Corporation

FOR THE REPUBLIC OF INDONESIA

/s/

Name: Sri Mulyani Indrawati
Title: Minister of Finance

ANNEX I

PROGRAM DESCRIPTION

This Annex I describes the Program to be funded with MCC Funding and the Government Contribution in Indonesia during the Compact Term.

A. PROGRAM OVERVIEW

1. Background and Consultative Process.

(a) Background.

The largest economy in Southeast Asia, Indonesia – a diverse archipelago nation of more than 300 ethnic groups – has charted impressive economic growth since the Asian financial crisis of the late 1990s. Today, Indonesia is the world's fourth most populous nation, one of the largest democracies and 10th largest economy in terms of purchasing power parity. Furthermore, Indonesia has made enormous gains in poverty reduction, cutting the poverty rate by more than half since 1999, to under 10 percent in 2019 before the COVID-19 pandemic. As Indonesia's economy is now recovering, the country's GDP growth is projected to recover, supported by growing commodity exports and accommodative fiscal policy to weather the pandemic. Despite this, it is estimated that over 30 percent of Indonesia's population are either poor or vulnerable[1]. In light of Indonesia's progress, the Program is focused on policy and institutional reform engagements with a range of government, semi-private and private actors to catalyze economic growth rather than providing fully grant-funded infrastructure. Each Project has been designed with a view to sustainability and scalability in ways that will ultimately make use of the Government's own funding and revenue-generating models that can be taken up and expanded by private sector actors.

MCC and the Government carried out a $55 million Threshold Program from 2006 to 2009 focused on anti-corruption, strengthening rule of law and immunization. Indonesia was subsequently chosen for its Compact, a $474 million (79% of a planned $600 million) program which was implemented from 2013-2018 and focused on renewable energy and natural resource management, procurement modernization, and child stunting.

Indonesia was selected to develop a second compact in December 2018. The constraints analysis, undertaken jointly by the Government and MCC and in consultation with a panel of representatives from government ministries, private sector, civil society, and academia, identified three binding constraints to economic growth: (i) barriers to export-oriented competitiveness, (ii) barriers to the productivity and innovation of non-tradable sector firms, and (iii) costly and underdeveloped financial intermediation. Preliminary analyses showed that gender inequities and transport and logistics infrastructure were significant constraints that negatively impact Indonesia's growth. The Government and MCC then used a data-driven selection process to agree on a geographical focus in five priority provinces – South Sumatra, Riau, North Sulawesi, Riau Islands, and Bali (each a "***Target Province***" and collectively the "***Target Provinces***"). Following an analysis of the root causes of the binding constraints, and agreement to narrow the focus of the Compact to two areas of the financial intermediation constraint, the Government submitted two formal project proposals that focused on: 1) improving project planning and

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[1] The World Bank's Poverty & Equity Brief, East Asia & Pacific, Indonesia, April 2020

preparation capacity, and innovative financing for infrastructure and 2) improving access to finance for micro-, small and medium enterprises owned by women or men ("***MSMEs***" or "***W/MSMEs***") to achieve increased productivity and inclusive growth.

(b) Consultative Process.

The Government and MCC engaged in an inclusive and strategic consultative process to inform the constraints analysis and project designs, which included continuous outreach and communications with government ministries and stakeholders, international development partners, private sector, academia, and civil society throughout the compact development process. The Government formed a steering committee[2] prior to the submission of project proposals to ensure proper representation of Indonesian government and non-government interests in that submission. The steering committee and its working groups played an active role in project design, development and due diligence.

2. Description of Program and Beneficiaries.

(a) Program Description.

The Program aims to address selected root causes of costly and underdeveloped financial intermediation, one of three identified binding constraints to economic growth in Indonesia, through the three Projects set forth below, focused on the Target Provinces.

(b) Intended Beneficiaries.

The beneficiaries of the ATLAS Project (as defined below) will consist of users of any subnational transport infrastructure that is expected to be provided or improved as a result of the ATLAS Project. These beneficiaries are expected to reside inside and outside the five Target Provinces, as the Project will combine physical works in the five Target Provinces with policy and institutional reform elements intended to affect the quantity and quality of subnational transport infrastructure beyond the Target Provinces. Given the potential lags with which these impacts will be realized, estimates of the total number of beneficiaries will also take into account projected population growth rates.

For the FMD Project (as defined below), the beneficiaries of the training and capacity building activities will consist of blended finance and commercially-oriented finance-related project sponsors, potential lenders/investors, and government actors at the national and subnational levels in the Target Provinces. At the level of specific transactions where the FMD Project aims to support beneficiaries with grant funds to "de-risk" potential commercially oriented financing, the envisaged benefits will entail the value added from creating better financial structures that bridge suppliers of capital and users through private sector operators who facilitate the linkages between the real economy and the financial markets. These operators include banks, pension

[2] The Steering Committee included the Ministry of National Development Planning/National Development Planning Agency, the Ministry of Finance, the Ministry of Public Works and Housing, the Ministry of Cooperatives and MSMEs, the Coordinating Ministry of Economic Affairs, the Coordinating Ministry of Maritime Affairs and Investment, the Ministry of Home Affairs, the Cabinet Secretary, the Ministry of Foreign Affairs, *Otoritas Jasa Keuangan* (Financial Services Authority), private sector (represented by KADIN - Indonesia Chamber of Commerce and Industry), academia (represented by Forum Rektor Indonesia), civil society (represented by INFID-International NGO Forum on Indonesian Development).

funds, investment banks, non-bank financial intermediaries and equity investors from home and abroad, and these operators will also be beneficiaries of the FMD Project. Indirect benefits will accrue to stakeholders in other provinces, where most domestic capital market transactions are executed in Indonesia. In addition, these benefits include promoting matching of long-term savings with long-term investments; and facilitating the efficient allocation of scarce financial resources to priority infrastructure investments that will benefit a share of the population of households and firms in the Target Provinces.

The number of W/MSMEs who are expected to benefit from the MSME Finance Project (as defined below) are estimated to number approximately 48,000; FSPs (as defined below) who lend to them will also benefit. One set of W/MSMEs is modeled as experiencing profit increases following training, while another set of W/MSMEs is modeled as benefiting from all three Activities, including via the increased investment and higher profits that access to affordable credit is assumed to result in. FSPs are also modeled as benefiting from this lending, since the interest rates they are assumed to charge yield greater income than do the low-return assets they are modeled as holding in the counterfactual.

B. DESCRIPTION OF PROJECTS

Set forth below is a description of each Project that the Government agrees to implement, or cause to be implemented, using MCC Funding and the Government Contribution to advance the applicable Project Objective. In addition, specific activities to be undertaken within each Project (each, an "***Activity***"), including sub-activities, are also described.

1. Advancing Transport and Logistics Accessibility Services Project

(a) Summary of Project and Activities.

The objective of the Advancing Transport and Logistics Accessibility Services Project (the "***ATLAS Project***") is to improve transport planning and preparation in the Target Provinces, responding to the root cause of inadequate infrastructure project preparation. Poor project preparation leads to worthwhile projects failing to attract the appropriate financing, resulting in costly and underdeveloped financial intermediation. Improved planning and preparation will make transport projects better positioned to attract appropriate sources of finance, including blended and green finance, thus maximizing infrastructure investment across Indonesia. Improved infrastructure planning and preparation encompasses improving approaches to planning, procurement, implementation, operation and maintenance to further improve value for money throughout the infrastructure project lifecycle. Achieving these goals requires transformational reform, including legal and regulatory adjustments, institutional restructuring and strengthening of capacities and business processes across various government organizations and the private sector, including the ongoing alignment of subnational reforms and corresponding national level reforms and policy directions. The Project includes five Activities focused on the Target Provinces, but all activities will be designed for national adoption or replication after the Compact Term:

(i) Transport Planning Reform Activity.

This Activity will establish an urban transport organization ("***UTO***") for an urban area located within the Target Provinces, and develop a multi-modal urban transport plan to support the UTO.

In addition, a regional transport plan will be developed for the wider region. With the development of these two, proof-of-concept multi-modal transport planning projects to influence the Government at both the national and the subnational levels to embrace the necessary institutional, legal and regulatory reforms required to mandate and mainstream a multi-modal transport planning approach. MCC Funding will support:

(A) Urban Transport Organization

The establishment and development of a new institutional model for an UTO in Greater Palembang to improve multi-modal transport integration and expand the roles and functions of such UTO. The goal is to establish a working institutional model for an urban transport organization which can later be replicated across Indonesia.

(B) Regional and Urban Transport Planning Project

The development of a full urban transport master plan for Greater Palembang and a full regional transport master plan , each of which would define an integrated network of public transport services together with a pipeline of service upgrades or projects to meet forecasted travel demand.

(C) Legal and Regulatory Reforms

The provision of support for complementary legal and regulatory reforms to institutionalize multi-modal transport planning processes and ensure appropriate linkages between national policies and subnational reform efforts.

(D) Capacity Development

The provision of capacity building strategies targeting local transport specialists and government officials. Support will be also given for increasing female labor force participation in the infrastructure/transport sector. Feasibility studies will help design activities that may include facilitation of tuition support, stipends, part-time or temporary employment and internship for female science, technology, engineering and math ("***STEM***") students in transport agencies.

(ii) <u>Good Practice Infrastructure Projects Activity</u>.

This Activity intends to support at most six infrastructure projects (the "***Proper***") whose aim is to demonstrate innovative and strengthened approaches to project preparation, structuring and financing, and procurement and implementation, so that lessons learned during these projects can inform the emerging designs for both the PIMG and PPDF (each defined below). The *Proper* will also be used as a vehicle for significantly strengthening subnational infrastructure capacity, in the public sector, but also in supporting private sector consultants and contractors. From the list below, the Parties will agree upon the *Proper* that will be supported by MCC Funding. MCC Funding will support, for each of the *Proper* that is selected, as required: project management services, design services, services related to the assessment and/or mitigation of environmental, gender and social impacts, benefits and/or opportunities, contract packaging and structuring, procurement/transaction support, construction oversight/supervision/audit and a financial contribution to support a portion of the cost of the transport services or construction contracts, while utilizing the World Bank's "Cascade" approach for blended finance. The potential *Proper* that may be supported by this Activity are:

Province	**Potential *Proper***
South Sumatra	Ampera LRT Station – Accessibility, Connectivity and Public Realm Upgrade
North Sulawesi	Bersehati Market Elements
Bali	Electric Vehicle (EV) Support Element I – EV Public Transport
	Electric Vehicle Support Element II – EV Charging Points
Riau Islands	Development of Kuala Riau Port (Pelantar I and II), Tanjung Pinang
Riau	Upgrading of two (2) RORO Terminals and supporting facilities on both Sumatra side and Rupat side

The Good Practice Infrastructure Projects Activity will strive to demonstrate best practices in gender equality, social inclusion and women economic empowerment by developing women economic empowerment-supportive and child-friendly components in the rehabilitated spaces within these projects. The Parties will assess the development and provision of these components, such as shared workspaces with one-stop service and childcare for W/MSMEs (as defined below). This linkage with the MSME Finance Project will help W/MSMEs save time, access safe and affordable services, and spend more time on paid economic activities. This will support the Government's priority of implementing the Ministry of Women Empowerment and Child Protection's ("***MoWECP***") Regulation No. 5 of 2015 on *Provision of Gender Responsive Work Facilities and Child Care in the Workplace*.

In order to ensure that the best possible use is made of MCC Funding, a Reallocation Review of this Good Practice Infrastructure Projects Activity will be undertaken as required by, and in accordance with, Annex V of the PIA.

(iii) Public Investment Management Guidelines Activity.

This Activity (the "***PIMG Activity***") will create a public, online suite of Public Investment Management Guidelines ("***PIMG***") for infrastructure, designed to improve the effectiveness and efficiency of public investment. The PIMG will describe, in one place, the requirements to achieving well prepared inclusive and sustainable projects. This will focus on the full lifecycle, including planning, preparation, structuring, procuring, implementing, operating and, long-term maintenance. Its inclusive approach will identify and promote the needs of all Indonesians, paying particular attention to marginalized and vulnerable groups, especially the poor, women and people with disabilities. This approach will seek to include such groups as change agents in each step of the PIMG processes so that services are user friendly, safe, affordable and promote such group's value in society.

The long-term goal is for the Government to create and implement a similar set of guidelines covering all Indonesian infrastructure. However, the complexity and scope of that challenge is too great for the five-year compact period, and therefore the PIMG implementation scope hereunder will be limited to subnational transport and logistics infrastructure and services as follows:

- Development of a unified set of guiding principles[3] to underpin the budget requests associated with the implementation of PIMG processes;
- Regional multi-modal transport infrastructure and services during the planning phase up to the definition of transport and logistics project pipelines;
- Regional multi-modal transport infrastructure and services through the project preparation stage, including feasibility studies, business cases and project delivery strategies; and
- Subnational roads, only from procurement onwards through the detailed design, delivery and maintenance phases.

Once this 'limited scope' PIMG has been developed and implemented successfully under the Compact and appropriately socialized at the national policy level, it may then be used by the Government as a template for the gradual expansion of the PIMG to cover all infrastructure sectors.

The PIMG is a living system that will include the development and implementation of a public online technology platform that will be regularly updated and maintained. The experience from the Good Practice Infrastructure Project Activity will inform the iteration and improvement of the PIMG.

MCC Funding will support: the creation of the sustainable online PIMG through development of strengthened infrastructure processes; upstreaming of environmental and gender significant stakeholder engagement; the identification of an entity of the Government to own the PIMG; the design, launch and testing of the online PIMG platform; and the provision of a user support service.

In addition, MCC Funding will also support the drafting and agreement of the necessary legal and regulatory changes needed to mandate and formalize the PIMG, supporting the Government with technical assistance through the policy making process through to enactment and implementation. Finally, MCC Funding will support a capacity development strategy to be implemented during the remaining years of the Compact.

(iv) <u>Project Preparation and Delivery Facility Activity</u>.

This Activity (the "***PPDF Activity***") will provide project preparation, structuring, procurement and project delivery support to subnational governments, focused on the governments of the Target Provinces during the Compact Term. This Activity will establish a facility, the Project Preparation and Delivery Facility ("***PPDF***"), that subnational governments can call upon to provide preparation, procurement and delivery support services for eligible infrastructure projects. The PPDF will be designed as a sustainably financed facility which will continue to operate after the end of the Compact. The appropriate institutional home and organizational structure for PPDF to ensure a sustainable facility is to be determined prior to entry into force during the design period.

The Activity is heavily connected to the PIMG Activity because the PPDF will follow the processes defined in the PIMG from completion of planning (and resulting definition of project pipelines) through to completion of construction, after which infrastructure will be handed over to subnational governments for continued operation and maintenance. Therefore, the design of

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[3] These principles relate to the project initiation, selection, prioritization and the application of the "cascade" approach to project financing

the reformed processes for the PIMG and the design of the PPDF must be undertaken as an integrated effort.

Infrastructure projects will be subject to eligibility criteria for entry to the PPDF. Precise eligibility criteria will be developed during design, such criteria will include standards for environmental and social performance, inclusion and gender-responsiveness, as well as minimum project sizes for different types of delivery modality. In line with the transport and logistics focus of the Compact, the PPDF will initially be restricted to supporting transport and logistics projects only. This is necessary to limit the range of specialist technical advisory services that would be initially required and to keep the number of technical stakeholders manageable. However, the PPDF will be designed so that it can continue to expand its services to support other types of infrastructure after the end of the Compact.

(A) Development of Project Pipeline for PPDF

The development of a strong project portfolio is very critical for the success of the PPDF as this has been the "Achilles' heel" of many project development facilities funded by donors. Without a clear strategy and process to develop a portfolio of financeable projects, the facility and funds could "wait around" for unsuitable projects to be proposed.

To facilitate the development of the PPDF and building of in-house expertise in project preparation, an initial pipeline of studies and concept-level projects will be reviewed, as part of the Activity's "learning by doing" approach. All studies and concept-level projects being contemplated build on the Good Practice Infrastructure Projects Activity and are limited to the Target Provinces.

Province	Initial Pipeline of Options/Feasibility Studies and Concept-Level Projects for PPDF
South Sumatra	Accessibility, Connectivity and Public Realm Upgrade Studies for 11 LRT Stations
North Sulawesi Studies	Master Planning Study Support – Bersehati Market Area
	Feasibility Study – Manado Domestic and Tourist Passenger Port (adjacent to Bersehati Market)
	North Sulawesi Logistics Study
Bali	Bali Logistics Study
Riau Islands	Bintan Island Logistics Study
Riau	Rehabilitation/Upgrading up to 43km of the Tanjung Medang – Tanjung Kapal Roadway

In addition, as the establishment of the PPDF progresses during the Compact, a simplified intake process may be initiated, where qualified sponsors (government and/or private sector) can apply to the PPDF, allowing eligible projects to advance on a demand driven basis.

(B) Feasibility Studies for PPDF Projects

As part of its project preparation support function for subnational governments, the PPDF will carry out feasibility studies and be responsible for:

- preparation of terms of reference
- market sounding of suitable consultants
- procurement of feasibility study consultants

- procurement of associated surveys
- management and technical direction of contracts
- approval and acceptance of deliverables
- liaison with subnational governments and referral of key decisions.

(C) Transaction Advisory Support for Projects

Although the pipeline of specific infrastructure projects to be progressed through the PPDF is unknown, as part of its project preparation support to subnational governments, the PPDF will carry out project transaction advisory services to take projects to market as public-private partnership projects.

The PPDF will provide the following functions:

- preparation of terms of reference for technical (including environmental, gender and social), legal and financial advisory support
- market sounding of suitable consultants
- procurement of transaction advisory services
- management and technical direction of contracts
- approval and acceptance of deliverables
- liaison with subnational governments and referral of key decisions.

(D) Project Management/Supervision of Projects through Implementation

Unlike other project support facilities established in Indonesia, the PPDF may continue to provide oversight of projects beyond procurement/financial close. This is because many subnational governments have insufficient capacity to adequately manage large construction projects. The PPDF may support the subnational government during this stage but also seek to increase subnational capacity so that they are better placed to manage complex infrastructure projects in the future. The PPDF may be able to provide project management or construction supervision services as required to suit each particular project. The PPDF would provide the following functions:

- preparation of terms of reference for implementation-stage support consultants
- market sounding of suitable consultants
- procurement of implementation-stage consultants
- management and technical direction of contracts
- approval and acceptance of deliverables and services
- liaison with subnational governments and referral of key decisions.

(E) MCC Funding for PPDF Projects

MCC Funding may also be able to provide, through the PPDF, additional financial support for a limited number of projects which are undefined at this stage. This funding should only be used if viability gap funding is needed to supplement other sources of project finance, for instance if some funding is needed to make a particular project attractive for private sector investment.

(F) Legal and Regulatory Reform

MCC Funding will provide support to the Government to develop and adopt the necessary legal and regulatory adjustments to form and establish the PPDF so that the PPDF can support all subnational governments across Indonesia. Under this Sub-activity, MCC Funding will provide the expertise to define the necessary legal and regulatory changes, support finalizing these changes through engagement with Government stakeholders, produce legal drafts and support the Government through the policy making process through to enactment and implementation.

(G) Capacity Development

MCC Funding will support significant institutional strengthening and capacity building, especially at subnational government level. Capacity development efforts must initially be focused on the PPDF reaching sufficient human capacity to continue operating effectively after withdrawal of MCC Funding at the end of the Compact, but the PPDF will also be required to build client-side capacity in the subnational governments that are being supported.

(v) Support Services Activity.

MCC Funding will provide project management, environmental and social, and GSI services across all other Activities of this Project.

(b) Environmental and Social Mitigation Measures.

