CONFORMED COPY

Letter No: CD-387/Waspola/VIII/2010 August 12, 2010

Mr. Rahmat Waluyanto
Director General of Debt Management
Ministry of Finance
Jalan Lapangan Banteng Timur 2-4
Jakarta 10710

Dear Mr. Waluyanto,

Re: Water and Sanitation Policy and Action Planning Facility Project (WASPOLA) - TF095502

In response to the request for financial assistance made on behalf of the Republic of Indonesia (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (“World Bank”), acting as administrator of grant funds provided by the Government of Australia, acting through the Australian Agency for International Development (“Donor”) under the Water and Sanitation Policy and Action Planning Facility Trust Fund (TF071267), proposes to extend to the Recipient a grant in an amount not to exceed two million three hundred twenty five thousand four hundred ninety United States Dollars (U.S.$2,325,490) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

/s/ Shubham Chaudhuri
Acting Country Director, Indonesia

AGREED:

REPUBLIC OF INDONESIA

By /s/ Rahmat Waluyanto

Name  Rahmat Waluyanto

Title  Director General of Debt Management

Date  August 23, 2010

Enclosures:


(2) Disbursement Letter dated August 12, 2010 together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 1, 2008 (“Standard Conditions”), with the modifications set forth in Section I of the Appendix to this Agreement, constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement. In addition, the following terms have the meanings set out below:

   (a) “BAPPENAS” means the Recipient’s National Development Planning Agency (Badan Perencanaan dan Pembangunan Nasional), and any successor thereto.

   (b) “DHS” means the Directorate of Housing and Settlements in BAPPENAS, and any successor thereto.

   (c) “WSS” means water supply and sanitation.

   (d) “Pokja AMPL” means *Kelompok Kerja Nasional Air Minum & Penyehatan Lingkungan*, the national WSS working group consisting of representatives from the Ministries, including the Ministries of Public Works, Home Affairs, Health, and Environment of the Recipient, and any successors thereto.

   (e) “Project Operations Manual” means the manual, dated January 25, 2010, as amended from time to time by agreement between the Recipient and the World Bank, produced by the Recipient and acceptable to the World Bank giving details of guidelines and procedures agreed with the World Bank for the implementation, supervision, and monitoring and evaluation of the Project.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to contribute to improved access for Indonesians, in particular the poor, to adequate and sustainable water supply and sanitation services. The Project consists of the following parts:

**Part 1. Policy Development**
Developing water supply and sanitation policies in response to evolving political, economic, social and technological context and best practices.
Part 2. Policy Implementation
Developing improved systems and procedures for the implementation of water supply and sanitation policies.

Strengthening sector management functions, with emphasis on coordination and communication, knowledge management, human resource development and monitoring and evaluation.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the Directorate of Housing and Settlements, BAPPIEnAS in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”), with the modifications set forth in Section II of the Appendix to this Agreement; and (c) and this Article II.

2.03. Institutional and Other Arrangements. (a) The Recipient shall ensure that the Directorate of Housing and Settlements shall establish and maintain until the completion of the Project, a project team with adequate resources and suitably qualified staff, in each case with terms of reference necessary to carry out the Project.

(b) The Recipient shall establish and maintain until the completion of the Project a steering committee comprising representatives from the Government, the World Bank and the Donor to be responsible for setting priorities, endorsing new activity proposals and funding requests, monitoring performance and disbursement of funds, and ensuring alignment and collaboration with other Government and donor activities in the sector. The steering committee will meet every six months, or as required.

(c) The Recipient shall implement the Project in accordance with the Project Operations Manual, acceptable to the Recipient and the World Bank, giving details of guidelines and procedures agreed with the World Bank for the implementation, supervision, and monitoring and evaluation, of the Project, including: (i) implementation arrangements including organizational structure for DHS for implementing the Project; (ii) budgeting arrangements; (iii) procurement procedures as set forth in Section III of this Schedule and standard procurement documentation; (iv) reporting requirements, financial management procedures and audit procedures as set forth in Section II.B of this Schedule; (v) supervision plans; (vi) governance, anti-corruption and disclosure requirements including mechanisms for civil society oversight and complaints handling; and (vii) project performance indicators as set forth in Section II.A of this Schedule. The Recipient shall not amend the Project Operations Manual except with the written agreement of the World Bank.

2.04. Donor Visibility and Visit. (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.
(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

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

(i) Pokja AMPL and its secretariat is staffed with qualified personnel, office equipped and furnished adequately to function in terms of coordinating and communicating policy activities with working group members in an efficient and effective manner; and

(ii) Pokja AMPL effectively and efficiently communicates, coordinates, and provides direction to provincial and district WSS working groups throughout Indonesia in planning and implementing WSS policy in a consistent and effective manner.

(c) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The Recipient shall ensure that the audited Financial Statements for each such period shall be: (i) furnished to the World Bank not later than six months after the end of such period; and (ii) made publicly available in a timely fashion and in a manner acceptable to the World Bank.

