CONFORMED COPY

Stefan G. Koeberle
Country Director, Indonesia


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

Dear Mr. Waluyanto:


Re: Cities Alliance - Indonesia Slum Alleviation Policy and Action Plan (SAPOLA)
Trust Fund Grant No. TF097331

1. I am pleased to inform you that the International Bank for Reconstruction and Development and the International Development Association (collectively, “World Bank”), acting as administrator of grant funds provided under the Cities Alliance Multi-Donor Trust Fund, proposes to extend to the Republic of Indonesia (“Recipient”) a grant in an amount not to exceed Four Hundred Fifty Five Thousand United States Dollars (US$455,000) (“Grant”) on the terms and conditions set forth or referred to in this Letter Agreement and Annex to 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.

2. The Grant is made in response to the Recipient’s proposal submitted to the Cities Alliance (CA) Secretariat as an application for funding for the Project (the “Project Proposal”). The Project Proposal was approved by the Cities Alliance Consultative Group on October 29, 2009.

3. 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.

ISEB Tower 2, Jl. Jend. Sudirman Kav. 52-53, Jakarta 12190 • Telephone (62-21) 5299 3000 • Facsimile: (62-21) 5299 3110
P.O. Box 1324/JKT, Jakarta 10013 • Telex: IBRDIA 60086 • Headquarters: The World Bank, Washington DC, USA
4. 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 through the (CA) Secretariat. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank, through the CA Secretariat, has not received the countersigned copy of this Agreement within 90 days after the date of signature of this Letter Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Stefan G. Koeberle
Country Director, Indonesia

CONFIRMED AND AGREED:
REPUBLIC OF INDONESIA

By: /s/ Rahmat Waluyanto
Authorized Representative

Name: Rahmat Waluyanto

Title: Director General of Debt Management

Date: October 6, 2010

Enclosures:


(2) Disbursement Letter of even date 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 31, 2010 ("Standard Conditions"), with the modifications set forth in Section I of the Appendix 1 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.

Article II

Project Execution

2.01 **Project Objectives and Description.**

(a) The objectives of the Project are to: (i) develop a national slum upgrading and slum prevention policy and strategy; (ii) enable local governments to promote the upgrading of existing slum settlements; and (iii) develop policies and programs to adequately house new urban populations.

(b) The activities for which the Grant is given are as follows:

1) Provision of technical assistance to conduct surveys and literature reviews of existing policies, regulations, programs, studies, projects and other documentation related to housing policy development and slum upgrading programs in Indonesia.

2) Carry out assessment of the institutional capacity in three selected cities at the local level to implement slum upgrading programs.

3) Develop an informal settlement maps to identify slums' location, the estimated population living in the slums and the physical, social, economic conditions of the slum.

4) Analyze urban land markets and land use management in Indonesia.

5) Carry out an assessment of current housing programs and make recommendations for improvement and consolidation of existing housing microfinance initiatives.

6) Establish a national working group to facilitate engagement with local governments and other stakeholders.

7) Develop a national slum upgrading policy and a national slum upgrading action plan.
8) Develop an institutional and inter-governmental framework document for policy implementation; design a dissemination strategy at the regional and local levels including the development of manuals, guidelines for local government on the implementation of pilot projects.

9) Carrying out of workshops.

10) Undertake pilot projects in selected cities to implement strategies for slum upgrading.

2.02  Project Execution Generally.

(a) The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the office of the Deputy Minister for Infrastructure of the Recipient’s National Development Planning Agency (Badan Perencanaan Pembangunan Nasional, BAPPENAS) 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) this Article II.

(b) For purposes of paragraph 2.01(b)(2) and 2.01(b)(10), cities will be selected based on a set of criteria, acceptable to the World Bank, including scale of informal settlements; cities interested in taking a proactive approach to address slum problems.

2.03  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 indicators (i.e., activities, results and deliverables) agreed with the World Bank, through the CA Secretariat. Each Progress Report shall cover the period of one calendar semester and clearly specify the activities, results, and deliverables achieved for such period, and shall be furnished to the World Bank, through the CA Secretariat, not later than 45 days after the end of the period covered by such report.

(b) 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 referred to in paragraph 3.02.

(c) The Recipient shall furnish to the World Bank, through the CA Secretariat, a copy of all deliverables produced using the Project. If the deliverable is a conference or workshop, the Recipient shall provide the World Bank, through the CA Secretariat with an agenda of the event and any reports or papers resulting from the event on a timely basis as agreed with the World Bank, through the CA Secretariat. The World Bank, through the CA Secretariat, may make these deliverables available to Cities Alliance members. The Cities Alliance shall be clearly identified as a sponsor on all Project deliverables.

2.04  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, through CA Secretariat, not later than 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. The audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The Recipient shall ensure that the audited Financial Statements for each such period shall be (i) furnished to the World Bank, through the CA Secretariat, not later than six (6) 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.

2.05 Procurement.

(a) General. All 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) Sections I (excluding paragraph 1.24) 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.)

(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 Consultant Guidelines.

(c) 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 the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection; (F) Established Private or Commercial Practices which have been found acceptable to the World Bank; (G) Selection of Service Delivery Contractors which have been found acceptable to the World Bank; (H) Selection of Individual Consultants; and (I) Sole Source Procedures for the Selection of Individual Consultants.

(d) Review by the World Bank of Procurement Decisions. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: each contract for consultants’ services provided by an individual estimated to cost the equivalent of $50,000 or more. 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 Article, 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>Consultant Services, Training, Workshops and Seminars</td>
<td>$425,000</td>
<td>100%</td>
</tr>
<tr>
<td>Administrative Costs</td>
<td>$30,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>$455,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purpose of this Section:

(a) the term “Training Workshops and Seminars” means the costs associated with training, workshops and seminars carried out under the Project, including travel and subsistence costs for participants, fee and travel costs associated with securing the services of speakers and trainers, rental of facilities, preparation and reproduction of materials, and other costs directly related to training and workshop preparation and implementation; and

(b) the term “Administrative Costs” means the incremental costs directly related to the implementation, management and monitoring of the Project (which expenditure would not have been incurred absent the Project), consisting of expenditure for Project audits, travel and per diem of Project staff for travel linked to the implementation of the Project.

3.02. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is March 31, 2015.

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 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
Ministry of Finance
Jalan Lapangan Banteng Timur 2-4
Jakarta 10710
Indonesia

Cable address: FINMINISTRY, Jakarta
Telex: 45799  DJMLN-IA, 44319 DEPKEU-IA

Facsimile: (21) 381 2859

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

The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Attention: Cities Alliance Secretariat
Mail Stop: MC4-413
Finance, Economics, and Urban Department

Telephone: 1-202-473-8129
E-mail: ca-projects@citiesalliance.org
Facsimile: 1-202-477-6391

APPENDIX I

Modifications to the Standard Conditions and the Anti-Corruption Guidelines

Section I. The Standard Conditions are modified as follows:
1. The provisions of Section 2.06 (b) (ii) are deleted in their entirety and replaced by the following:

“(ii) ensure the preparation and delivery to the World Bank, not later than the date specified for that purpose in the Letter Agreement, of one or more completion reports (“Completion Report”) of such scope and in such detail as the World Bank shall reasonably request, on the execution of the Project, the performance by the Recipient and the World Bank of their respective obligations under the Letter Agreement and the accomplishment of the purposes of the Grant.”

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.”