The four primary Activities, and associated Sub-activities, of the ATLAS Project have been assessed for compliance with MCC's Environmental Guidelines, and all show potential to comply as either Category B (potentially significant but mitigable environmental and social impacts) or Category C (unlikely to present significant environmental and social impacts) projects as follows:

ATLAS Project – Potential Environmental and Social Impacts / Project Category Assessment Summary Table

Activity	**Sub Activity (if applicable)**	**Potential environmental and social Impacts**	**Project Category**
Transport Planning Reform		TBD pending further activity definition	C
Proper	Ampera Station	Economic displacement Waste management Traffic/transportation	B
Proper	Bersehati Market	Economic displacement Waste management Marine ecosystems Labor and working conditions	B
Proper	Bali EV/Charging Stations	Economic displacement Waste management Cultural heritage	C/B
Proper	Kuala Riau Port	Economic displacement Waste management Marine ecosystems	B

Activity	**Sub Activity (if applicable)**	**Potential environmental and social Impacts**	**Project Category**
		Cultural heritage Labor and working conditions	
PIMG		TBD pending further activity definition	C
PPDF		TBD pending further activity definition	C

All proposed activities aside from the Good Practice Infrastructure Projects Activity have been designated as of the date hereof as Category C because they are largely policy-based and are not expected to have adverse environmental or social impacts. The Category C determination also implies that while implementation of these policy reform projects may still pose environmental and social risks and impacts, they may also offer potential environmental and social benefits - particularly the PIMG and PPDF interventions. The Bali EV/Charging Stations *Proper* is currently assumed to be Category C, but since the actual footprint of potential project interventions is not yet known, it is possible that the project category could shift from C to B once siting details, and any potentially associated environmental and social impacts, are better understood.

A project-level Environmental and Social Management System will be elaborated to guide ATLAS Project compliance with MCC Environmental Guidelines.

(i) Strengthening Preparedness for Low Carbon Development and Climate Resilience Sub-activity.

This Strengthening Preparedness for Low Carbon Development and Climate Resilience Sub-activity (the "***Climate Resilience Sub-activity***") supports the consolidation of PIMG and the subsequent rollout of the PPDF, as well as implementation of the MSME Finance and FMD Projects, by strengthening the preparedness for low carbon development and climate resilience of decisionmakers in the Target Provinces. MCC Funding will support:

- Designing a program to strengthen preparedness for low carbon development and climate resilience initiatives and improve provincial stakeholders' understanding of the potential risks associated with climate change in their provinces, and how it may affect development projections and plans for both infrastructure and W/MSMEs, and to prepare them to design development projects/programs/policies that are climate responsive and resilient.
- Developing a set of tools based on geographic information system/spatial information that will help provincial stakeholders (i) respond to national level requirements related to the Government's Low Carbon Development Initiative ("***LCDI***") and Long Term Strategy for Low Carbon Climate Resilience ("***LTS-LCCR***"), (ii) monitor and evaluate climate impacts/risks of existing development projects and/or programs, (iii) anticipate climate risks towards infrastructure development plans, and (iv) make decisions that ensure any investments are climate friendly.
- Delivering a scalable capacity building program to roll-out in all the Target Provinces as a complement to the PIMG and PPDF Activities and the MSME Finance Project.

The Climate Resilience Sub-activity is intended to address known challenges related to the technical capacity of provincial-level decisionmakers to respond to climate resiliency and low carbon development plans. These same capacity challenges could also affect provincial government capacity to plan and implement projects and activities related to the PPDF Activity of the ATLAS Project.

As this Sub-activity is designed to support the Program as a whole and is not a separate project, its costs have been divided among the three Projects, but the intention is to have a single entity undertake this work.

(c) Gender and Social Inclusion.

MCC Funding will address challenges associated with the Government's and the subnational governments' capacity to collect or analyze sex-disaggregated information on transport and logistics needs and use, and inclusive user outreach and consultation processes. MCC Funding will also support the integration of inclusion, poverty and gender priorities into the transport planning process, the PIMG, the PPDF, and the *Proper*.

Several inclusion, gender, and women's economic empowerment interventions will be carried out within ATLAS Project including the following:

- Feasibility studies will be carried out to link the ATLAS and MSME Finance Projects that will help design and construct shared workspaces for W/MSMEs, consisting of one-stop services (registration, certification, digital support, FSP outreach) and childcare services as part of the *Proper*. While the ATLAS Project will develop these facilities, the MSME Finance Project will provide the shared workspace services. This will help implement the Government's priority of *Gender Responsive Work Facilities and Child Care in the Workplace* (MOWECP Regulation No. 5/2015), and support businesswomen to save time and efforts for expanding their paid economic activities.
- Capacity building will be provided to subnational governments of the Target Provinces to assist them in developing and implementing guidance entitled: *Inclusion and Gender in Transport: Guidance for Provincial Government*. The guidance will help subnational governments in the Target Provinces to plan and provide gender and socially inclusive transport and logistics services.
- Specific guidance will be drafted within the transport planning processes supported by the Transport Planning Activity and within the PIMG for addressing gender-based violence, sexual exploitation abuse and harassment and trafficking in person ("***TIP***") concerns in transport, especially issues detailed in the Law on the Elimination of Sexual Violence Crime (*Undang-Undang No. 12/2022 tentang Tindak Pidana Kekerasan Seksual*).
- All of the interventions supported by the ATLAS Project will include people with disability concerns as per Law No. 25/2009 on Public Services and Law No. 28/2002 on the Construction of Buildings[4].

[4] Law No. 25/2009 on Public Services. Article 29 requires public service providers to provide special treatment to persons with disabilities. Law No. 28/2002 on the Construction of Buildings stipulates clearly that facilities must be accessible for persons with disabilities. Article 27 expresses that facilities should be easy, safe and pleasant, especially for persons with disabilities.

- TIP concerns will be included in all feasibility and ESIA studies for identifying project level TIP risks and drafting TIP mitigation plans.
- MCC Funding will support design studies to assess market needs for female skilled labor, and economic opportunities for female STEM students, especially from poor households. For female skilled labor and female STEM students, MCC Funding may also support tuition assistance, stipends, internships, apprenticeships, part-time temporary employment in infrastructure industries.
- MCA-Indonesia II will draft a Social and Gender Integration Plan ("***SGIP***") with activities and indicators for implementation of inclusion, gender and women's economic empowerment activities and monitoring progress.

While assumed to be extremely unlikely, any land acquisition and resettlement processes deemed necessary in relation to the ATLAS Project will consider and address inclusion and gender concerns in a manner consistent with MCC's *Environmental Guidelines* and *Gender Policy*.

A focus on inclusive and gender-informed stakeholder engagement will be maintained at all stages of the development and implementation of the ATLAS Project, including with organizations representing women, people with disability and vulnerable groups or the poor, and this focus will be included in the Project level guidance. TIP risks shall continue to be assessed and monitored, including in relation to any *Proper* construction.

To address the under-representation of businesswomen in construction, transport and logistics services, the ATLAS Project will support increased awareness of opportunities for women-owned businesses among suppliers and contractors in the ATLAS Project's interventions.

(d) <u>Donor Coordination</u>.

For the ATLAS Project, subnational transport planning engagement has benefited significantly from engagement with other donors, particularly Australia's Department of Foreign Affairs and Trade ("***DFAT***") and the World Bank. In both cases, these donors had worked with subnational governments on public transport planning initiatives in the Target Provinces, putting in place an important foundation for these governments in understanding the value of this work. DFAT, in particular, has a history in Indonesia working on subnational transportation projects such as a successful road maintenance sustainability initiative. The UK's Foreign, Commonwealth & Development Office also funded a program focused on early-stage infrastructure planning, from which lessons learned were incorporated into the design of the ATLAS Project. MCC consulted with the UK Embassy's Infrastructure Projects Authority on their Five Case Model and RouteMap. The Asian Development Bank ("***ADB***") has historically played an important role in developing infrastructure planning and financing capacity in Indonesia, particularly with respect to public-private partnerships.

(e) <u>USAID</u>.

United States Agency for International Development's ("***USAID***") Country Development Cooperation Strategy 2020-2025 recognizes that infrastructure is an important tool to address subnational economic disparities, improve connectivity, and reduce inequality and poverty, identifying transport-related infrastructure as key to this effort. The strategy includes several elements that promote the enabling environment for infrastructure investment on this basis, as well as several efforts to improve the efficiency of government spending at both the national and subnational levels. While USAID's current high priority provinces for integrated programming (Banten, East Java, East Nusa Tenggara, Jakarta Special Capital Region, North Sumatra, Papua, South Sulawesi, and West Kalimantan) do not overlap with the Target Provinces, USAID does provide technical assistance that is supportive of the proposed ATLAS Project, for example, USAID is currently providing technical assistance to the government of Bali to support the province's efforts to shift to electric vehicles. The Parties will continue to engage with USAID to determine areas of collaboration to further the ATLAS Project Objective.

(f) Sustainability.

The Transport Planning Activity will commence with the formal creation of an integrated planning team, with representation drawn from relevant national and subnational governments for each selected transport planning study area. While MCC Funding will be used to fund the two transport planning projects, the Government will fund later updates of the transport plan, likely to be every five years. Following successful completion of the two initial transport planning projects to be funded through this Project, MCC Funding will provide technical assistance (with supporting technical manuals) to the relevant national and subnational governments to support formal adoption of the new approach to transport planning through regulations or decrees.

The *Proper* are required to demonstrate how financial structuring can maximize commercial finance and attract other sources of finance, thus freeing up scarce government financial resources to support other projects and programs. The delivery strategy for each *Proper* will include the details of sustainable funding of operation and maintenance.

The Good Practice Infrastructure Projects Activity will be used to demonstrate the efficiency and efficacy of various strengthened project preparation and delivery processes and procedures. Approaches which prove successful will be embedded in the PIMG. The PIMG Activity will be designed so that a permanent Government team takes responsibility for the maintenance, update and dissemination of the online PIMG. Although MCC Funding will be used to support the establishment and early operational phases of the PIMG, Government funding will need to be budgeted to support the permanent establishment and maintenance of the PIMG.

The design of the PPDF will consider the most appropriate legal entity, governance arrangements and institutional setting. The PPDF Activity includes legal and regulatory support to ensure the permanent establishment of the PPDF entity will be underpinned by appropriate Government regulation. A sustainable approach to funding the PPDF will be prepared which may require Government support during the Compact Term and continuing afterwards.

A strong capacity development workstream will be an integral part of all Activities, to build capacity in subnational governments so that they are able to prepare and deliver future projects to a high standard by following the strengthened processes included in transport planning, PIMG and making the best use of the support offered by the PPDF, when appropriate. The ATLAS Project also includes significant communications and outreach so that the programs become widely socialized within the Target Provinces and among national level policymakers.

(g) Policy, Legal, and Regulatory Reforms.

This Project is intended to fundamentally change the approach to transport planning by replacing the current single-mode planning exercises carried out separately at the three levels of government (national, provincial, district/city) with a multi-modal integrated approach – this may require adjustment of the relevant legal and regulatory framework in the transport and planning area.

The Project will require new regulations to mandate the use of the PIMG and significant adjustment of technical standards and operating procedures at the national level.

2. Financial Markets Development Project

(a) Summary of Project and Activities.

The objective of the Financial Markets Development Project (the "***FMD Project***") is to reach financial close on transactions using structured finance, including deals with institutional investors and with a focus on local currency transactions, responding to the root causes of underdeveloped project financing market and capital markets. This Project will promote globally recognized, alternative forms of infrastructure finance within the financial market ecosystem to bring infrastructure projects to financial close. The transactions will demonstrate less risky financing structures and innovative financing techniques for Indonesia that can then be replicated by the market, thus helping to create infrastructure as an asset class and demonstrating blended finance at scale. The Project includes three Activities:

(i) Capacity Building/Technical Assistance Activity.

This Activity aims to build capacity for lenders, especially Indonesian institutional investors, and project owners/sponsors to invest in infrastructure through structured finance, including mechanisms to further develop Indonesia's growing green finance initiatives. This Activity will also aim to build the capacity of the Government (and potentially *Otoritas Jasa Keuangan*, Bank Indonesia, and subnational governments) to develop and oversee financial markets to support infrastructure finance.

(A) Capacity Building and Technical Assistance in Project/Structured Finance and Capital Markets Sub-activity

This Sub-activity will work across management and operating groups in key stakeholder institutions. Interventions include:

(1) Formulation and Implementation of Strategy: MCC Funding will support engagement with public and private stakeholders, particularly, government, financial institutions, and sponsors, to create momentum and a roadmap for strategic change within the Indonesian infrastructure finance sector, including paying for high-level workshops to generate consensus and demonstrate the need to move away from "business as usual" corporate financing to embrace efficient risk allocations in project finance/structured finance and alternative funding solutions, such as the capital markets. MCC Funding will also fund strategic public communications efforts around shifting the Indonesian infrastructure finance paradigm.

(2) Financial/Capital Markets Capacity Building: MCC Funding will procure strategic advisors and technical assistance for transformation initiatives for infrastructure finance in key stakeholder entities based on an adaptive management approach. MCC Funding will also support senior level technical/resident advisers in specific stakeholder institutions (e.g., Ministry of Finance) to support them and build capacity in capital markets development for infrastructure finance, including money markets and development of foreign exchange hedging instruments for risk management.

Following the workshops and capacity building/training above, MCC Funding will support dedicated, customized technical assistance for individual institutions that express interest to further help implement strategic change and reform. This technical assistance could also include delivering specific strategic transformation initiatives/studies for selected public or private institutions, e.g., working with a specific institution on building end-to-end capacity for project finance including strategy, policies, underwriting models, and changes required for systems or other infrastructure finance studies.

(3) Promoting Strategic Change: MCC Funding will provide technical assistance and capacity building/training to key public and private stakeholders with the aim of influencing the future direction of infrastructure finance. The focus of the technical assistance and capacity building/training will be to drive engagement with senior management in key, public and private stakeholder institutions to support strategic change in their organizations to engage in project finance/structured finance and offer or invest in capital markets solutions. The technical assistance and trainings will include private sector representatives, who will be motivated by the potential for increased availability of financing for key projects, and public sector representatives, who will instead be focused on the delivery of the key outcomes as far as the benefit to the public (e.g., as achieved through new infrastructure or provision of services).

(4) Focused Operational Capacity Building: MCC Funding will fund a capacity building and training needs analysis. MCC Funding will also provide training at operational levels for selected stakeholders in accordance with the previous needs analysis, including project/structured finance and foreign exchange risk management. Capacity-building could take the form of intensive (e.g., 3-day) trainings for key stakeholders that convert abstract ideas into tangible, operational solutions without compromising individual organizational approaches to proprietary business practices. For example, MCC Funding will provide training to staff at the operational level in financial institutions and government entities in project finance/structured finance, capital markets solutions for infrastructure, and foreign exchange risk management.

(B) Green Finance Sub-activity

The Green Finance Sub-activity will provide detailed implementation support, including regulatory reform, to government institutions and state-owned enterprises to prepare them to evaluate, issue, and monitor green financings[5], including green bonds[6] and green sukuks[7].

(1) MCC Funding will provide technical assistance to the Government to assist in developing measures to further accelerate the adoption of regulations that may facilitate green financings.

(2) MCC Funding will support communication and outreach work to increase issuer and investor interest in green bonds and sukuks. This outreach work will build on the work already done by the Government to encourage sub-sovereign and corporate debt issuance to finance green projects.

(3) MCC Funding will provide capacity building at local levels, including to subnational governments and *Badan Usaha Milik Daerah* to identify, analyze, prepare green projects for financing and implement monitoring required by investors.

(C) Subnational Finance Sub-activity

The Subnational Finance Sub-activity will provide technical assistance and capacity building to subnational governments and *Badan Usaha Milik Daerah* to assist them to successfully place conventional bonds and/or sukuks in the capital markets. As an indirect result of COVID-19, Indonesian subnational governments have recently received a considerable increase in their commercial borrowing powers and the process for loan and bond approvals for local governments has been streamlined. This Sub-activity will complement the work of the PIMG and PPDF Activities above.

(1) MCC Funding will be used to provide technical assistance to subnational governments and *Badan Usaha Milik Daerah* to prepare them to issue subnational bonds/sukuks, including through: strengthening public financial management; capital investment planning and pipeline prioritization; and raising awareness with local parliaments.

(ii) <u>Transaction Advisory Services Activity</u>.

This Activity will provide transaction advisory services to relevant Government agencies and project owners to originate approximately 15 proof-of-concept demonstration transactions for infrastructure projects from a pre-identified list of projects set forth in Annex IV to the PIA (the "***Pre-Identified Projects***"). It will be necessary to support more projects than the number of projects required to close as projects inevitably experience delays or failure for a variety of reasons, which is why this Activity will support approximately 15 proof-of-concept demonstration transactions. This Activity aims to address the limited capacity of institutions to structure and execute structured finance transactions.

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[5] Green financings are financial transactions that promote the transition to low-emission economy and climate resilient growth, including climate mitigation, adaptation, and biodiversity.

[6] Green bonds are fixed-income instruments whose proceeds are earmarked to finance or refinance new or existing climate and environmental projects.

[7] A sukuk is a financial instrument that complies with Islamic Shariʿa law, whereby no interest is charged but the investor earns a share of profits. A green sukuk is designed for environmentally oriented purposes.

(iii) Blended Finance Delivery Mechanism Activity.

This Blended Finance Delivery Mechanism Activity (the "***BFDM Activity***") aims to mobilize commercial financing for sub-projects by providing blended finance grants. For the sake of clarity, the Parties agree that these blended finance grants will be governed by *MCC's Program Grant Guidelines*. MCC Funding will support an implementor, referred to as the Blended Finance Host ("***Blended Finance Host***"), in establishing and operating a facility for loans and grants to accomplish the purpose of this Activity. At this time, the Parties intend that either PT Indonesia Infrastructure Finance or PT Sarana Multi Infrastruktur (Persero) will serve as the Blended Finance Host.

The Parties intend for this facility to catalyze the market for limited-recourse project finance and structured finance capital market solutions. The Blended Finance Host will recommend that the Government grant MCC Funding to the Blended Finance Host for the Blended Finance Host in turn to lend or grant to lenders and investors to mitigate specific risks to debt holders and encourage them to invest in infrastructure as an attractive asset class with appropriate returns for the risk taken. These successful demonstration transactions, in turn, can then be replicated by others in the market.

Projects and blended finance participations in financing structures will be recommended by the Blended Finance Host to the Government in line with guidelines and parameters agreed between the Parties. Such guidelines will include: assessment of the subsidy amounts of blended finance grants needed to achieve financial closing; additionality of blended finance; and requirements that the returns to project participants be on appropriate terms relative to the risks being taken. The facility will fund one or more transactions from the Pre-Identified Projects. The Pre-Identified Projects may include transactions related to the Energy Transition Mechanism (established by Indonesia with support from Asian Development Bank) or the Just Energy Transition Partnership (a G7+ partnership led by the Government, the United States, and Japan), both promoting the early retirement of Indonesia's coal-fired power plants.

Recommendations on the suitability of any particular project for grants under this Activity will be provided to the Government by the Blended Finance Host after each project submits a formal application to the Blended Finance Host. The Blended Finance Host will be responsible for conducting due diligence to assess potential applicants; proposing financing structures and blended finance solutions; ensuring project environmental, social and governance compliance; and ensuring suitability in relation to the Program Guidelines, in compliance with a set of operational guidelines set forth in an operations manual for the BFDM Activity, to be approved by the Parties. The Parties will agree on whether or not MCC Funding may be used to support any particular project from the Pre-Identified Projects and any particular blended finance structure.