2.07. **Procurement**

(a) **General.** All goods and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:
(i) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods and services other than consultants’ services; and

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods and Services other than Consultants’ Services

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and services other than consultants’ services shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods and services other than consultants’ services for those contracts specified in the Procurement Plan: (A) National Competitive Bidding, subject to the additional provisions set out in the Attachment to this Annex; and (B) Shopping.

(d) Particular Methods of Procurement of Consultants’ Services

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Selection based on Consultants’ Qualifications; (B) Selection of Individual Consultants; and (C) Sole Source Procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.
Article III
Withdrawal of Grant Proceeds

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods</td>
<td>34,900</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ Services</td>
<td>573,600</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Incremental operating costs*</td>
<td>400,200</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Training, workshop and media costs*</td>
<td>1,316,790</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>2,325,490</strong></td>
<td></td>
</tr>
</tbody>
</table>

*For the purposes of this Section: (i) the term “incremental operating costs” means (i) means the incremental costs of reasonable expenditures directly attributable to the Project and incurred by the Recipient on account of office space, telecommunications, office equipment and supplies, insurance, printing, photocopying, utilities, travel and other travel-related expenditures, vehicle and operation costs, supplies and materials, in each case which would not have been incurred but for the Project; and (ii) the term “Training, workshop and media costs” means Project-related training and workshops conducted in the territory of the Recipient, including purchase and publication of materials, rental of facilities, and meals.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient.
3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is May 31, 2013.

### Article IV

**Recipient’s Representative; Addresses**

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable address: FINMINISTRY 45799  
Telex: DJMLN-IA  
Facsimile: 21 3812859

4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable: INTBAFRAD  
Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: 1-202-477-6391
ATTACHMENT
Clarifications Relating to National Competitive Bidding Procedures

1. General

The procedures to be followed for National Competitive Bidding shall be those set forth in Presidential Decree No.80/2003 of the Republic of Indonesia with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the “Guidelines for Procurement under IBRD Loans and IDA Loans” dated May 2004 and revised in October 2006 and May 2010 (the Guidelines).

2. Registration

(a) Bidding shall not be restricted to pre-registered firms and shall not be a condition for participation in the bidding process.

(b) Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

3. Pre-qualification

(a) Pre-qualification shall not be used for simple goods and works. Normally, post-qualification shall be used. Pre-qualification shall be required only for large or complex works with the prior ‘no objection’ of the World Bank. When pre-qualification shall be required.

(b) Eligible bidders (both national and foreign) shall not be denied pre-qualification.

(c) Invitations to pre-qualify for bidding shall be advertised in at least one (1) widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications.

4. Joint Ventures

A bidder declared the lowest evaluated responsive bidder shall not be required to form a joint venture or to sub-contract part of work or part of the supply of goods as a condition of award of the contract.

5. Preferences

(a) No preference of any kind shall be given to national bidders.

(b) Regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers shall not be applicable to procurement procedures under the Loan or the Loan.
6. Advertising

(a) Invitations to bid shall be advertised in at least one (1) widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids and allowing potential bidders to purchase bidding documents up to twenty-four (24) hours prior the deadline for the submission of bids.

(b) Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee.

(c) Bidders domiciled outside the area/district/province of the unit responsible for procurement shall be allowed to participate regardless of the estimated value of the contract.

(d) Foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign firm declared the lowest evaluated bidder shall be given a reasonable opportunity for registering.

7. Bid Security

Bid security, at the bidder’s option, shall be in the form of a letter of Loan or bank guarantee from a reputable bank.

8. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids, and if bids are invited in two (2) envelopes, both envelopes (technical and price) shall be opened at the same time.

(b) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated responsive bidder.

(c) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.

(d) No bidder shall be rejected merely on the basis of a comparison with the owner’s estimate and budget ceiling without the World Bank’s prior concurrence.

9. Rejection of Bids

(a) All bids shall not be rejected and new bids solicited without the World Bank’s prior concurrence.

(b) When the number of responsive bids is less than three (3), re-bidding shall not be carried out without the World Bank’s prior concurrence.
APPENDIX

Modifications to the Standard Conditions and the Anti-Corruption Guidelines

Section I. The Standard Conditions are modified as follows:

1. The provisions of Section 4.02 (j) of the Standard Conditions are modified to read as follows:

   ... (j) Ineligibility. IBRD or IDA has declared the Recipient (other than the Member Country) ineligible to receive proceeds of any financing made by IBRD or IDA or otherwise to participate in the preparation or implementation of any project financed in whole or in part by IBRD or IDA, as a result of: (i) a determination by IBRD or IDA that the Recipient has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by IBRD or IDA; and/or (ii) a declaration by another financier that the Recipient is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Recipient has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier."

Section II. The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

   “...(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

   “…(a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”
Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”