The Government will grant MCC Funding to the Blended Finance Host to be immediately granted or lent out to enable the full range of blended finance instruments to help projects or transactions reach financial close using appropriate concessionality and maximizing project impact, including:

- Viability gap funding to de-risk lenders in their financing of a project e.g., to pay for risk hedges, guarantees, and interest rate support;
- Interest rate buydowns;
- Partial credit guarantees and guarantee fee buydowns;

- First-loss participations in project financing structures, financial asset recycling, and in securitizations;
- Foreign exchange/interest rate hedging cost buydowns;
- Results-based incentives;
- Mitigation of performance risks of different types of contractual obligations in projects;
- Mezzanine participations in financial structures to improve debt-equity ratios;
- Tenor extension guarantees, investment in longer end tranches of bond issues;
- Contingency reserve accounts to support project cash flow shortfalls or delays (these would not be used to fund project expenses);
- Credit enhancements to support debt service reserve accounts and sinking funds for bond instruments;
- Underwriting fees, credit ratings, and other expenses associated with capital markets transactions/sukuks; and
- Technical assistance and studies, as may be necessary.

In addition to financial instrument support at the transactional level, the Blended Finance Host may, in compliance with the operational guidelines referenced above, use MCC Funding to support technical assistance to project sponsors, legal fees, and other upfront costs which need to be met with grant support to make the transaction selected from the Pre-Identified Projects economically feasible. Such forms of blended finance support will also be evaluated and recommended by the Blended Finance Host, and decided upon by the Government, using the processes to be set out in the operational guidelines referenced above.

In order to ensure that the best possible use is made of MCC Funding, a Reallocation Review of this BFDM Activity will be undertaken as required by, and in accordance with, Annex V of the PIA.

(b) Environmental and Social Mitigation Measures.

The MCC Environmental Guidelines classify the Project as Category D, in that it will involve intermediate facilities that will use MCC Funding to finance subprojects that may potentially, but are generally not expected to, result in adverse environmental and social impacts.

A project-level Environmental and Social Management System will be elaborated in conjunction with the project team to guide operations and to identify specific outreach, capacity building and environmental and social protection approaches for each activity (e.g., BFDM Activity, climate bonds, green/blue bonds, energy transition, etc.). The elaboration of calculation methods for the evaluation of activity-level potential related to climate change adaptation, mitigation and/or sustainable landscapes will also figure prominently in the FMD Project's ESMS. Finally, as the FMD Project is among the interventions where MCC Funding will support advisory tasks and financial solutions only, the International Finance Corporation's *Interpretation Note on Financial Intermediaries* will guide ESMS development.

(i) Climate Resilience Sub-activity.

In anticipation of the need created by the various climate-focused aspects of the FMD Project, as well as implementation of both the ATLAS and MSME Finance Projects, the Climate Resilience Sub-activity is intended to address known challenges related to the technical capacity of provincial-level decisionmakers to respond to climate resiliency and low carbon development plans such as the LCDI and LTS-LCCR. These same capacity challenges could also affect provincial government capacity to participate in the planning and implementation of projects and activities related to the FMD Project. Please refer to the description of the Climate Resilience Sub-activity in Annex I, Section B.1.(b) (Environmental and Social Mitigation Measures) above for further details.

(c) Gender and Social Inclusion.

MCC Funding will support a detailed gender and social assessment of the Blended Finance Host and its programs, identifying gaps between the MCC Gender Policy requirements and the existing policies of the Blended Finance Host. This assessment will inform the drafting of a gender, women's economic empowerment, and inclusion framework to be integrated into the operations manual for the BFDM Activity, which the Parties will approve. The assessment will also help the drafting of a Social and Gender Integration Plan for this Project, which will include both gender inclusion and women's economic empowerment activities to be implemented by the Government and indicators for monitoring progress.

(d) Donor Coordination.

This Project will seek to leverage the work of other donors, including the ADB and the World Bank, that have been working on the upstream enabling environment for municipal finance with a view towards facilitating a downstream capital markets transaction issued by a subnational borrower (i.e., municipal bond or sukuk) supported by blended finance. The Parties have engaged in discussions with the U.S. Treasury Department's Office of Technical Assistance, U.S. Department of Commerce's Commercial Law Development Program, and the U.S. Commodity Futures Trading Commission regarding possible collaboration with technical assistance for reforms for capital markets for infrastructure finance and for the development of foreign exchange markets.

(e) USAID.

USAID works with the Government on a number of relevant issues. In particular, USAID's Country Development Cooperation Strategy 2020-2025 includes the goal of seeking to increase private sector engagement through potential early-stage transaction advisory support to help catalyze and de-risk private sector investment, credit enhancements through the United States International Development Finance Corporation, blended finance, various public-private alliances, and public-private partnerships. In addition, USAID supports the Government's Financial Services Authority (*Otoritas Jasa Keuangan*), project developers, and financial institutions to develop alternative financing mechanisms that utilize blended finance and credit enhancements for clean energy projects. USAID develops public-private partnerships, de-risking facilities, and provides transaction support to the Government's Financial Services Authority (*Otoritas Jasa Keuangan*) and domestic banks to build local capacity in utilizing non-recourse financing for renewable energy and energy efficiency projects. The Parties will continue to engage with USAID to determine areas of collaboration to further the FMD Project Objective.

(f) Sustainability.

(A) Operational/programmatic sustainability

To help ensure sustainability, the Capacity Building and Technical Assistance Sub-activity can be implemented by contracting or partnering with an entity that can offer training and capacity building in relevant areas post-compact, including international or Indonesian professional institutes, think tanks or training providers. The Government will seek to collaborate with the U.S. Department of Commerce's Commercial Law Development Program, the U.S. Treasury Department's Office of Technical Assistance, and the U.S. Commodity Futures Trading Commission, which have pre-existing and ongoing relationships with Bank Indonesia and other Government stakeholders, to support further capacity building, sector-wide dialogue, and reform.

(B) Institutional sustainability

The Capacity Building and Technical Assistance Sub-activity's emphasis on high- and operational-level staff training for individuals as well as support for transformation initiatives, such as organizational strategy, policy, and engagement with senior management, supports the FMD Project's goals of changing sponsors' and lenders' perceptions of risk/returns for using structured financing approaches both at the organizational level and individual levels.

(C) BFDM operational and financial sustainability

The selection of either PT Indonesia Infrastructure Finance or PT Sarana Multi Infrastruktur (Persero) as the Blended Finance Host promotes operational sustainability, and the aim of the BFDM Activity is in line with the mission and interests of the Blended Finance Host. To continue the operational sustainability of the BFDM Activity, the Blended Finance Host will use any funds paid back to be re-deployed to other projects fulfilling objectives similar to the FMD Project Objective. The Government could also seek to recover the cost of the Transaction Advisory Services Activity at successful financial closing to enable those funds to revolve for additional advisory opportunities to bring more projects to market.

(g) Policy, Legal, and Regulatory Reforms.

To facilitate a flourishing infrastructure finance market, reforms may be supported by the Capacity Building/Technical Assistance Activity in areas listed in the table below:

Aspect	**Possible reform areas**
Enabling regulations and ecosystem	Specific regulation in support of infrastructure finance, possibly including a roadmap issued by the Government
Tax environment	Tax on foreign exchange trading and contracts and simplification/enhancement of general tax treatment of infrastructure projects
Legal and contract enforceability	Improvements to default management and execution
Foreign exchange	Regulations on hedging and other enablers to increase onshore trading volume, along with development of hedging instruments

3. Access to Finance for Women-owned / Micro-, Small and Medium Enterprises Project

(a) Summary of Project and Activities.

Financial inclusion is a priority of the Government for the sustainable and inclusive development of Indonesia and is the long-term goal of this Project. The objective of the Access to Finance for Women-owned / Micro-, Small and Medium Enterprises Project (the "***MSME Finance Project***") is to increase lending by formal financial service providers to Micro-, Small and Medium Enterprises owned by women or men in the Target Provinces to support their businesses, responding to the root causes of information asymmetry and borrowers' constraints. This Project will facilitate more inclusive lending practices by FSPs and improving W/MSMEs' ability to borrow and make use of this finance, taking a "financing ecosystem" approach to growing W/MSMEs in the Target Provinces that addresses barriers that small firms face at each stage of their journey, first towards business formalization, then towards formal finance and the business expansion that can be unlocked with access to capital for fixed asset purchases. The MSME Finance Project will focus on a specific population of W/MSMEs in the Target Provinces with a view towards catalyzing growth. The firms targeted will be growth oriented[8] rather than subsistence focused and will initially be drawn from sectors with high growth potential, such as food and beverage, fishery, textile and apparel, and manufacture of botanical products, and from growth-oriented producer groups in selected agriculture and agroindustry sectors that have been prioritized by provincial stakeholders for compact assistance. The Project includes four Activities:

(i) Gender-inclusive Value Chain Finance Activity.

This Activity will provide non real property-based collateral financing to qualified W/MSMEs operating within potentially growing sectors in the Target Provinces.

(A) On-lending Window for Financial Service Providers Sub-activity

MCC Funding will be used to create and fund a revolving fund to be administered by a public or quasi-public institution (the "***OLW Administrator***") under certain conditions, including that the institution be considered as a Covered Provider for audit purposes. The OLW Administrator will create two windows for lending to FSPs from the revolving fund: 1) Capital Growth Window, and 2) Fintech Wholesale Window. FSPs will apply for funding from the respective windows upon successfully satisfying certain criteria, which includes the requirement for the W/MSME borrowers to operate within the Target Provinces and within the target sectors described above. Loans to selected FSPs (the "***Partner FSPs***") from this revolving fund will be repayable to the revolving fund. The OLW Administrator will then continue to use the repayments from the Partner FSPs to the revolving fund to continue to make similar loans and service fee payments until the funds are completely exhausted. The interest rate on the loans from the revolving fund to the FSPs will be zero. For each loan funded by the revolving fund, the revolving fund will

[8] Various indicators can be used to identify whether firms have growth prospects for continued upward trajectory. The Athena Global review identified the following five indicators: 1) legally registered business status; 2) two-plus years of business operations; 3) company bank account; 4) basic financial records; and 5) product development vis-à-vis input from customers. MCC's own data collection efforts made use of the Mastercard "striver" questions to identify "growth-oriented" W/MSMEs.

pay the Partner FSPs an agreed servicing fee to collect and distribute payments. The Capital Growth Window will provide 50 percent funding for loans to W/MSMEs for the purpose of acquiring capital equipment or making other Partner FSP-approved productive investments. The Fintech Wholesale Window will provide up to 20 percent of the funding for loans to fintech firms for on-lending to W/MSMEs within the Target Provinces. Fintech companies' policies and underwriting guidelines will be reviewed to ensure that the fintech companies do not discriminate against rural or women borrowers.

The minimum eligibility criteria for Partner FSPs applying to the two windows described above will be agreed upon by the Parties and will include applicable exclusion lists to remove any doubt related to investments with environmental, social, gender and reputational risks. Such Partner FSP eligibility criteria will include the following:

- Demonstrated commitment to increasing the number of women owned MSMEs borrowers within such Partner FSP's MSME portfolio.
- Demonstrated a credible outreach and engagement plan with W/MSMEs, especially women owned MSMEs.
- Commitment to W/MSME lending, especially to micro- and small enterprises, with at least 20 percent of borrowers being micro- and small enterprises within the Partner FSP's MSME portfolio in previous three years.
- Loan conditions requiring full compliance with transparency and disclosure on use of proceeds.
- Ability to quantitatively track information on the financial and business performance of W/MSMEs.
- Ongoing strategy to increase deployment of capital to W/MSMEs after initial grant period.
- Commitment to participate in training and other capacity enhancement exercises to better understand the potential of W/MSMEs as valuable customers and provide information to prospective W/MSME borrowers.

In addition to the above, this Sub-activity will support a transaction advisor to support the OLW Administrator to review operations of Partner FSPs and provide outreach and relationship management between the OLW Administrator and Partner FSPs. This transaction advisor will support the OLW Administrator to develop eligibility criteria, including an exclusion list, for the Partner FSPs to use in selecting W/MSMEs to lend to.

In order to ensure that the best possible use is made of MCC Funding, a Reallocation Review of this Gender-inclusive Value Chain Finance Activity will be undertaken as required by, and in accordance with, Annex V of the PIA.

(B) Technical Assistance to FSPs Sub-activity

This Sub-activity, designed to support and enhance the viability of the OLW Administrator's grant funding, will provide technical assistance, training and other demand-driven business development support to Partner FSPs. This will depend heavily on the individual Partner FSP's willingness to engage in any change towards more inclusive lending practices.

MCC Funding will develop a digital portal, to be hosted by the Ministry of Cooperatives and Small and Medium Enterprises ("***MoCSME***"), for W/MSMEs to apply for non-collateralized fintech loans whereby Partner FSPs can review and choose to move forward with such applications. In addition, MCC Funding will provide technical assistance to Partner FSPs in several topics, including the following:

- provide training on credit risk assessments methods to improve their W/MSME lending due diligence so that it is more accurate and effective.
- support in creating more appropriate and need-based financial and non-financial (outreach and engagement plan) services for W/MSMEs.
- support them in identifying potential growth-oriented W/MSMEs so as to select a better pool of candidates for loans.
- provide gender training and advice on supporting the needs of women owned MSMEs, and to adapt their policies to bring gender equality in their W/MSME loan portfolios.
- support in developing systems for collecting sex-disaggregated data on loans and repayment performances of their W/MSME loan portfolios. MCA-Indonesia will require Partner FSPs to share this data regularly for monitoring the progress of the MSME Finance Project.

The Digital and Financial Literacy Enhancement Activity will support trained W/MSMEs to access and navigate this portal for easier access to finance from Partner FSPs.

(ii) Digital and Financial Literacy Enhancement Activity.

This Activity will enhance the viability of W/MSMEs by providing technical assistance, digital and financial literacy training, and other demand driven business development support to growth-oriented W/MSMEs in the Target Provinces. The training and assistance will cover several relevant topics including the following:

- Financial Literacy: the topics will include basics of finance, defining financial concepts, financial behavior, personal financial management, and the separation of business and personal finance. This will enable participants to make informed decisions and judgments concerning the use and management of their money.
- Financial Management of the Enterprise: the topics will include financial management of the enterprise, defining the role of internal and external sources of finance, investments, operational costs, revenues, profits, retained earnings, trade finance, debt management, business planning and forecasting.
- Digital Literacy: the topics will include basic knowledge of digitalization and access to the internet, mobile phones, and fintech space. The training will also cover issues of data privacy, cyber security and safekeeping of devices, and internet activity.
- Digital Financial Literacy: the topics will include concepts around financial capability and control, preparing participants to understand digital financial services and further extend their ability to manage business affairs through digital means.
- Mitigate social risks: the topics will include TIP, gender-based violence, child labor, as well as gender actions learning system for creating a conducive environment for women’s empowerment.
- Assist W/MSMEs to apply for loans, especially from Partner FSPs using either the direct application or the digital portal established under the Technical Assistance to FSPs Sub-activity.

(iii) MSME Capacity Enhancement Activity.

This Activity will support growth-oriented W/MSMEs in the Targeted Provinces that are in an earlier stage of their journey towards formalization and eventually towards formal finance by providing capacity enhancement training to eligible W/MSMEs to develop business skills, access markets and increase sales.

(A) Formalization, Permitting and Certification of W/MSMEs Sub-activity

This Sub-activity aims to enable W/MSMEs to become legal entities to comply with regulatory requirements that represent structural barriers in accessing formal loans/finance and increase women's control over their business decisions, finance and profit. MCC Funding will provide technical assistance to W/MSMEs who are not registered and who lack licenses to assist them with the acquisition of tax identification and business identification numbers: the first two essential steps for business formalization. With these two forms of identification in place, business actors can apply for business permits and commercial or operational permits in accordance with their sectoral requirements. MCC Funding will also provide technical assistance to these W/MSMEs to facilitate additional certifications, such as intellectual property rights, food safety climate-smart certifications and other required regulatory compliance.

(B) Market Access Support for MSME Sub-activity

Enhancing W/MSME business capacity through business development services is critical to bolster their market access, profitability and competitiveness. This Sub-activity will provide training to W/MSMEs in the Target Provinces to promote better business practices (marketing, record keeping, drafting of bankable business plans, identification of financial gaps/financial needs, financial planning, bidding proposals), which can promote accessing finances, enhancing production and faster sales growth and survival rates of small businesses. This Sub-activity will be implemented using both contracts and partnerships with business development services providers, business associations, sector associations, incubators, start-ups and accelerators. The orientation of these trainings will be towards linking W/MSMEs within specific value chains with suppliers, incubators and associations, with the understanding that these actors are more likely to sustain relationships with growing W/MSMEs.

(C) Linking Good Practice Infrastructure and MSME Finance Project for One-Stop and Childcare Services Sub-activity

As noted above, the Good Practice Infrastructure Project Activity will, where feasible, construct "shared workspaces" for W/MSMEs that will include "one-stop" service and childcare centers in the facilities upgraded or constructed by the *Proper*. The MSME Finance Project will provide designated services in these facilities upgraded or constructed under the Good Practice Infrastructure Project Activity of the ATLAS Project. This Sub-activity will support implementation of the MoWECP's Regulation 5/2015, *Provision of Gender Responsive Work Facilities and Child Care in the Workplace,* which also regulates the obligations of Government and private institutions to provide equal opportunities to every woman and man to carry out their duties, functions, rights, and responsibilities in the workplace. The MSME Finance Project will contract consultant firm(s) to manage "one-stop" facilities (facilitate W/MSMEs tax and business identification numbers, registration/ formalization of businesses, permits and certifications, cashless solutions, FSP outreach, financial kiosks, non-financial services, and others) and childcare centers.

(iv) Augmenting Government Data on MSMEs Activity.

This Activity will support the Government in gathering and analyzing W/MSME financial and technical performance and W/MSME sex-disaggregated data. This Activity will include:

(A) Technical assistance and capacity-building

This Activity will provide technical assistance and capacity-building to help standardize efforts by the public sector to collect information on W/MSMEs' access to finance and performance.

(B) Capacity-building for MoCSME

This Activity will provide capacity-building for the MoCSME staff to help them better capture and understand data on financial and technical performance of W/MSMEs. MoCSME intends to establish and maintain a single database of cooperatives and W/MSMEs, with data initially collected from a nationwide census that will be undertaken in cooperation with the Government's Central Statistics Agency in 2023. MCC Funding will be used to support an economic analyst at the MoCSME to analyze the database information. The economic analyst will provide training on economic analysis to the MoCSME staff, support the maintenance of the database and help improve the MSME database information system at the MoCSME as well as producing policy analysis as needed. MCC Funding will also be used to train MoCSME staff to continue to expand the abovementioned data analysis and maintenance, including by bringing in data sets from other government departments that would allow MoCSME to measure the relative risk of W/MSMEs by a range of characteristics such as industry, business size, location, and gender. The Parties will agree on whether to add a component to this Activity specifically focused on sharing data with W/MSMEs for the purpose of advising W/MSMEs on improving their creditworthiness in line with some of MoCSME's other programming for W/MSMEs.

(b) Environmental and Social Mitigation Measures.

The MCC Environmental Guidelines classify the Project as Category D, in that it will involve an intermediate entity[9] that will use MCC Funding to finance subprojects that may potentially, but are generally not expected to, result in adverse environmental and social impacts. Even though at present it is surmised that the Project poses few environmental and social risks, due diligence efforts will continue to identify areas in which the Project may contribute to improved environmental and social performance of beneficiaries, particularly in the realm of climate change, based on specific guidelines for activities, sectors and/or value chains supported by the Project.

A Project-level ESMS will be elaborated to guide assessment and mitigation of environmental and social risks and/or impacts associated with W/MSME sectors and value chains, In addition, the ESMS will frame operations of each activity from an environmental and social compliance standpoint (e.g., establishment of an exclusion list, etc.) and identify specific outreach, capacity building and lending efforts for individual sectors and/or value chains, with particular emphasis on the MSME Capacity Enhancement Activity. The elaboration of calculation methods for the evaluation of activity-level results which are potentially related to climate change adaptation, mitigation and sustainable landscapes will also figure prominently in the MSME Finance

[9] While MCC's Environmental Guidelines use the term 'facility' instead of 'entity', in reference to Category D projects, the Parties have replaced 'facility' with the term 'entity' in this section in order to clarify that the MSME Finance Project is a not a grant facility.

Project's ESMS. Finally, as the MSME Finance Project is, similar to the FMD Project, among the Compact interventions where MCC Funding will primarily cover advisory tasks, the International Finance Corporation's *Interpretation Note on Financial Intermediaries* will guide ESMS development.

(i) Climate Resilience Sub-Activity.

In anticipation of the need created by the various climate-focused aspects of agriculture and natural resource-based value chains potentially associated with the MSME Finance Project, as well as implementation of both the ATLAS and FMD Projects, the Climate Resilience Sub-activity is intended to address known challenges related to the technical capacity of provincial-level decisionmakers to respond to climate resiliency and low carbon development plans such as the LCDI and LTS-LCCR. These same capacity challenges could also affect provincial government capacity to participate in the planning and implementation of activities related to the MSME Finance Project. Please refer to the description of the Climate Resilience Sub-activity in Annex I, Section B.1.(b) (Environmental and Social Mitigation Measures) above for further details.

(c) Gender and Social Inclusion.

On July 8, 2022, the Ministry of Finance issued Regulation No. PMK 112/2022 which stated that taxpayers that reside in Indonesia will use their Residential Identity Number (*Nomor Induk Kependudukan/NIK*) as a tax identification number instead of the previously used NPWP (*nomor pokok wajib pajak*). This change can enable the choice for married women to use their Residential Identity Number for tax purposes. Previously, the Law No. 36 of 2008 on Income Tax adhered to the *unitas personae* or "family unit" as an economic unit with the man as the head of the family. One family unit was given only one tax identification number under the husband's name[10]. After marriage, a woman with an income and tax identification number needed to combine her information with her husband's obligations, and her tax identification number was removed[11]. If a married woman wanted to obtain or maintain her individual tax identification number, she had to apply to the Director General of Taxes with several documents, including: (i) a pre-nuptial agreement, (ii) her husband's tax identification number, (iii) the marriage certificate, (iv) a notarized statement of willingness to carry out her tax obligations. Due to this difficult process, the majority of married businesswomen used their husbands' tax identification number to register their businesses and access finance, which resulted in the husbands becoming the signing authority and decisionmakers on the amount and use of investments and income, which was mostly spent for household and family expenditure, rather than reinvestment into businesses.

In 2020, the National Strategy of Financial Inclusion was updated by including gender equality in financial inclusion and prioritized programing for W/MSMEs, financial literacy, and sex-disaggregated data collection. To implement this gender equality in financial inclusion and the Ministry of Finance's Regulation No. PMK 112/2022 referenced above, the MSME Finance Project will include several inclusion, gender, and women's economic empowerment activities including the following:

[10] Article 31 Paragraph (3) Law No. 1 of 1974 on Marriage which stipulates that "the husband is the head of the family, and the wife is the housewife".

[11] Article 7 Paragraph (1) of Director General of Taxes Regulation No. PER-04/PJ/2020.

- Formalization of women owned MSMEs: large-scale outreach and communication will be conducted to raise women's awareness that they have a choice to have their own tax identification number. The communication will also include information of the potential advantages and responsibilities of having their own tax identification number. MCC Funding will be used to conduct outreach and support to women owned MSMEs with preparation of paperwork to formalize their businesses.
- Support implementation of the MoWECP's Regulation no. 5 of 2015, *Provision of Gender Responsive Work Facilities and Child Care in the Workplace.* MCC Funding will provide: (a) assessments of childcare services, (b) dialogues with subnational governments and business associations to support establishment of childcare facilities and developing a database of childcare services that meet the Government's standard, and (c) support for the development of affordable market-based small businesses for childcare.
- Feasibility studies on "Shared Workspace" for W/MSMEs, especially in the *Proper*: MCC Funding will support (a) a dialogue with W/MSMEs, women traders, business associations and local government for establishing safe "shared workspaces" for W/MSMEs, especially in the *Proper*; and (b) an assessment of global and Indonesian good practices to design a market system that manages shared workspaces, cashless solutions, equipment, storage, safe facility and childcare for women traders, producers and suppliers.
- Using the assessments and dialogues, MCA-Indonesia II will draft a SGIP that is aligned with the MSME Finance Project, with activities and indicators for implementation of inclusion, gender and women's economic empowerment activities and monitoring of the progress of those activities.

(d) Donor Coordination.

The MSME Finance Project is designed to complement the work of a vibrant development partner community in Indonesia focused on the issue of financial inclusion, including ADB, the World Bank, USAID, DFAT and NGOs such as Women's World Banking and Microsave. There are multiple opportunities for the MSME Finance Project to support broader work in financial inclusion that is being funded by ADB, the World Bank, USAID, DFAT and the Gates Foundation. This may take the form of non-funded partnership agreements between these entities and the Government through MCA-Indonesia II. The implementation approach for this Project will also rely on partnerships with FSPs, business associations, sector associations, incubators, start-ups and accelerators that bring valuable knowledge and experience of the W/MSME context in the Target Provinces, and that have an interest in sustaining gains beyond the Compact Term.

(e) USAID.

USAID has a long history of working with W/MSMEs in Indonesia. MCC and USAID have regularly shared information regarding potential projects in common focus areas of fintech and blended finance. The compact development process also benefited from lessons learned from USAID programs to date focused on training young entrepreneurs, which helped to inform the design of the MSME Finance Project, particularly with respect to assessments of digital financial literacy. As mentioned under the ATLAS Project, there is no overlap between MCC Target Provinces and USAID high-priority provinces, therefore the focus has been on opportunities to learn from and scale one another's efforts rather than on direct collaboration. As an example, USAID has shared information on their ongoing Coffee Value Chain intervention in Aceh, East Java, and North Sumatra in partnership with Root Capital and Keurig-Dr. Pepper, as well as offering continued dialogue and updates on the value-chain building activities under this partnership. The Parties will continue to engage with USAID to determine areas of collaboration to further the MSME Finance Project Objective.

(f) Sustainability.

This Project will incentivize the FSPs to continue to finance W/MSMEs by increasing the FSPs' customer base which should increase FSPs' profit in a sustainable manner. This Project is also aligned with the Government's regulatory approach on FSPs. All capacity building activities will be conducted in coordination with subnational governments, business associations, and training institutes. The Government will disseminate to key stakeholders, and the general public, lessons from successful training modules used by W/MSMEs to access finance and expand their businesses. The Government can share the training modules with partners to enable them to continue providing training, mentoring, and coaching to a vast number of W/MSMEs to improve growth and poverty reduction. In addition, the Augmenting Government Data on MSMEs Activity is meant to build greater government capacity to help support W/MSMEs' access to finance more effectively after the Compact Term, over and above any market improvements.

(g) Policy, Legal, and Regulatory Reforms.

MCC Funding can be used to conduct an assessment of and consultation with the Director General of Taxes on its needs for implementing PMK 112/2022 in the Target Provinces.

Additional assessments may be needed to review the policy, regulatory, and legal environment for business regulations, licensing/permits, childcare standards, and standards for one stop services for W/MSMEs and shared workspaces for women-owned MSMEs standards as well as to understand options for strengthening financial institutions.

C. IMPLEMENTATION FRAMEWORK

1. MCA-Indonesia II

(a) Establishment of MCA-Indonesia II.

The Government established MCA-Indonesia II as a trustee institution known as a *Lembaga Wali Amanat* (LWA) pursuant to Government Regulation Number 10/2011 and Presidential Regulation Number 80/2011 through the issuance of Minister of National Development Planning Regulation Number 5/2022 as promulgated on August 9, 2022.

(b) Independence and Autonomy.

MCA-Indonesia II shall have operational and legal independence and full decision-making autonomy, including, inter alia, the ability, without any obligation to consult in every instance with, or obtain the consent or approval of, any other party, to: (i) enter into contracts in its own name, (ii) sue and be sued, (iii) establish bank accounts with financial institutions in its own name and hold MCC Funding and the Government Contribution in those accounts, (iv) expend MCC Funding and the Government Contribution, (v) engage contractors, consultants and/or grantees, including, without limitation, procurement and fiscal agents, and (vi) competitively engage one or more auditors to conduct audits of its accounts. The governance of MCA-Indonesia II shall be set forth in more detail in the constitutive documents and internal regulations of MCA-Indonesia II which must be in form and substance satisfactory to MCC and in accordance with any related MCC policies.

MCA-Indonesia II shall be governed and managed by a board of trustees (the "***Board of Trustees***") and an operations unit (the "***Operations Unit***").

(c) Board of Trustees.

The Board of Trustees shall have ultimate responsibility for the oversight, direction, and decisions of MCA-Indonesia II, as well as the overall implementation of the Program. The Board of Trustees shall comprise up to eleven voting members and two non-voting observers. In accordance with the Minister of National Development Planning Regulation Number 147/2022 as promulgated on November 30, 2022, the voting members of the Board of Trustees shall include the following representatives:

- 4 representatives from the Ministry of National Development Planning/National Development Planning Agency
- 1 representative from the Ministry of Finance
- 1 representative from the Ministry of Public Works and Housing
- 1 representative from the Ministry of Home Affairs
- 1 representative from the Ministry of Cooperatives and Small and Medium Enterprises
- 1 non-Government member representing the private sector
- 1 non-Government member representing academia
- 1 non-Government member representing civil society.

The number and composition of voting members may be changed through amendments to and in accordance with MCA-Indonesia II's constitutive documents and internal regulations with MCC's approval. The non-Government members shall be selected in accordance with the Governance Guidelines. In addition, MCC's Resident Country Director in Indonesia and the Executive Director of MCA-Indonesia II shall serve as non-voting observers of the Board of Trustees.

(d) Operations Unit.

The Operations Unit consists of the staff of MCA-Indonesia II who have responsibility for the day-to-day activities and operation of the Program and for assisting the Board of Trustees with implementing the Program. The Operations Unit shall be led by an executive team comprising executive director and the directors and officers as agreed between the Parties, and further staffed with additional staff to support the executive team and enable the Operations Unit to execute its role and responsibilities. All staff of the Operations Unit shall be selected through an open, competitive, and non-discriminatory recruitment and selection process (or its equivalent).

2. Implementing Entities.

Subject to the terms and conditions of this Compact, the Program Implementation Agreement, and any other related agreement entered into in connection with this Compact, the Government intends to engage one or more entities of the Government to assist with implementing one or more Projects or Activities (or a component thereof) (each, an "***Implementing Entity***"). The appointment of any Implementing Entity shall be subject to review and approval by MCC. The Government shall ensure that the roles and responsibilities of each Implementing Entity and other appropriate terms are set forth in an agreement, in form and substance satisfactory to MCC (each an "***Implementing Entity Agreement***").

As of the date hereof, the Parties agree that the following entities will be Implementing Entities under this Agreement: PT Sarana Multi Infrastruktur (Persero), Ministry of Finance, MoCSME, Ministry of National Development Planning/National Development Planning Agency, and the Ministry of Public Works and Housing. Additional Implementing Entities will be engaged prior to or during the Compact Term and will enter into an Implementing Entity Agreement.

3. Fiscal Agent and Procurement Agent.

Unless MCC approves otherwise in writing, the Government shall engage a firm with expertise in financial management and reporting to serve as fiscal agent (the "***Fiscal Agent***"), and an individual or firm with expertise in public procurement and contract management to serve as procurement agent (the "***Procurement Agent***"). It is expected that the Fiscal Agent and Procurement Agent, respectively, shall assist the Government to ensure that all Program-related financial management activities and procurements are conducted in strict compliance with the principles, rules, and procedures set out in this Compact and related MCC policies, procedures, or guidance. The duties of the Fiscal Agent and Procurement Agent, respectively, shall include those set forth in the Program Implementation Agreement, as well as those set forth in the respective agreements, each in form and substance satisfactory to MCC, entered into between the Government and each agent.

ANNEX II

MULTI-YEAR FINANCIAL PLAN SUMMARY

A multi-year financial plan summary ("***Multi-Year Financial Plan Summary***") for the Program is attached to this Annex II as Exhibit A. By such time as specified in the Program Implementation Agreement, the Government shall adopt, subject to MCC approval, a multi-year financial plan that includes, in addition to the multi-year summary of estimated MCC Funding and the Government Contribution, the annual and quarterly funding requirements for the Program (including administrative costs) and for each Project, projected both on a commitment and cash requirement basis.

The Government Contribution or "co-investment" of Forty-Eight Million Six Hundred Seventy-Five Thousand Dollars (US$48,675,000) is equal to 7.5% of MCC Funding, meeting the minimum requirements of the *Guidelines for Country Contributions*. As described in Part A of Annex I, the Compact has been developed in alignment with the priorities of the Government. Therefore, after Compact signature and in support of the Project Objectives, the Government shall make a combination of in-kind and financial contributions as necessary to carry out the Government's responsibilities under Section 2.6(a) of this Compact. Such contributions shall be aligned with the Government's National Medium Term Development Plan and other development plans.

In connection with this obligation and following Compact signature, the Government shall invest US$48,675,000 in compliance with Section 2.6(a) and as summarized in the Multi-Year Financial Plan Summary and more fully described in Annex III of the PIA. The Government Contribution may include financial support for the ATLAS and FMD Projects by providing complementary investments towards *Proper*, the PPDF and subnational debt instruments. Such contribution shall be in addition to the Government's spending allocated toward such Project Objectives in its budget for the year immediately preceding the signing of this Compact and may be allocated from the *Anggaran Pendapatan dan Belanja Negara* (state budget) or from other sources which fulfill the criteria for financial contributions set forth in the *Guidelines for Country Contributions*.

During implementation of the Program, the Government Contribution may be modified with MCC's approval, provided that the modified contributions continue to advance the Project Objectives.

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EXHIBIT A TO ANNEX II

MULTI-YEAR FINANCIAL PLAN SUMMARY

	(US$)						
	CFF	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Total**
1. Advancing Transport & Logistics Accessibility Services (ATLAS)							
1.1 Transport Planning Reform	92,855	985,711	9,385,711	9,685,711	4,785,711	2,085,711	27,021,409
1.2 Good Practice Infrastructure Projects	671,416	1,342,831	11,042,831	53,542,831	98,342,831	30,442,831	195,385,571
1.3 Public Investment Management Guidelines (PIMG)	64,284	128,569	6,628,569	6,228,569	5,028,569	628,569	18,707,129
1.4 Project Preparation and Delivery Facility (PPDF)	328,565	4,657,130	20,557,130	20,657,130	21,357,130	28,057,130	95,614,215
1.5 Support Services	1,739,035	1,785,570	2,220,570	2,520,570	2,888,070	2,388,070	13,541,883
Subtotal	**2,896,155**	**8,899,810**	**49,834,810**	**92,634,810**	**132,402,310**	**63,602,310**	**350,270,207**
2. Financial Markets Development							
2.1 Capacity Building/Technical Assistance	1,494,017	5,207,035	5,564,122	5,432,177	5,471,260	3,463,256	26,631,869
2.2 Transaction Advisory Services	1,800,610	2,727,440	2,727,440	2,727,440	2,727,440	2,727,440	15,437,809
2.3 Blended Finance Delivery Mechanism (BFDM)	785,029	6,493,777	11,549,963	11,608,959	11,670,904	11,735,946	53,844,578
Subtotal	**4,079,656**	**14,428,252**	**19,841,525**	**19,768,576**	**19,869,604**	**17,926,642**	**95,914,256**
3. Access to Finance for W/MSMEs							
3.1 Gender Inclusive Value Chain Finance	4,420,031	9,417,562	12,812,562	14,462,562	15,160,062	15,760,062	72,032,840
3.2 Digital and Financial Literacy Enhancements (DFL)	285,063	3,757,007	4,951,967	5,429,951	5,429,951	5,190,959	25,044,897
3.3 MSME Capacity Enhancement	800,726	5,173,453	6,823,453	6,583,453	6,683,453	6,448,453	32,512,990
3.4 Augmenting Government Data on MSMEs	1,021,428	1,042,856	1,042,856	1,042,856	1,042,856	1,042,856	6,235,710
Subtotal	**6,527,249**	**19,390,878**	**25,630,838**	**27,518,822**	**28,316,322**	**28,442,330**	**135,826,437**
4. Monitoring & Evaluation							
4.1 Monitoring & Evaluation	500,000	1,000,000	500,000	1,000,000	1,500,000	2,500,000	7,000,000
Subtotal	**500,000**	**1,000,000**	**500,000**	**1,000,000**	**1,500,000**	**2,500,000**	**7,000,000**
5. Program Administration							
5.1 Program Administration	10,172,397	9,107,623	9,141,854	9,390,589	9,582,338	12,594,302	59,989,101
Subtotal	**10,172,397**	**9,107,623**	**9,141,854**	**9,390,589**	**9,582,338**	**12,594,302**	**59,989,101**
Total MCC Funding	**24,175,457**	**52,826,563**	**104,949,027**	**150,312,797**	**191,670,574**	**125,065,584**	**649,000,000**
Government Contribution		**9,735,000**	**9,735,000**	**9,735,000**	**9,735,000**	**9,735,000**	**48,675,000**
GRAND TOTAL COMPACT PROGRAM INVESTMENT	**24,175,457**	**62,561,563**	**114,684,027**	**160,047,797**	**201,405,574**	**134,800,584**	**697,675,000**

ANNEX III

COMPACT MONITORING & EVALUATION FRAMEWORK

This Annex III outlines the monitoring and evaluation ("***M&E***") framework for this Compact, which will be further elaborated in an M&E plan ("***M&E Plan***"). The actual structure and content of the M&E Plan, which may differ from those specified in this Annex III, shall be agreed to by the Parties in accordance with the *Policy for Monitoring and Evaluation of Compact and Threshold Programs* (the "***M&E Policy***"). The M&E Plan may be modified from time to time as described in the M&E Policy without requiring an amendment to this Annex III. The M&E Plan shall be posted publicly on the MCC Website and updated as necessary.

1. Objective

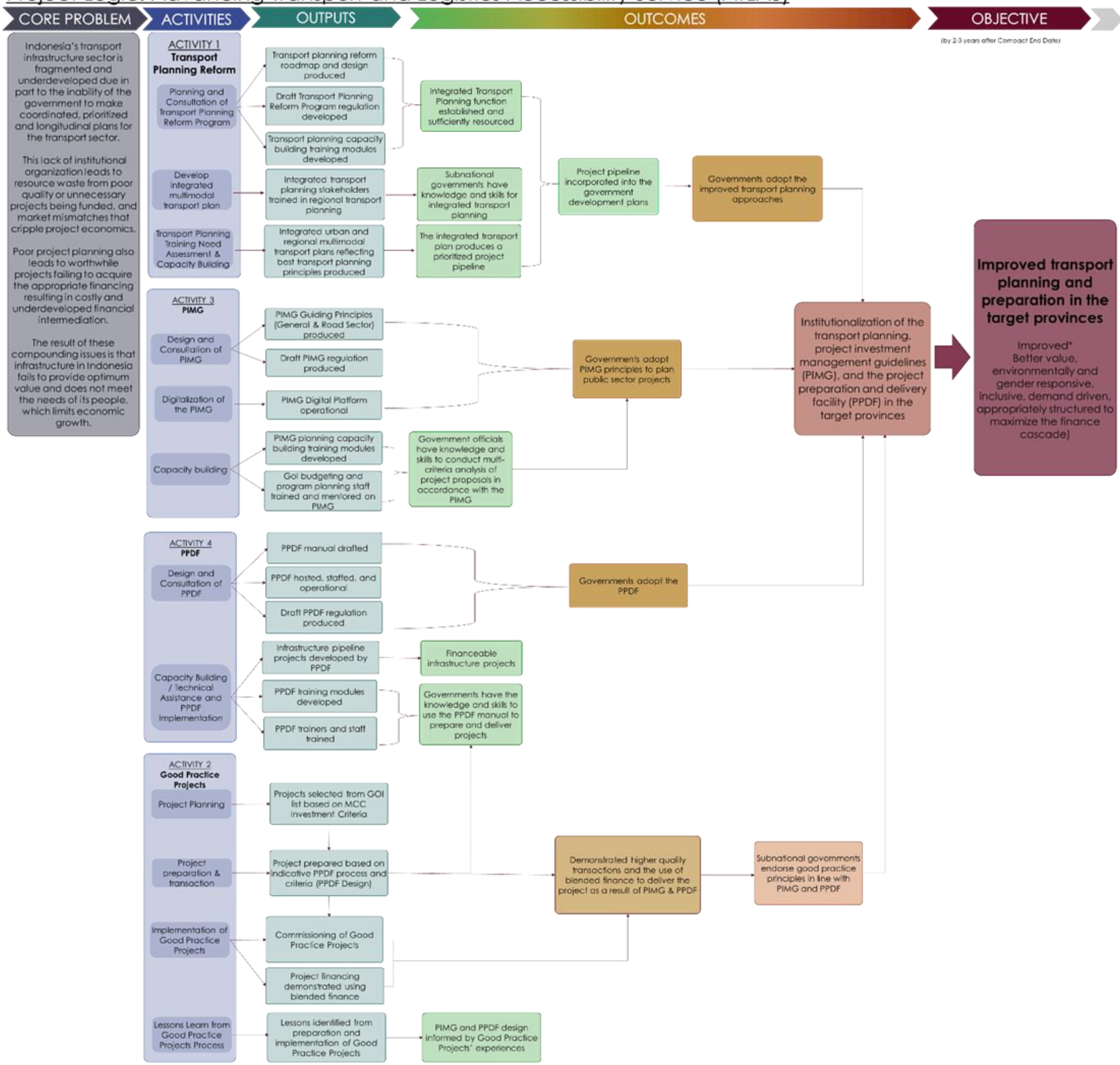
MCC and the Government shall formulate and agree to, and the Government shall implement or cause to be implemented, an M&E Plan that explains in detail how and what MCC and MCA-Indonesia II shall (i) monitor to determine whether the Projects are on track to achieve their intended results ("***Monitoring Component***"), and (ii) evaluate to assess implementation strategies, provide lessons learned, compare costs to benefits, and estimate the impact of compact interventions ("***Evaluation Component***"). The M&E Plan shall summarize all indicators that must be reported to MCC on a regular basis, as well as a description of any complementary data to be collected for evaluation of the Program. The M&E Plan shall also include any M&E requirements that MCA-Indonesia II must meet in order to receive Disbursements and shall serve as a communication tool so that MCA-Indonesia II staff and other stakeholders clearly understand the objectives and targets that MCA-Indonesia II is responsible for achieving. The results of M&E activities, measured by monitoring data and evaluations, shall be made publicly available on the website of MCA-Indonesia II and on the MCC Website.

2. Project Logic Diagrams

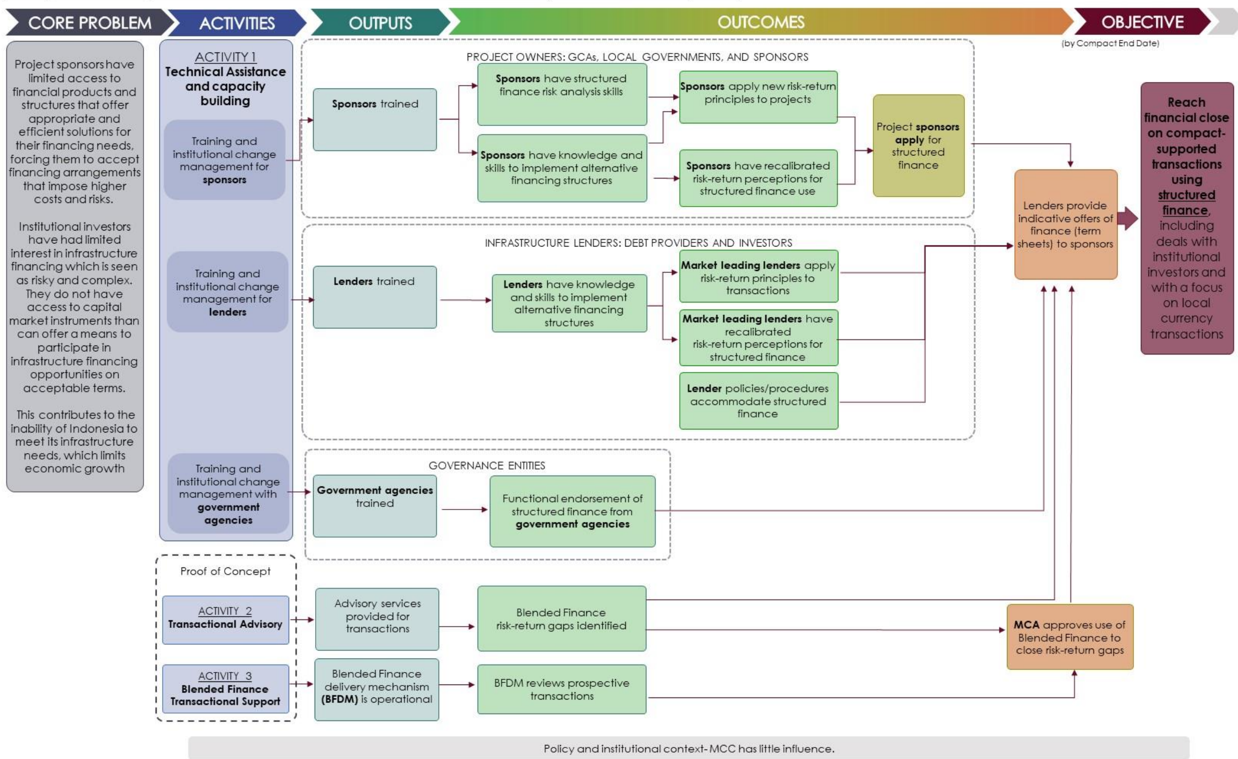
The M&E approach for each Project is built on the project logic diagram, which illustrates the cause-and-effect theory of how a Project's interventions work together to achieve the Project Objective and details key intermediate results expected along the way. The project logic diagram provides a graphical representation of the Project as described in Section B of Annex I of this Compact and of the impacts targeted by the Project as described below in the section titled *Projected Economic Benefits and Beneficiaries*.

The project logic diagrams for the Program are as follows:

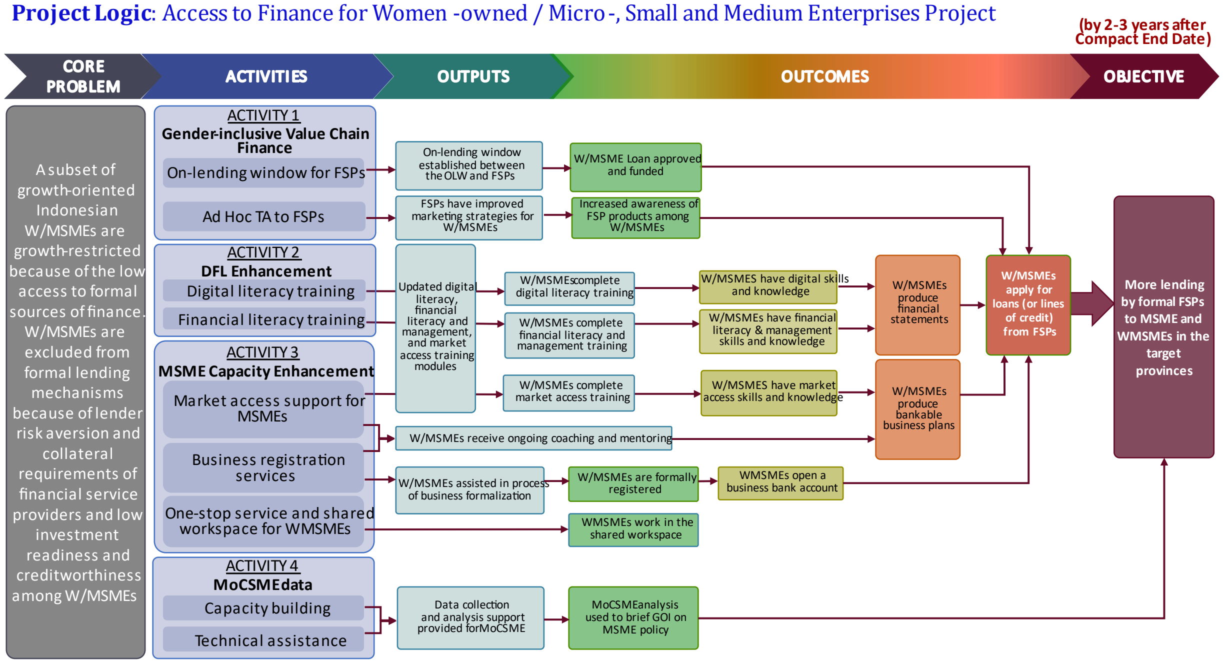
Project Logic: Advancing Transport and Logistics Accessibility Service (ATLAS)



Project Logic: Financial Markets Development Project



Project Logic: Access to Finance for Women -owned / Micro -, Small and Medium Enterprises Project



3. Projected Economic Benefits and Beneficiaries

The economic analysis of compact programs aligns with the theory reflected in the project logic diagrams. It consists of a cost-benefit analysis, which is summarized by an estimated economic rate of return ("***ERR***"), and a beneficiary analysis. The economic analysis informs the Indicators for each Project and is summarized below.

3.1 Projected Economic Benefits. Cost-Benefit Analysis ("***CBA***") is completed to determine whether project costs are justified by the estimated economic benefits that can be directly attributed to the Project. The underlying economic logic of the CBA model(s) follow(s) the project logic diagrams depicted above. Additionally, several of the variables included in the model become key Indicators to monitor the Project(s) and evaluate whether each Project achieved its objective as set forth in Section 1.2 of this Compact, as well as determining its cost effectiveness. Each model includes estimated benefits and the total estimated costs to reach those intended benefits, whether costs are incurred by MCC, the Government, another donor, or another entity. These are typically examined over a 20-year period, unless noted otherwise.

The table below provides a summary of the estimated ERRs for the Projects. The text following the table describes the general methodology and logic of the CBA model(s), as well as the key benefit streams, costs, assumptions, risks, etc. for each of the calculated ERRs.

Project/Activity	**Estimated Economic Rate of Return**
ATLAS Project	**10.03%**
ATLAS Project/Transport Planning Reform, PIMG, and PPDF Activities	15.38%
ATLAS Project/Good Practice Infrastructure Projects Activity	5.56%[12]
FMD Project	**Unknown**, pending specific details on proposed investment projects and blended finance transactions proposed to be supported by the Compact. This ERR needs to be calculated prior to entry into force. PIR (defined below) activities do not have estimated ERRs due to long-term nature when benefits are expected. Beneficiaries also need to be more specifically identified for CBA to be carried out.
MSME Finance Project	**16.52%**

Economic Modeling of the ATLAS Project

The ATLAS Project's ERR depends on the pair of ERRs associated with two sets of sub-Project-level ERRs. There is one CBA associated with the policy and institutional reform ("***PIR***")

[12] See explanation in the fifth paragraph following the table.

Activities, namely the Transport Planning Reform, PIMG, and PPDF Activities, and there is another CBA associated with the Good Practice Infrastructure Projects Activity (which is in turn an aggregation of Sub-activity-level CBAs corresponding to four potential *Proper*).

The ATLAS PIR CBA models improved efficiency of subnational transport infrastructure investments as well as a greater quantity of said investment. More specifically, the Activities in question are modeled as resulting in the increased production of transport user services per dollar invested: Relative to the counterfactual scenario, the with-project scenario features a higher (discounted) benefit-cost ratio of transport infrastructure investments, and therefore a greater quantity of transport user services produced for a given amount of investment. Expert opinion suggests that transport infrastructure investment efficiency could reasonably be expected to increase by around five percent as a result of the Project. For want of evidence to the contrary, and in the interest of conservatism, the model assumes that these efficiency gains only apply to subnational transport infrastructure investments in the Target Provinces. In addition to these efficiency improvements, the model also assumes that the PPDF will increase subnational transport infrastructure investments nationally by around $88 million annually. This figure was informed by the development of the Good Practice Infrastructure Projects Activity, which involved the identification of roughly $17 million worth of subnational investments with ERRs above the ERR threshold of ten percent across the Target Provinces in which that Activity was developed. After assuming that the $17 million worth of investment would ultimately remain economically viable with a probability of 75 percent, and scaling up to the national level, the calculation results in the $88 million figure. The baseline (counterfactual) benefit-cost ratio is then applied to this figure for an estimate of the increment to transport user services produced annually of about $39 million. This second benefit stream constitutes the great majority of modeled benefits, and therefore drives the ERR.

As is typical with PIR-intensive investments, there is a shortage of published evidence on which to base the CBA and as a result the model is expected to undergo further refinement as design work proceeds. Currently, modeling uncertainty is substantial, even if the model is plausibly conservative on balance (based on current knowledge). The ERR hinges on the PPDF's contribution to new subnational transport infrastructure investment to an extent that is difficult to overstate, and the model therefore clearly suggests that a successful PPDF and subsequent "take-up" of its services by provinces all over Indonesia are critical for success. Future modeling work will also further examine baseline transport infrastructure investment results in the form of typical benefit-cost ratios associated with subnational transport investments. In particular, while the model relies on a plausible value generated by the International Monetary Fund (of public investment efficiency in general), this parameter plays a key role in the CBA and will need to be further examined in future modeling work.

Modeled project costs include costs supported by the Compact as well as additional costs borne by the Government. Compact-supported costs include the latest estimates of the cost of implementation of the various Activities, as well as monitoring and administration costs.

The second CBA associated with the ATLAS Project is for the Good Practice Infrastructure Project Activity. This represents an aggregation of the four CBAs of four potential *Proper*, namely the EV Public Transport (Bali), Bersehati Market Elements (North Sulawesi), Development of the Kuala Riau Port (Riau Islands), and the Ampera LRT Station (South Sumatra). The 5.56 percent ERR for this Activity masks substantial heterogeneity amongst the four ERRs for these projects. In particular, the Riau Islands intervention is the only CBA with an

ERR above the hurdle rate of ten percent, while the Bali intervention's ERR is undefined and the ERR for the South Sumatra intervention is negative and substantial in magnitude.[13] These CBAs are merely notional, however, as they were constructed without the benefit of reliable information on what would be implemented, what baseline conditions are, and what plausible program impacts might be. The results should therefore be interpreted as merely indicative of whether the interventions as they are currently conceived demonstrate any economic promise. Further modeling work will take place as design work proceeds.

Economic Modeling of the FMD Project

The CBA model for the FMD Project incorporates the two key aspects of blended finance transactions, namely the issue of *additionality* and *leverage*. That is, whether the Compact grants are "de-risking" projects that the private sector lenders and equity investors would not participate in otherwise, and is the minimum amount of scarce grant resources being used to mobilize this financing. These considerations are over and above the usual assessment of whether a potential infrastructure is a "good project", defined as meeting the ten percent ERR hurdle rate on the basis of its economic costs and benefits without taking into account the additional financial benefits and costs of the financial structure of the blended financing transaction (e.g., economic growth and job creation, protected environment, climate action, women's economic empowerment, among others). Assessing these aspects requires a model that incorporates a view about the weighted average cost of capital, capital market sentiment, enhancements provided by government and donors, and how they interact with the estimated ERR for a project that has a financial structure involving blended finance instruments, such as viability gap funding, a project bond, stapled finance, among others. The envisaged blended finance transactions can have a broader impact (e.g., through the development of financial markets) and funds are not allocated randomly through the BFDM Activity but based on criteria such as credit ratings and the availability of fundable projects. These benefits will also take time to materialize but have the potential to yield important lessons at the national level.

For the capacity building and transaction advisory services being contemplated in this Project, the total costs are identified but the benefits are expected to be realized over a longer period of time than the five-year Compact period. The specific scope and number of beneficiaries is also yet to be determined so as to allow for an ERR to be estimated at this time. Given that the specific projects and transactions are yet to be identified and that associated policy and institutional reforms will take time to materialize and get adopted by those who benefit from the envisaged capacity building activities, there will be difficulty in constructing a counterfactual scenario with and without the FMD Project, even perhaps at the close-out CBA stage.

Economic Modeling of the MSME Finance Project

The MSME Finance Project is modeled in a single CBA, which includes W/MSMEs as well as FSPs as beneficiaries. One set of W/MSMEs are modeled as benefiting from firm training Activities only, and these W/MSMEs' profits are assumed to increase[14] . Another set of

[13] The Bali intervention's ERR is undefined since the net benefits are never estimated to be positive. In this case, the ERR is technically incalculable.

[14] In accordance with McKenzie, David. 2020. "Small Business Training to Improve Management Practices in Developing Countries: Reassessing the Evidence for 'Training Doesn't Work.'" Policy Research Working Paper 9408.

W/MSMEs benefit from the advent of relationships with Partner FSPs, which is assumed to result in access to credit at relatively low rates of interest. (Amongst firms that are modeled as borrowing in both counterfactual and with-project scenarios, interest rates are assumed to decrease from 34 percent to 15 percent across scenarios.) This improved access to credit is assumed to result in increased borrowing (including amongst W/MSMEs who only reinvest profits rather than borrow in the counterfactual), which in turn is assumed to result in greater investment and higher profits. Each dollar of additional investment is assumed to result in roughly $0.68 in additional profit[15]. Partner FSPs are also assumed to benefit from the formation of these new relationships: Rather than merely earning returns associated with low-yield treasury securities, Partner FSPs in the with-project scenario are assumed to lend at a 15 percent rate of interest. In other words, increased lending in the with-project scenario is expected to be mutually beneficial (which is necessary for sustainability).

The evidentiary bases of the model reasonably support its conclusions even as further refinements will be needed as design work proceeds.[16] The model's key assumptions are related to the number of W/MSMEs who will benefit from the Project and the aforementioned impact of investment on profits. The assumptions underlying the estimated numbers of beneficiary W/MSMEs are strong, and further design work could result in substantial changes to these numbers (in either direction). The ERR is not expected to be substantially affected by this kind of change as long as the Project's budget is ultimately adjusted in accordance with subsequent beneficiary W/MSME estimates. The assumed impact of investment on profits is also arguably optimistic: While it is certainly not the highest estimate that the relevant literature has produced, it is not the lowest either. On the other hand, the W/MSMEs who are modeled as benefiting from improved access to credit are assumed to have already undergone training meant to improve those W/MSMEs' capacity to use lent funds productively. In any case, the Project's economic viability as currently modeled can sustain substantially lower impact parameter values (all other things equal).

Again, the benefits described above are set against estimated costs, including Compact-supported costs as well as a share of the Government's contributions to the Compact's costs.

3.2 Projected Program Beneficiaries. The M&E Plan shall also document the analysis conducted to identify the persons or entities expected to benefit from the Program. Beneficiary analysis is an extension of the CBA and seeks to disaggregate the total benefits to determine specifically which segments of society will benefit from the Projects and Activities. MCC considers beneficiaries of Projects and Activities to be those people who experience better standards of living as a result of the Project or Activity (as the case may be) through higher real incomes.[17] For definitional purposes it is important to note that not all MCC project participants are necessarily project beneficiaries. The expected beneficiaries of this Compact over 20 years

[15] In accordance with De Mel, Suresh; McKenzie, David; Woodruff, Christopher. 2007. "Returns to Capital in Microenterprises: Evidence from a Field Experiment." Policy Research Working Paper 4230.

[16] For example, the parameters in the model related to baseline levels of W/MSME investment and profits are based on imperfect evidence. The model's conclusions are less sensitive to what seem like plausible alternative values of these variables, however.

[17] As used in this Compact, the term "beneficiary" has the meaning described in the *Guidelines for Economic and Beneficiary Analysis*.

(unless noted otherwise) are shown in the following table. The text below the table provides a description of the beneficiaries.

Project/Activity	**Estimated Beneficiaries**
ATLAS Project	TBD
FMD Project	TBD
MSME Finance Project	TBD
*Total**	TBD

*There is some anticipated overlap in beneficiaries across the projects so the beneficiaries cannot simply be added together to estimate total compact beneficiaries.

The beneficiaries of the ATLAS Project will consist of users of any subnational transport infrastructure that is expected to be provided or improved as a result of the ATLAS Project. These beneficiaries are expected to reside inside and outside the five Target Provinces, as the Project will combine physical works in the Target Provinces with policy and institutional reform elements intended to affect the quantity and quality of subnational transport infrastructure beyond the Target Provinces. Given the potential lags with which these impacts will be realized, estimates of the total number of beneficiaries will also take into account projected population growth rates.

For the FMD Project, the beneficiaries of the training and capacity building activities will consist of blended finance and commercially-oriented finance-related project sponsors, potential lenders/investors, and government actors at the national and subnational levels in the Target Provinces. At the specific transactions level where the FMD Project aims to support beneficiaries with grant funds to "de-risk" potential commercially oriented financing, the envisaged benefits will entail the value added from creating better financial structures that bridge suppliers of capital and users through private sector operators who facilitate the linkages between the real economy and the financial markets. These operators include banks, pension funds, investment banks, non-bank financial intermediaries and equity investors from home and abroad and these operators will also be beneficiaries of the FMD Project. Indirect benefits will accrue to stakeholders in other provinces, where most domestic capital market transactions are executed in Indonesia. In addition, these benefits include promoting matching of long-term savings with long-term investments; and facilitating the efficient allocation of scarce financial resources to priority infrastructure investments that will benefit a share of the population of households and firms in the Target Provinces.

The number of W/MSMEs who are expected to benefit from the MSME Finance Project are estimated to number approximately 48,000; Partner FSPs who lend to them will also benefit. One set of W/MSMEs is modeled as experiencing profit increases following training, while another set of W/MSMEs is modeled as benefiting from all three Activities, including via the increased investment and higher profits that access to affordable credit is assumed to result in. Partner FSPs are also modeled as benefiting from this lending, since the interest rates they are assumed to charge yield greater income than do the low-return assets they are modeled as holding in the counterfactual.

4. Monitoring Component

As defined in the M&E Policy, monitoring is the continuous, systematic collection of data on specified Indicators to measure progress toward project objectives and the achievement of intermediate results along the way. The Monitoring Component of the M&E Plan summarizes the monitoring strategy to monitor progress toward achieving the results of this Compact, which requires identifying the (i) Indicators, (ii) definitions of the Indicators, (iii) Baselines and Targets, (iv) sources and methods for data collection, (v) frequency for data collection, (vi) reporting requirements, including the party or parties responsible for collecting, analyzing, and reporting relevant data, along with the process and timeline for reporting on each Indicator to MCC, and (vii) approach to assessing and ensuring data quality. It should be noted that some Indicators continue to be tracked after the Compact Term as necessary.

4.1 <u>Indicators</u>. The M&E Plan shall measure the results of the Program using quantitative or qualitative variables that provide a simple and reliable means to measure achievement of targeted results ("***Indicators***").

4.1.1 <u>Definitions</u>.

The M&E Plan shall establish definitions for every Indicator. Indicator definitions should be operationally precise, such that they can be consistently measured across time and by different data collectors. There should be no ambiguity about what is being measured, how to calculate it, what or who the sample is, or how to interpret the results.

4.1.2 <u>Baselines</u>.

The M&E Plan shall document baselines for every Indicator (each a, "***Baseline***"). An Indicator's Baseline should be established prior to the start of the corresponding Project, Activity and/or Sub-activity. Baselines demonstrate that the problem can be specified in measurable terms and thus are a pre-requisite for adequate intervention design. The Government shall collect Baselines on the selected Indicators or verify already collected Baselines where applicable.

4.1.3 <u>Targets</u>.

The M&E Plan shall document for each Indicator the expected value and the expected time by which the corresponding result shall be achieved ("***Target***").

4.1.4 <u>Disaggregation of Indicators</u>.

The M&E Plan shall indicate which Indicators shall be disaggregated by sex, income level, age, and other relevant subgroups to the extent practical and applicable.

4.1.5 <u>Indicator Levels</u>.

The M&E Plan shall include Indicators at the following levels: outcome, output, process, and risk/assumption, as defined in the M&E Policy.

4.1.6 Common Indicators.

MCC's Common Indicators (as described in the M&E Policy) shall also be included as relevant. Additional guidance on Indicator reporting is contained in the *Guidance on Common Indicators*.

4.1.7 Modifications of Indicators and Targets.

Subject to prior written approval from MCC and in accordance with the M&E Policy, the Government may add or retire Indicators or refine the definitions, Targets, or other aspects of existing Indicators.

4.1.8 Indicator Tracking Table.

MCA-Indonesia II must report to MCC on monitoring Indicators in the M&E Plan on a quarterly basis using an Indicator Tracking Table ("***ITT***") in the form provided by MCC. No changes to Indicators, Baselines or Targets may be made in the ITT until the changes have been approved in accordance with the M&E Policy. Additional guidance on indicator reporting is contained in the QDRP Guidance and the *Guidance on the Indicator Tracking Table*.

The M&E Plan shall contain the monitoring Indicators listed in Tables 1.1, 1.2, and 1.3.

5. Evaluation Component

While good program monitoring is necessary for program management, it is not sufficient for assessing the achievement of intended results. MCC therefore requires the use of evaluation as a complementary tool to better understand the effectiveness of its programs. As defined in the M&E Policy, evaluation is the objective, systematic assessment of a program's design, implementation, and results. MCC is committed to making its evaluations as rigorous as warranted in order to understand the causal impacts of its programs on the expected outcomes.

5.1 Independent Evaluations. Every Project must undergo a comprehensive, independent evaluation in accordance with the M&E Policy. The Evaluation Component of the M&E Plan shall describe the purpose of the evaluation, methodology, timeline, required MCC approvals, and the process for collection and analysis of data for each evaluation. All independent evaluations must be designed and implemented by independent, third-party evaluators.

For each independent evaluation, MCA-Indonesia II (or, after the Compact Term, such other entity of the Government designated to support post-program M&E activities) is expected to review and provide feedback to independent evaluators on the evaluation materials and reports in order to ensure proposed evaluation activities are feasible, and final evaluation products are technically and factually accurate. The results of all evaluations shall be made publicly available in accordance with the M&E Policy.

The standard evaluation questions, which will be answered for each of the three projects are as follows:

- To what extent was the project implemented according to plan (in terms of quantity and quality of outputs)?

- Did the project achieve its stated objective in the timeframe and magnitude expected, as documented in the M&E Plan? Why or why not (i.e., what strategies, structures, or factors were most and least successful)?
- Did the results of the project justify the allocation of resources towards it?

In addition, the following evaluations are planned for the Program:

Project 1: The ATLAS Project

The evaluation will be designed to measure the extent to which the Transport Planning Reform, Good Practice Infrastructure Projects, PIMG, and PPDF Activities have improved transport planning and preparation in the Target Provinces as evidenced by the number of subnational transport infrastructure projects that are well-planned and well-prepared. Well-planned and well-prepared projects are defined as those that are demand-driven, represent good value, well-prioritized, appropriately structured for finance, environmentally- and gender-responsive, and inclusive. Thus, an important feature of the evaluation will be assessing projects against these standards. The Parties have not yet developed a tool for this analysis and, relatedly, do not yet have a baseline against which to set the project target. The Parties will develop this tool prior to entry into force and subsequently establish a baseline and target. The external evaluator, once procured and onboarded, will utilize this tool to assess the number of subnational projects that are well-planned and well-prepared over the life of the ATLAS Project. The evaluator will also evaluate the extent to which these transport sector reforms have been institutionalized at the subnational level looking at organizations, capacity, funding, regulations and adoption of the planned reforms.

It will be important for project consultants tasked with designing and implementing the technical support for the Transport Planning Reform, PIMG, and PPDF Activities to provide technical input into the tool to be used for assessing the quality of project planning and preparation. As many of the indicators for this ATLAS Project, including the project objective, center on policy and institutional reform, relationships with subnational units will be critical for assessing institutionalization of government reforms and practices.

Project 2: The FMD Project

The evaluation will assess the extent to which the proposed activities have resulted in more project deals reaching financial close using structured finance. Existing data on this does not exist in a centralized place and will need to be sought out to establish a baseline prior to entry into force. This step is not only important for establishing a baseline but also for establishing the data source for the life of the FMD Project. The evaluation methodology will require tracking data on financial transactions over time including those transactions that the Project is supporting and those in the wider market. The methodology will also involve collecting data from project sponsors, lenders, and subnational government focal points on knowledge of and intention to use alternative funding structures as well as changes in practices.

Project 3: The MSME Finance Project

The evaluation will be designed to measure the impact of the proposed activities on loans to W/MSMEs. While some data on lending to W/MSMEs exist, MCC does not have data to establish how many loans are currently being disbursed to W/MSMEs. However, Indonesia's

2016 economic census identified 1.4 million W/MSMEs in the Target Provinces as either fully- or partially-credit constrained. Using this available data source, the MSME Finance Project aims to provide loans to 28,000 of these credit constrained W/MSMEs. The project team will continue to seek out additional data to better track trends in loan disbursement to W/MSMEs.

The evaluator will be encouraged to implement a quasi-experimental impact evaluation design, if feasible. The evaluator will combine multiple sources, namely the W/MSME survey, information about the W/MSME participants collected by the implementing partners, and information from the Partner FSPs. Survey data collected from W/MSMEs will include their experiences with FSPs, trainings, the loan application process, loan conditions, and use of loans for their business. Survey data from W/MSMEs will also be important for better understanding how well the Project is reaching marginalized W/MSMEs. Partner FSP data will also be an important source of data as it will be used to capture trends on loans disbursed to W/MSMEs over the life of the Compact and other outcomes. As a part of the implementation agreement, and as far as the Government's regulations allow, the Partner FSPs will be required to share the data on the Compact-funded W/MSME loans. MCA-Indonesia II will need to work with the Partner FSPs to ensure their systems are set up to capture data needed for the ITT and the external evaluator, and that the conduct of such data sharing does not violate the Government's regulations. The evaluation methodology will continue to be developed through the M&E Plan and once the independent evaluator is procured and onboarded.

To facilitate the evaluations for the Projects listed above, the Government shall share with MCC any necessary data, documentation, or other information required to assess the achievement of results targeted by the Program. This may include, but is not limited to, copies of data from the People's Business Loans (*Kredit Usaha Rakyat*) program, W/MSME lending data from Bank Indonesia, W/MSME business registration data, information from the Target Provinces on their plans for infrastructure construction and their budgets for such plans, and *Badan Pusat Statistik* statistics, including the most current economic census. All such information provided by the Government for evaluation purposes shall be de-identified and/or generalized in reporting, such that sensitive details shall not be made public. More detailed information on required data sources to be provided by the Government shall be set forth in the M&E Plan.

6. Data Quality Reviews.

Data Quality Reviews ("***DQR***") are a mechanism to review and analyze the quality and utility of performance information. They cover all data reported in the ITT, and all primary sources that feed into that reporting. DQRs may be conducted internally by MCA-Indonesia II and MCC M&E staff, or by a third-party. DQRs should review data against the following standards: accuracy, consistency, timeliness and transparency. The frequency and timing of DQRs must be set forth in the M&E Plan; however, in addition to a pre-implementation DQR, at least one DQR is required during implementation, and MCC may request a DQR at any time. DQRs should be timed to occur once the ITT reflects several quarters of reporting but early enough in the Compact Term that meaningful remedial measures (if any) may be taken depending on the results of the review.

7. Other Components of the M&E Plan.

In addition to the monitoring and evaluation components, the M&E Plan shall include the following components:

7.1 Implementation and Management of M&E.

7.1.1 Review and Modification of the M&E Plan.
This section describes the approach to ensuring the M&E Plan is kept as current as possible, including how often the M&E Plan is expected to be reviewed and modified in accordance with the M&E Policy. All major modifications and the justifications therefor are documented in an annex to the M&E Plan and must be submitted to and approved by the Board of Trustees of MCA-Indonesia II. All M&E Plan modifications, whether major or minor, proposed by MCA-Indonesia II must be submitted to MCC for prior written approval.

7.1.2 Post Compact Responsibilities.
Evaluation activities under the M&E Plan are expected to continue beyond the end of the Compact Term and MCA-Indonesia II shall identify the individuals and organizations within the Government that shall support these activities through completion for a period expected to be around five years. This section describes the M&E responsibilities of MCA-Indonesia II during the Program's closure period and of MCC, the Government, and any other relevant entities after the Program has ended.

7.2 Budget. The budget for implementing the proposed M&E activities for the term of the Program is set forth in Annex II to this Compact including the costs of conducting the evaluations as required by the M&E Plan. The M&E budget does not include costs for the salaries of the M&E staff in the MCA-Indonesia II or field visits, both of which are included in the administrative budget of the Program.

8. Responsibility for Developing the M&E Plan.

Responsibility for developing the M&E Plan lies with the M&E Director of MCA-Indonesia II with support and input from MCC's M&E and economic staff. MCA-Indonesia II leadership and sector leads, Government stakeholders, the MCC Resident Country Mission in Indonesia, and other MCA-Indonesia II and MCC staff (such as cross-cutting leads) shall assist with the development of the M&E Plan. MCC and MCA-Indonesia II Project/Activity leads are expected to (i) guide the selection of Indicators for results that do not yet have an associated Indicator, (ii) support the refinement of indicator information, and (iii) review the Baseline and Target for each Indicator.

9. Approval and Implementation of the M&E Plan.

The approval and implementation of the M&E Plan, as amended from time to time, shall be in accordance with the Program Implementation Agreement, any other relevant Supplemental Agreement and the M&E Policy and associated guidance documents. The M&E Plan may undergo peer review within MCC before the beginning of the formal approval process.

Table 1.1: Indicators

The table below lists the preliminary set of monitoring and evaluation Indicators linked to each result in the project logic diagrams. Indicators that can be reported on at least an annual basis shall be included in quarterly monitoring indicator reports, while Indicators that require survey data or a longer time period to track shall be included in evaluation reports. The relationship between each outcome and its related outputs is set forth in the project logic diagrams.

Table 1.1: ATLAS Project Indicators

*No.	Result	Level	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
1	Improved transport planning and preparation in the Target Provinces	Objective	Subnational transport projects that are well-planned and well-prepared.	TBD	Number	TBD	TBD	N
All Activities (1 – 4)								
2	Institutionalization of the transport planning, PIMG, PPDF in the Target Provinces	Outcome	Institutionalization of reforms in select subnational government units	TBD	Number	TBD	TBD	N
Activity 1: Transport Planning Reform								
3	Governments adopt improved transport planning approaches	Outcome	Governments issue a technical instruction	Governments issue a technical instruction	Date	0	Value: 2 Year: CED+3	Y
4	Project pipeline incorporated into government development plans	Outcome	Transport master plan projects that enter government development plans	Transport master plan projects that enter the government development plans	Number	0	Value: 2 Year: CED+3	Y
4.1	Integrated transport planning function established and sufficiently resourced	Outcome	TBD – need to define the form of sustainable practice adoption	TBD – need to define the form of sustainable practice adoption	TBD	TBD	TBD	TBD
4.1.1	Transport planning reform roadmap and design produced	Output	Date by which the roadmap and design are finalized	Date by which roadmap and design are finalized: GOI[18] approved and accept the roadmap and design by letter	Date	N/A	TBD	Y
4.1.2	Draft transport planning reform program regulation developed	Output	Date by which the transport planning reform program regulation is developed	Date by which the transport planning reform program regulation is developed	Date	N/A	TBD	Y

[18] GOI means Government when used in tables.

4.1.3	Transport planning capacity building modules developed	Output	Date by which assessment and module are finalized	Date by which assessment and module are finalized: GOI approved and accept the modules by letter	Date	N/A	TBD	Y
4.2	Subnational governments have knowledge and skills for integrated transport planning	Outcome	Subnational government officials who demonstrate increase knowledge and skills for integrated transport planning	Subnational government officials who demonstrate increase knowledge and skills for integrated transport planning	Number	TBD	TBD	Y
4.2.1	Integrated transport planning stakeholders trained in regional transport planning	Output	Stakeholders trained	Number of stakeholders trained	Number	0	TBD	Y
4.3	The integrated transport plan produces a prioritized project pipeline	Outcome	TBD – need to define a sustainable transport pipeline project	TBD – need to define a sustainable transport pipeline project	TBD	TBD	TBD	Y
4.3.1	Integrated urban and regional multimodal transport plans reflecting best principles produced	Output	Date by which 2 Integrated Multimodal Transport Plan are finalized	Date by which 2 Integrated Multimodal Transport Plan are finalized: GOI approved and accept the 2 Integrated Multimodal Transport Plan by letter	Date	N/A	TBD	Y
Activity 2: Good Practice Infrastructure Projects								
5	Subnational governments endorse good practice principles in line with PIMG and PPDF	Outcome	TBD	TBD	TBD	TBD	TBD	TBD
6	Demonstrated higher quality transactions and the use of blended finance to deliver the project as a result of PIMG & PPDF	Outcome	Calculated value for money of good practice projects	TBD	TBD	TBD	TBD	N

6.1	PIMG and PPDF design informed by *Proper* experiences	Outcome	TBD – Lessons from the lessons learning document are incorporated into PIMG and PPDF designs	TBD	TBD	TBD	TBD	TBD
6.1.1	Lessons identified from preparation and implementation of *Proper*	Output	Lessons learning document produced by MCA for each *Proper*	TBD	TBD	TBD	TBD	TBD
6.2	Projects selected from the GOI list based on MCC investment criteria	Output	Score on PIMG audit	TBD – audit parameters need to be defined	Number	TBD	TBD	Y
6.3	Projects prepared based on PPDF process and criteria (PPDF design)	Output	Score on PPDF audit	TBD – audit parameters need to be defined	Number	TBD	TBD	Y
6.4	Commissioning of *Proper*	Output	Date of commissioning of *Proper*	The date each *Proper* is commissioned.	Date	TBD	TBD	Y
6.5	Project financing demonstrated using blended finance and maximizing the "Cascade Approach"	Output	Projects using blended finance	Number of projects using blended finance	Number	TBD	TBD	Y
Activity 3: PIMG								
7	Governments adopt PIMG principles to plan public sector projects	Outcome	Governments issue a PIMG regulation	Date by which each subnational government issues a PIMG regulation	Date	TBD	TBD	Y
7.1	PIMG guiding principles (general and roads sector) are produced	Output	Guiding principles drafted	Guiding principles are drafted (general and roads sector)	Date	N/A	TBD	Y
7.2	Draft PIMG regulation produced	Output	Date PIMG Regulation are drafted	Date PIMG Regulation are drafted	Date	N/A	TBD	Y
7.3	PIMG digital platform operational	Output	Digital platform is operational	Digital platform is operational	Date	N/A	TBD	Y
7.4	Government officials have knowledge and skills to conduct	Outcome	Subnational government officials who have the knowledge and	Subnational government officials who have the knowledge	Number	TBD	TBD	Y

	multi-criteria analysis of project proposals in accordance with the PIMG		skills to conduct multi-criteria analysis of project proposals in accordance with the PIMG	and skills to conduct multi-criteria analysis of project proposals in accordance with the PIMG				
7.4.1	PIMG planning capacity building training modules developed	Output	Government officials trained in PIMG	Government officials trained in PIMG	Number	0	TBD	Y
7.4.2	Government budgeting and program planning staff trained and mentored on PIMG	Output	GOI budgeting and program staff trained in PIMG	GOI budgeting and program staff trained in PIMG	Number	0	TBD	Y
Activity 4: PPDF								
8	Governments adopt the PPDF	Outcome	Governments issue a regulation/decree	Governments issue a regulation/decree	Number	TBD	TBD	Y
8.1	PPDF manual drafted	Output	PPDF manual finalized	PPDF manual finalized	Date	TBD	TBD	Y
8.2	PPDF hosted, staffed and operational	Output	PPDF has been established	Date by which PPDF has been established	Date	N/A	TBD	Y
8.3	Draft PPDF regulation produced	Output	PPDF staff who have been trained	Number of PPDF staff who have been trained	Number	N/A	TBD	Y
9a	Financeable infrastructure projects	Outcome	Credible bidders responding to the project procurement notice	Credible bidders responding to the project procurement notice	Number	TBD	TBD	Y
9b	Financeable infrastructure projects	Outcome	Projects included in the government plan	TBD	Number	TBD	TBD	Y
9.1	Infrastructure pipeline projects developed by PPDF	Output	TBD	TBD	TBD	N/A	TBD	Y
10	Governments have the knowledge and skills to use the PPDF manual to prepare and deliver projects	Outcome	Subnational government officials trained in PPDF	Subnational government officials trained in PPDF	Number	0	TBD	Y

10.1	PPDF training modules developed	Output	PPDF training modules developed	PPDF training modules developed	Date	TBD	TBD	Y
10.2	PPDF trainers and staff trained	Output	Number of trainers and staff trained	Number of trainers and staff trained	Number	0	TBD	Y

Table 1.2: FMDP Indicators

No.	Result	Level	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
1	Reach financial close on transactions using structured finance	Objective	Compact-supported transactions that reach financial close using structured finance	Number of compact-supported transactions that reach financial close using structured finance	Number	Value: 0 Year: 2022	Value: 2 Year: CED	Y
Activities 1, 2, and 3								
2	Lenders provide indicative offers of finance (term sheets) to sponsors	Outcome	Term sheets received by sponsors	Number of term sheets received by sponsors	Number	Value: 0 Year: 2022	Value: 3 Year: CED	Y
Activities 2 and 3: Transaction Advisory and Blended Finance Delivery Mechanism (BFDM)								
3	MCA approves use of blended finance to close risk-return gaps	Outcome	Transactions approved by MCA for blended finance	Number of transactions approved by MCA for blended finance support	Number	Value: 0 Year: 2022	Value: 2 Year: CED	Y
Activity 1: Technical Assistance								
4	Project sponsors apply for structured finance	Outcome	Applications received from project sponsors for structured finance	Number of applications received from project sponsors for structured finance	Number	Value: 0 Year: 2022	Value: 3 Year: CED	Y
5	Sponsors apply revised risk-return principles to projects	Outcome	Trained sponsors with a financing strategy that incorporates structured finance	Number of trained sponsors with revised financing strategy that incorporates structured finance	Number	Value: 0 Year: 2022	Value: 10 Year: CED	N
5.1	Sponsors have structured finance risk analysis skills	Outcome	Trained sponsors who know how to assess the level of risk in a	TBD – need clarity on learning objectives	Number	Value: 0 Year: 2022	TBD	N

			structured finance deal					
5.2	Sponsors have knowledge and skills to implement alternative financing structures	Outcome	Project sponsors who are confident in their ability to implement alternative financing structures	Number of project sponsors who report they are confident in their ability to implement alternative financing structures	Number	Value: 0 Year: 2022	TBD	N
5.1.1 & 5.2.1	Sponsors trained	Output	Project sponsors trained	Number of project sponsors trained	Number	N/A	TBD	Y
6	Sponsors have recalibrated risk-return perceptions for structured finance use	Outcome	Sponsors that report the returns outweigh the risks of structured finance	Number of sponsors that report the returns outweigh the risks of structured finance	Number	Value: 0 Year: 2022	TBD	N
7	Market leading lenders apply risk-return principles to transactions	Outcome	Market leading lenders with lending strategies incorporating structured finance	Number of market leading lenders with that report having developed revised lending strategies incorporating structured finance	Number	Value: 0 Year: 2022	TBD	N
8	Market leading lenders have recalibrated risk-return perceptions for structured finance	Outcome	Market leading lenders with a favorable risk-return perception of structured finance	Number of market leading lenders who report a favorable risk-return perception of structured finance	Number	Value: 0 Year: 2022	TBD	N
7.1 & 8.1	Lenders have knowledge and skills to implement alternative financing structures	Outcome	Lenders who are confident in their ability to implement alternative financing structures	Number of lenders who report they are confident in their ability to implement alternative financing structures	Number	TBD	TBD	N
7.1.1 & 8.1.1	Lenders trained	Output	Lenders trained	Number of lenders trained	Number	N/A	TBD	Y
9	Market leading lenders have policies/ procedures to accommodate structured finance	Outcome	Market leading lenders report policy/procedure changes to accommodate	Number of market leading lenders report policy/procedure changes to accommodate	Number	Value: 0 Year: 2022	TBD	N

			structured finance	structured finance				
10	Functional endorsement (roadmap) of structured finance and capital markets involvement in infrastructure finance by government agencies	Outcome	TBD	TBD	TBD	TBD	TBD	TBD
10.1	Government agencies trained	Output	Government agencies trained	Number of government agencies trained	Number	N/A	TBD	Y
Activity 2: Transaction Advisory								
11	Blended finance risk-return gaps identified	Outcome	Demonstration projects originated	Number of demonstration projects originated	Number	Value: 0 Year: 2022	Value: 5 Year: CED	Y
11.1	Advisory services provided for transactions	Output	Transactions that received advisory	Number of transactions that received advisory	Number	Value: 0 Year: 2022	TBD	Y
Activity 3: Blended Finance Delivery Mechanism (BFDM)								
12	BFDM reviews prospective transactions	Outcome	Prospective transactions reviewed by the BFDM	Number of prospective transactions reviewed by the BFDM	Number	Value: 0 Year: 2022	Value: 5 Year: CED	Y
12.1	Blended finance delivery mechanism (BFDM) is operational	Output	BFDM Operational Guidelines have been approved by MCA and MCC has provided No Objection	Date by which the BFDM Operational Guidelines have been approved by MCA and MCC has provided No Objection	Date	N/A	Value: EIF Year: EIF	Y
12.2	Blended finance delivery mechanism (BFDM) is operational	Output	Implementing Entity Agreement with BFDM Host is put in place	Date by which Implementing Entity Agreement with BFDM Host is put in place	Date	N/A	Value: EIF Year: EIF	Y

Table 1.3: MSME Finance Indicators

No.	Result	Level	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)

1	More lending by formal FSPs to W/MSMEs in the target provinces.	Objective	W/MSMEs that received loans in target provinces	Cumulative number of W/MSMEs in 5 target provinces that received at least one loan resulting from Compact activities.	Number	Value: 0 Year: 2022	Value: 28000 Year: CED+2	Y
Activities 1, 2, and 3								
2	W/MSMEs apply for loans from FSPs	Outcome	W/MSME loan applications to FSPs	Number of W/MSME loan applications to FSPs	Number	Value: 0 Year: 2022	Value: 28,000 Year: CED+2	Y
Activity 1: Gender-inclusive Supply Chain Finance, Value Chain Finance Scheme								
3	W/MSME loans approved and funded	Output	Value of on-lending to W/MSMEs approved by the OLW Administrator	Cumulative value of on-lending approved by the OLW Administrator	US dollars	Value: 0 Year: 2022	TBD	Y
3.1	On-lending window established with FSPs and the OLW Administrator	Output	On-lending window is established	Date by which on-lending window is established to provide loans to W/MSMEs using Compact funds	Date	N/A	TBD	N
4	Increased awareness of FSP products among W/MSMEs	Outcome	W/MSMEs reporting awareness of FSP products	Percentage of sampled W/MSMEs in target provinces reporting awareness of FSP products	Percent age	TBD	TBD	N
4.1	FSPs have improved W/MSME outreach strategies	Output	Improved W/MSME outreach strategies implemented by FSP receiving Compact support	Percentage of FSPs receiving Compact support with improved strategies for outreach to W/MSMEs	Percent age	TBD	TBD	Y
Activity 2: Digital and Financial Literacy Enhancement								
5	W/MSMEs produce financial statements	Outcome	Percent of trained W/MSMEs with an annual financial statement	The share of W/MSMEs trained by the Compact that have a current annual	Percent age	TBD	TBD	N

				financial statement (simple or more complex)				
5.1	W/MSMEs have digital skills and knowledge	Outcome	Percent of trained W/MSMEs that pass the digital literacy exam	The share of W/MSMEs trained by the Compact that pass the final knowledge test at the completion of digital literacy training	Percent age	N/A	TBD	Y
5.1.1	W/MSMEs complete digital literacy training	Output	W/MSMEs who complete digital literacy training	Number of W/MSMEs who complete digital literacy training	Number	0	TBD	Y
5.2	W/MSMEs have financial literacy and management skills and knowledge	Outcome	Percent of trained W/MSMEs that pass the financial literacy and management exam	The share of W/MSMEs trained by the Compact that pass the final knowledge test at the completion of financial literacy and management training	Percent age	N/A	TBD	Y
5.2.1	W/MSMEs complete financial literacy and management training	Output	W/MSMEs who complete financial literacy and management training	Number of W/MSMEs who complete financial literacy and management training	Number	0	TBD	Y
5.1.2 & 5.2.2	Training modules developed for: digital literacy, financial literacy and management, and market access trainings	Output	MSME training modules developed	All training modules have been developed and finalized	Date	N/A	TBD	Y
Activity 3: MSME Capacity Enhancement								
6	W/MSMEs produce bankable business plans	Outcome	W/MSMEs loan applications accompanied by a bankable business plan	Number of W/MSMEs loan applications accompanied by a business	Number	TBD	TBD	Y

				plan that is deemed bankable by the FSP				
6.1	W/MSMEs have market access skills and knowledge	Outcome	Percent of trained W/MSMEs that pass the market access exam	The share of W/MSMEs trained by the Compact that pass the final knowledge test at the completion of market access training	Percent age	0	TBD	Y
6.1.1	W/MSMEs complete market access training	Output	W/MSMEs complete market access training	Number of W/MSMEs that complete market access training	Number	N/A	TBD	Y
6.2	W/MSMEs receive ongoing coaching and mentoring	Output	W/MSMEs with ongoing coaching and mentoring	Number of W/MSMEs that have had more than one coaching/mentoring session	Number	N/A	TBD	Y
7	W/MSMEs open a business bank account	Outcome	W/MSME loan applications accompanied by a business bank account	Number of W/MSME loan applications accompanied by a current account report in the last 3 months	Number	TBD	TBD	Y
7.1	Women owned MSMEs are formally registered	Outcome	Compact supported women owned MSMEs formally registered	Share of Compact supported women owned MSMEs that are formally registered, as evidenced by having NIB (Nomor Induk Berusaha)	Percent age	0	TBD	Y
7.1.1	Women owned MSMEs assisted in process of business formalization	Output	Women owned MSMEs who receive assistance for business formalization	Number of Women owned MSMEs who receive assistance for business formalization	Number	N/A	TBD	ITT indicator
8	W/MSMEs work in the shared workspace	Outcome	TBD – this result requires further clarity to identify an indicator	TBD – this result requires further clarity to identify an indicator	TBD	TBD	TBD	TBD
Activity 4: MoCSME Data								

9	MoCSME analysis used to brief GOI on MSME policy	Outcome	TBD- this result requires further clarity to identify an indicator	TBD- this result requires further clarity to identify an indicator	TBD	TBD	TBD	TBD
9.1	Data collection and analysis support provided for MoCSME	Output	TBD- this result requires further clarity to identify an indicator	TBD- this result requires further clarity to identify an indicator	TBD	TBD	TBD	TBD

ANNEX IV

CONDITIONS PRECEDENT

TO DISBURSEMENT OF COMPACT FACILITATION FUNDING

This Annex IV sets forth the conditions precedent applicable to Disbursements of Compact Facilitation Funding (each a "***CFF Disbursement***"). Capitalized terms used in this Annex IV and not defined in this Compact shall have the respective meanings assigned thereto in the Program Implementation Agreement. Once the Program Implementation Agreement is signed, each CFF Disbursement shall be subject to all of the terms of the Program Implementation Agreement, except that the only conditions to disbursements of CFF shall continue to be those set forth in this Annex IV.

1. Conditions Precedent to Initial CFF Disbursement.

Unless waived or deferred by MCC in writing, each of the following conditions must be met to MCC's satisfaction before the initial CFF Disbursement:

(a) The Government (or MCA-Indonesia II) has delivered to MCC:

(i) an interim fiscal accountability plan acceptable to MCC;

(ii) a procurement plan acceptable to MCC;

(iii) an Interim Bid Challenge System; and

(iv) an Interim Procurement Operations Manual.

(b) The Government (or MCA-Indonesia II) has hired the MCA-Indonesia II Procurement Director or another individual, approved by MCC, to perform the duties of a procurement officer on behalf of the Government until such time as the MCA-Indonesia II Procurement Director has been hired.

2. Conditions Precedent to All CFF Disbursements.

Unless waived or deferred by MCC in writing, each of the following conditions must be met to MCC's satisfaction before each CFF Disbursement, including the initial CFF Disbursement:

(a) The Government (or MCA-Indonesia II) has delivered to MCC a completed Disbursement Request covering the related Disbursement Period in accordance with the QDRP Guidance.

(b) If any proceeds of the CFF Disbursement are to be deposited in a bank account, MCC has received satisfactory evidence that (i) the Bank Agreement has been executed and (ii) the Permitted Accounts have been established.

(c) The Government (or MCA-Indonesia II) has engaged an entity to provide fiscal agent services, as approved by MCC, until such time as the Government provides to MCC a true and complete copy of a Fiscal Agent Agreement, duly executed and in full force and effect, and the fiscal agent engaged thereby is mobilized.

(d) The Government (or MCA-Indonesia II) has engaged an entity or individual to provide procurement agent services, as approved by MCC, until such time as the

Government provides to MCC a true and complete copy of a Procurement Agent Agreement, duly executed and in full force and effect, and the procurement agent engaged thereby is mobilized.

(e) MCC is satisfied, in its sole discretion, that (i) no material default or breach of any covenant, obligation, or responsibility of the Government, MCA-Indonesia II, or any Government entity has occurred and is continuing under this Compact, the Program Implementation Agreement, or any other Supplemental Agreement; (ii) the activities to be funded with such CFF Disbursement are necessary, advisable or otherwise consistent with the goal of facilitating implementation of this Compact and shall not violate any applicable law or regulation; (iii) there has been no violation of, and the use of requested funds for the purposes requested shall not violate, the limitations on use or treatment of MCC Funding set forth in Section 2.7 of this Compact or in any applicable law or regulation; (iv) any Taxes paid with MCC Funding through the date (ninety) 90 days prior to the start of the related Disbursement Period have been reimbursed by the Government in full in accordance with Section 2.8(c) of this Compact; and (v) the Government has satisfied all of its payment obligations, including any insurance, indemnification, tax payments, or other obligations, and contributed all resources required from it, under this Compact, the Program Implementation Agreement, and any other Supplemental Agreement.

(f) For any CFF Disbursement occurring after this Compact has entered into force in accordance with Article 7: MCC is satisfied, in its sole discretion, that:

(i) MCA-Indonesia II has made progress, satisfactory to MCC, on implementing activities for which funding is requested, including progress on each of the Principal Implementation Plans;

(ii) the M&E Plan is current and updated and MCA-Indonesia II is in substantial compliance with the requirements of the M&E Plan (including any applicable reporting requirements set forth therein for the related Disbursement Period);

(iii) there has been no material negative finding in any financial audit report delivered in accordance with this Compact and the Audit Plan, for the prior two quarters (or such other period as the Audit Plan may require);

(iv) MCC does not have grounds for concluding that any matter certified to it in any certificated provided as part of the Disbursement Request is not as certified; and

(v) each of the Key Staff of MCA-Indonesia II remain engaged, or if a position is vacant, MCA-Indonesia II is actively engaged, to MCC's satisfaction, in recruiting a replacement.

(g) MCC has not determined, in its sole discretion, that an act, omission, condition, or event has occurred that would be the basis for MCC to suspend or terminate, in whole or in part, this Compact or MCC Funding in accordance with Section 5.1 of this Compact.

ANNEX V
DEFINITIONS

Activity *has the meaning provided in Part B of Annex I.*

ADB *has the meaning provided in Part B of Annex I.*

Additional Representative *has the meaning provided in Section 4.2.*

Annex *has the meaning provided in Section 6.1.*

ATLAS Project *has the meaning provided in Part B of Annex I.*

ATLAS Project Objective *has the meaning provided in Section 1.2(a).*

Audit Guidelines *has the meaning provided in Section 3.8(a).*

Audit Plan *has the meaning provided in Section 3.8(a).*

Baseline *has the meaning provided in paragraph 4.1.2 of Annex III.*

BFDM Activity *has the meaning provided in Part B of Annex I.*

Blended Finance Host *has the meaning provided in Part B of Annex I.*

Board of Trustees *has meaning provided in Part C of Annex I.*

CBA *has the meaning provided in paragraph 3.1 of Annex III.*

CDF Agreement *has the meaning provided in Section 3.2(b).*

CFF Disbursement *has the meaning provided in Annex IV.*

Climate Resilience Sub-activity *has the meaning provided in Part B of Annex I.*

Compact *has the meaning provided in the Preamble.*

Compact Facilitation Funding or CFF *has the meaning provided in Section 2.2(a).*

Compact Goal *has the meaning provided in Section 1.1.*

Compact Records *has the meaning provided in Section 3.7(a).*

Compact Term *has the meaning provided in Section 7.4.*

Covered Provider[19] *means an entity to which the MCA-Indonesia II has disbursed $750,000 or more of MCC funding within a single fiscal year as part of one or more binding agreements that*

[19] This definition shall be read to reflect any changes or updates to the definition as set out under the Audit Guidelines, as such may be posted from time to time on the MCC Website.

meet both of the following criteria: (i) the agreement is other than a fixed price contract for which the value has been determined through a procurement or other competitive selection process; and (ii) the agreement requires the entity to manage funding directly on behalf of the MCA-Indonesia II.

DFAT *has the meaning provided in Part B of Annex I.*

Disbursement *has the meaning provided in Section 2.4*

DQR *has the meaning provided in paragraph 6 of Annex III.*

Environmental Guidelines *has the meaning provided in Section 2.7(c).*

Environmental and Social Impact Assessment or ESIA *means a process for analyzing projects for potential risks and impacts, assessing potential significance of those risks and impacts and designing a set of interventions to avoid, manage, mitigate, or monitor the potential environmental and social impacts of a proposed activity or project.*

Environmental and Social Management Plan or ESMP *means a documented plan or strategy specifying the measures that will be taken to ensure that social and environmental impacts, risks, and liabilities identified during the ESIA or other analytical process are effectively mitigated, managed, and monitored during the construction, operation, and closure of the proposed project.*

Environmental and Social Management System or ESMS *means a set of policies, procedures, tools, and capacities to identify and manage the environmental and social risks, of the compact activities, which may include environmental and social management plans.*

ERR *has the meaning provided in paragraph 3 of Annex III.*

Evaluation Component *has the meaning provided in paragraph 1 of Annex III.*

Excess CFF Amount *has the meaning provided in Section 2.2(d).*

Fiscal Agent *has the meaning provided in Part C of Annex I.*

FMD Project *has the meaning provided in Part B of Annex I.*

FMD Project Objective *has the meaning provided in Section 1.2(b).*

FSP *has the meaning provided in Section 1.2(c).*

Government *has the meaning provided in the Preamble.*

Government Contribution *has the meaning provided in Section 2.6(a).*

Grant *has the meaning provided in Section 3.6(b).*

Health and Safety Management Plan *means a documented plan or strategy specifying identified hazards and safe work procedures to mitigate, reduce, or control the hazards identified.*

***IFC Performance Standards** means the 2012 version of the Performance Standards on Environmental and Social Sustainability of the International Finance Corporation, adopted as part of the MCC Environmental Guidelines (2012).*

***Implementation Letters** has the meaning provided in Section 3.5.*

***Implementing Entity** has the meaning provided in Part C of Annex I.*

***Implementing Entity Agreement** has the meaning provided in Part C of Annex I.*

***Indicators** has the meaning provided in paragraph 4.1 of Annex III.*

***Inspector General** has the meaning provided in Section 3.7(c).*

***Intellectual Property** means all registered and unregistered trademarks, service marks, logos, names, trade names and all other trademark rights; all registered and unregistered copyrights; all patents, inventions, shop rights, know how, trade secrets, designs, drawings, art work, plans, prints, manuals, computer files, computer software, hard copy files, catalogues, specifications, and other proprietary technology and similar information; and all registrations for, and applications for registration of, any of the foregoing; provided however, that Intellectual Property shall not include property forming part of the cultural heritage of any nation state and not placed or intended to be commercially licensed or sold.*

***ITT** has the meaning provided in paragraph 4.1.8 of Annex III.*

***LCDI** has the meaning provided in Part B of Annex I.*

***LTS-LCCR** has the meaning provided in Part B of Annex I.*

***M&E** has the meaning provided in the preamble to Annex III.*

***M&E Plan** has the meaning provided in the preamble to Annex III.*

***M&E Policy** has the meaning provided in the preamble to Annex III.*

***MCA Act** has the meaning provided in Section 2.2(a).*

***MCA-Indonesia II Tax Relief Account** has the meaning provided in Annex VI.*

***MCA-Indonesia II** has the meaning provided in Section 3.2(b).*

***MCC** has the meaning provided in the Preamble.*

***MCC Funding** has the meaning provided in Section 2.3.*

***MCC Website** means the MCC website at www.mcc.gov.*

***MoCSME** has the meaning provided in Part B of Annex I.*

***Monitoring Component** has the meaning provided in paragraph 1 of Annex III.*

MoWECP *has the meaning provided in Part B of Annex I.*

MSMEs or W/MSMEs *has the meaning provided in Part A of Annex I.*

MSME Finance Project *has the meaning provided in Part B of Annex I.*

MSME Finance Project Objective *has the meaning provided in Section 1.2(c).*

Multi-Year Financial Plan Summary *has the meaning provided in Annex II.*

OLW Administrator *has the meaning provided in Part B of Annex I.*

Operations Unit *has the meaning provided in Part C of Annex I.*

Partner FSPs *has the meaning provided in Part B of Annex I.*

Party *and* ***Parties*** *have the respective meanings provided in the Preamble.*

Permitted Account *has the meaning provided in Section 2.4.*

PIMG *has the meaning provided in Part B of Annex I.*

PIMG Activity *has the meaning provided in Part B of Annex I.*

PIR *has the meaning provided in paragraph 3.1 of Annex III.*

PPDF *has the meaning provided in Part B of Annex I.*

PPDF Activity *has the meaning provided in Part B of Annex I.*

Pre-Identified Projects *has the meaning provided in Part B of Annex I.*

Principal Representative *has the meaning provided in Section 4.2.*

Procurement Agent *has the meaning provided in Part C of Annex I.*

Program *has the meaning provided in the Preamble.*

Program Assets *means any assets, goods or property (real, tangible or intangible) purchased or financed in whole or in part (directly or indirectly) by MCC Funding.*

Program Funding *has the meaning provided in Section 2.1.*

Program Guidelines *means collectively the Audit Guidelines, the Environmental Guidelines, the Policy on Accountable Entities and Implementation Structures, the Program Grant Guidelines, the Program Procurement Guidelines, the QDRP Guidance, the M&E Policy, the Cost Principles for Government Affiliates Involved in Compact Implementation, the Program Closure Guidelines, the Gender Policy, the Operational Requirements and Milestones for Social Inclusion and Gender Integration, the Guidelines for Economic and Beneficiary Analysis, the Standards for Global Marking, the Guidelines for Country Contributions, the Counter-Trafficking in Persons Policy, the Policy on Preventing, Detecting and Remediating Fraud and*

Corruption in MCC Operations, the Policy on Funding under Section 609(g), and any other guidelines, policies or guidance papers relating to the administration of MCC-funded assistance programs, in each case, as such may be posted from time to time on the MCC Website.

Program Implementation Agreement or PIA *has the meaning provided in Section 3.1.*

Project(s) *has the meaning provided in Section 1.2.*

Project Objective(s) *has the meaning(s) provided in Section 1.2.*

Proper *has the meaning provided in Part B of Annex I.*

Provider *means any natural or legal person who provides goods, works, or services in connection with the Program.*

QDRP Guidance *means the Guidance to Accountable Entities on the Quarterly Disbursement Request Package.*

Reallocation Review *has the meaning provided in Annex V of the PIA.*

Resettlement Action Plan or RAP *means a plan designed to mitigate the negative impacts of the physical or economic displacement of persons caused by project implementation per IFC Performance Standard 5: Land Acquisition and Voluntary Displacement.*

Social and Gender Integration Plan or SGIP *means the operational plan to ensure each Project will benefit structurally excluded groups, including poor people and women.*

STEM *has the meaning provided in Part B of Annex I.*

Supplemental Agreement *means any agreement between (a) the Government (or any Government affiliate, including MCA-Indonesia II) and MCC (including, but not limited to, the PIA and any Implementation Letter), or (b) MCC and/or the Government (or any Government affiliate, including MCA-Indonesia II), on the one hand, and any third party, on the other hand, in each case, setting forth the details of any funding, implementing, or other arrangements in furtherance of, and in compliance with, this Compact.*

Target *has the meaning provided in paragraph 4.1.3 of Annex III.*

Target Province(s) *has the meaning provided in Part A of Annex I.*

Taxes *has the meaning provided in Section 2.8(a).*

TIP *has the meaning provided in Part B of Annex I*

United States *has the meaning provided in the preamble.*

United States Dollars or USD or US$ *means the lawful currency of the United States of America.*

USAID *has the meaning provided in Part B of Annex I.*

UTO *has the meaning provided in Part B of Annex I.*

ANNEX VI

TAX EXEMPTION MECHANISMS

The following terms and conditions are applicable to Tax Appendices A to F:

1. MCA-Indonesia II receives the entire Compact budget of US$649,000,000 (US Dollar six hundred forty-nine million).

2. The Government allocates funds from the State Budget to establish the MCA-Indonesia II Tax Relief Account specifically to bear or to fund such Tax reimbursements as referred to throughout Appendices A to F ("***MCA-Indonesia II Tax Relief Account***").

3. *De Minimis* exception: Taxes, duties or other similar charges on transactions valued at less than US$500 (US Dollar five hundred) need not be exempted.

APPENDIX A

VALUE ADDED TAX (VAT)

Legal Basis for Tax Relief.

1. The Compact and the Program Implementation Agreement.

2. Government Regulation Number 42 year 1995 as lastly amended by Government Regulation Number 25 year 2001 about Import Duties, Additional Duties, Value Added Tax, and Sales Tax on Luxury Goods and Income Tax in the Framework of Implementation of Government Projects Funded by Grants or Foreign Loan Fund.

3. Minister of Finance Decree Number 239/KMK.01/1996 as lastly amended by Minister of Finance Decree Number 486/KMK.04/2000 about Implementation of Government Regulation Number 42 year 1995 as lastly amended by Government Regulation Number 25 year 2001 about Import Duties, Additional Duties, Value Added Tax, and Sales Tax on Luxury Goods and Income Tax in the Framework of Implementation of Government Projects Funded by Grants or Foreign Loan Fund.

4. Minister of Finance Regulation to be drafted for implementation of the Compact as needed.

Beneficiaries of Tax Relief.

MCA-Indonesia II and any main contractor, *whether* foreign or Indonesian entities or individuals, as further specified below, providing services, goods, or works for Compact projects.

Procedures.

1. Services, goods, or works provided by an **Indonesian main contractor** ("***MC***"):

(a) MC submits invoice to MCA-Indonesia II exclusive of VAT. It will also present a Tax Invoice (*Faktur Pajak*), that states VAT not collected, in accordance with applicable Indonesian tax laws and regulations.

2. Services, goods, or works provided by a **foreign MC**, including professional services providers (foreign individuals), which are divided into the following two categories:

(a) Those which are nonresident for tax purposes and have no branch or Permanent Establishment in Indonesia:

The foreign MC will submit invoices excluding VAT to the MCA-Indonesia II. MCA-Indonesia II must maintain documents as evidence that such procurements are related to the Compact and therefore, "VAT is Not Collected."

(b) For those which are nonresident but with a Permanent Establishment in Indonesia (as such is defined by Indonesian Tax law and regulation), the foreign MC submits invoice to MCA-Indonesia II exclusive of VAT. It will also present a Tax Invoice (*Faktur*

Pajak), that states VAT not collected, in accordance with applicable Indonesian tax laws and regulations.

3. MCA-Indonesia II requires reimbursement out of MCA-Indonesia II Tax Relief Account for VAT charged by MCs on which the VAT Not Collected mechanism is not able to be applied.

This situation could arise for the following reasons:

(a) In the event that VAT reliefs are required to be granted as per the provisions of this Compact, yet such reliefs are unable to be obtained as a result of compliance requirements that may limit the granting of VAT reliefs.

(b) When VAT has been inadvertently collected or charged and was not lawfully due and payable.

For the purpose of reimbursement, MCA-Indonesia II must provide Tax Invoice (*Faktur Pajak*) from vendors.

4. For VAT incurred by MC, which is not recoverable through the input-output system, the MC require prompt reimbursement out of the MCA-Indonesia II Tax Relief Account. Examples are as follows:

(a) In the event that VAT reliefs are required to be granted as per the provisions of this Compact, yet such reliefs are unable to be obtained as a result of compliance requirements that may limit the granting of VAT reliefs.

(b) When VAT has been inadvertently collected or charged and was not lawfully due and payable.

APPENDIX B

CUSTOMS DUTIES AND OTHER TAXES ON IMPORT

Legal Basis for Tax Relief.

1. The Compact and the Program Implementation Agreement.

2. Government Regulation Number 42 year 1995 as lastly amended by Government Regulation Number 25 year 2001 about Import Duties, Additional Duties, Value Added Tax, and Sales Tax on Luxury Goods and Income Tax in the Framework of Implementation of Government Projects Funded by Grants or Foreign Loan Fund.

3. Minister of Finance Decree Number 239/KMK.01/1996 as lastly amended by Minister of Finance Decree Number 486/KMK.04/2000 about Implementation of Government Regulation Number 42 year 1995 as lastly amended by Government Regulation Number 25 year 2001 about Import Duties, Additional Duties, Value Added Tax, and Sales Tax on Luxury Goods and Income Tax in the Framework of Implementation of Government Projects Funded by Grants or Foreign Loan Fund.

4. Minister of Finance Regulation Number 28/PMK.04/2008 about Import Duties Exemption on Transfer Goods (household goods).

5. Minister of Finance Regulation to be drafted for implementation of the Compact as needed.

Beneficiaries of Tax Relief.

MCA-Indonesia II and any vendors (MC local or international) providing services, goods or works on Compact projects.

Procedures.

1. Purchases of imported goods:

For permanent imports related to the Compact project:

(a) Master list of imported items requiring tax relief is prepared by MCA-Indonesia II.

(b) The Master list is submitted to the Director of Customs Facility, Directorate General of Customs and Excise.

(c) Director of Customs Facility, Directorate General of Customs and Excise issues Minister of Finance Decree issuing tax relief.

(d) MCA-Indonesia II or MCs prepare Import Declaration (PIB).

(e) On the PIB document, MCA-Indonesia II or MC write the number and date of the approval of tax relief as mentioned in point c.

(f) In the event that customs duties or other import taxes are levied under the Indonesian law on goods imported for the Compact projects, the MCA-Indonesia II or MC will be reimbursed for said duties and import taxes from the MCA-Indonesia II Tax Relief Account.

2. Household goods for Expatriates Staff of Vendor.

(a) For household goods the amount and type of goods exempted will be based on the ‘reasonableness’ as determined by the Directorate General of Customs and Excise.

(b) The individual requesting the temporary import of household goods applies at Customs Office at port of import for the custom and duty exemption as well as tax on import, in accordance with applicable Indonesian laws and regulations.

APPENDIX C

CORPORATE INCOME TAX

Legal Basis for Tax Relief.

1. The Compact and the Program Implementation Agreement.

2. Government Regulation Number 42 year 1995 as lastly amended by Government Regulation Number 25 year 2001 about Import Duties, Additional Duties, Value Added Tax, and Sales Tax on Luxury Goods and Income Tax in the Framework of Implementation of Government Projects Funded by Grants or Foreign Loan Fund.

3. Minister of Finance Decree Number 239/KMK.01/1996 as lastly amended by Minister of Finance Decree Number 486/KMK.04/2000 about Implementation of Government Regulation Number 42 year 1995 as lastly amended by Government Regulation Number 25 year 2001 about Import Duties, Additional Duties, Value Added Tax, and Sales Tax on Luxury Goods and Income Tax in the Framework of Implementation of Government Projects Funded by Grants or Foreign Loan Fund.

4. Minister of Finance Regulation to be drafted for implementation of the Compact as needed.

Beneficiaries of Tax Relief.

All vendors that are foreign MCs (with or without a branch office or Permanent Establishment in Indonesia). In determining whether a vendor is a foreign MC for the purposes of this Appendix C, the status of such entity shall be based on its status as of the time that it commenced Compact-related work, and such initial determination shall not change.

Procedures.

1. For Beneficiaries that are nonresidents without a Permanent Establishment and are not exempt under applicable tax treaties, any withholding tax made by MCA-Indonesia II on behalf of Beneficiaries will be reimbursed from MCA-Indonesia II Tax Relief Account.

2. For Beneficiaries that are Permanent Establishments, the following taxes are to be borne by the Government:

(a) Corporate Income Tax (*PPh Badan Pasal 25/29)*.

For Beneficiaries that are Permanent Establishments, provided that such Permanent Establishments are working exclusively for Compact projects and their Corporate Income Tax is borne by the Government as mentioned above, their Deemed Distribution Tax (*PPh Pasal 26 (4)*) or Branch Profit Tax is also borne by the Government.

APPENDIX D

INDIVIDUAL INCOME TAX (EMPLOYEE INCOME TAX) REIMBURSEMENT

Legal Basis for Reimbursement.

1. The Compact and the Program Implementation Agreement.

2. Minister of Finance Decree Number 239/KMK.01/1996 as lastly amended by Minister of Finance Decree Number 486/KMK.04/2000 about Implementation of Government Regulation Number 42 year 1995 as lastly amended by Government Regulation Number 25 year 2001 about Import Duties, Additional Duties, Value Added Tax, and Sales Tax on Luxury Goods and Income Tax in the Framework of Implementation of Government Projects Funded by Grants or Foreign Loan Fund.

3. Minister of Finance Regulation to be drafted for implementation of the Compact as needed.

Beneficiaries for Reimbursement.

All individuals, other than citizens and permanent residents of Indonesia, working for MCs including professional service providers contracting as individuals in connection with the Compact. In determining whether an individual is a permanent resident for the purposes of this Appendix D, the status of such individual shall be based on his/her status as of the time that he/she commenced Compact-related work, and such initial determination shall not change regardless of: (i) the type of contract used to employ/engage such individual and/or (ii) any laws of Indonesia that purport to change such status based on period of contract performance or period of time residing and/or working in Indonesia.

Procedures.

1. For individuals, Government will reimburse employee income tax applicable to the cash or in kind remuneration to the extent that such expatriates are working for the Compact project (exclusively or on a confirmed part time basis). Such tax would be reimbursed from MCA-Indonesia II Tax Relief Account.

2. MC will be responsible for calculating, withholding, and reporting for each employee in accordance with Indonesian law and for requesting tax reimbursement from the MCA-Indonesia II Tax Relief Account.

APPENDIX E

TAX ON TEMPORARY IMPORT OF EQUIPMENT AND VEHICLE

Legal Basis for Tax Relief.

1. The Compact and the Program Implementation Agreement.

2. Government Regulation Number 42 year 1995 as lastly amended by Government Regulation Number 25 year 2001 about Import Duties, Additional Duties, Value Added Tax, and Sales Tax on Luxury Goods and Income Tax in the Framework of Implementation of Government Projects Funded by Grants or Foreign Loan Fund.

3. Minister of Finance Regulation number 178/PMK.04/2017 as amended by PMK 106/PMK.04/2019 about Temporary Admission.

4. Minister of Finance Regulation to be drafted for implementation of the Compact as needed.

Beneficiaries for Tax Relief.

MCA-Indonesia II and any main contractor providing services, goods or works for Compact projects.

Procedures.

For temporary imports:

1. The request for exemption is submitted to Customs Office at port of import by importers.

2. Approval is provided by the Head of Customs Office at port of import.

3. Importers must prepare an Import Declaration (PIB).

4. Importers are required to provide:

(a) bank guarantee / custom bond for the goods if an exemption is requested; or

(b) pay the Customs Import Duty (2% per month), pay VAT (100%), and provide bank guarantee / custom bond for the rest of Customs Duty and income Taxes on import (*PPh Pasal 22*) if tax relief is requested.

APPENDIX F

OTHER TAXES

Regional taxes are not under the authorization of the Government and the granting process of tax exemption will require approval from the relevant regional parliaments. However, the Government will put its best effort to communicate the possibility to obtain tax exemption from the regional governments, especially the governments of the Target Provinces during the entry into force period (approximately one year as of the signing of the Compact up to the "entry into force" period).

ANNEX VII

ADDITIONAL CONDITIONS PRECEDENT TO ENTRY INTO FORCE

The following additional conditions must be met before this Compact enters into force:

(a) MCC must be satisfied that MCC's statutory and policy requirements regarding the contents of a compact, including the identification of beneficiaries, the calculation of economic rates of return, and the establishment of baselines and targets to measure each of the Projects', and the overall Program's, progress, have been met.