Mr. Rahmat Waluyanto  
Director General of Debt Management  
Ministry of Finance  
Jalan Lapangan Banteng Timur 2-4  
P.O. Box 1139  
Jakarta 10710 Indonesia

Dear Mr. Waluyanto:

Re: TF094792 – Grant for the Third Water Supply and Sanitation for Low-Income Communities Project – PAMSIMAS – Additional Financing - Amendment of Grant Agreement

I refer to the Grant Agreement, dated August 11, 2009, as amended, (the “Grant Agreement”), between the Republic of Indonesia (the “Recipient”) and the International Bank for Reconstruction and Development/International Development Association (the “World Bank”), acting as administrator of grant funds provided by the Government of Australia regarding the above-mentioned project (the “Project”), and to the grant discussion meeting held on August 23, 2010 pursuant to which the Recipient requested additional financing and an amendment to the Grant Agreement to reflect a scale-up of activities in approximately 500 additional villages.

The World Bank is pleased to inform you that, after due consideration, it has agreed to the request for additional financing and to the amendments set forth below (the “Amendment”).

1. The first paragraph of the Grant Agreement is amended to provide for the grant of an additional eighteen million United States Dollars (USD 18,000,000) (the “First Additional Grant”) as follows:

“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/International Development Association (“World Bank”), acting as administrator of grant funds provided by the Australian Agency for International Development under the Support for the Third Water Supply and Sanitation for Low Income Communities Project – PAMSIMAS Trust Fund proposes to extend to the Recipient a grant in an amount not to exceed twenty three million six hundred eleven thousand two hundred ninety two United States dollars (USD 23,611,292) (“Grant”), of which eighteen million United States Dollars (USD 18,000,000) comprises the first additional grant (the “First Additional 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.”
2. Section 1.01 of the Annex to the Grant Agreement is amended to incorporate in the Grant Agreement the modifications to the Standard Conditions, which shall be applicable to the Grant as of the date of this Amendment, as follows:


3. The World Bank and the Recipient agree that Component 1 and Component 2 Section 2.01 of the Annex to the Grant Agreement are amended as follows:

“**Component 1—Community Empowerment and Local Institutional Development**

Provision of technical assistance to support the implementation of Parts A.2 and A.3 of the Original Project, including: (a) program-specific training to community facilitators in the field, through the selection recruitment, and training of a cadre of central trainers, headed by a master trainer responsible for the training of provincial trainers, who in turn deliver the training to the community facilitators; and (b) the provision of technical training expertise to support the training of trainers in Methodology Participatory of Assessment/Participatory Hygiene and Sanitation Transformation (MPA/PHAST) and Community Led Total Sanitation Program (CLTS); and (c) training of communities in Participating Villages.

**Component 2 – Village Incentive Grants**

Support for the implementation of Part C.2 and Part D.2 of the Original Project through the provision of grants to Participating Villages, including those under a replication program.”

**Component 3 – Implementation Support and Program Management**

Support for the implementation of Part E of the Original Project through provision of technical assistance and capacity building for quality assurance of PAMSIMAS including: (a) a PAMSIMAS implementation adviser, (b) a procurement and safeguards adviser; (c) a monitoring and evaluation baseline survey and impact evaluation consultant; (d) a community hygiene and sanitation behavior change specialist; (e) a management information systems/knowledge management specialist; (f) a MPA/PHAST and sustainability expert; (g) a community-led total sanitation program specialist; and (h) community facilitators.”

4. Section 2.02(b) of the Annex to the Grant Agreement is amended to incorporate in the Grant Agreement the modifications to the Anti-Corruption Guidelines, which shall be applicable to the Grant as of the date of this Amendment, as follows:

“(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 the Appendix to this Annex to the Grant Agreement; and”.
5. Section 2.04(a) of the Annex to the Grant Agreement is amended as follows:

“(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. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

<table>
<thead>
<tr>
<th>No.</th>
<th>Key Performance Indicators</th>
<th>’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Number of additional people with sustainable access to improved water facilities, differentiated by socioeconomic status.</td>
<td>550</td>
</tr>
<tr>
<td>2</td>
<td>Number of additional people with sustainable access to improved sanitation facilities, differentiated by socioeconomic status.</td>
<td>160</td>
</tr>
<tr>
<td>3</td>
<td>Number of villages developing community action plans.</td>
<td>460</td>
</tr>
<tr>
<td>4</td>
<td>% of target communities free of open defecation.</td>
<td>60</td>
</tr>
<tr>
<td>5</td>
<td>% of targeted schools that have improved sanitation facilities and hygiene programs.</td>
<td>75</td>
</tr>
<tr>
<td>6</td>
<td>% of villages with improved water supply systems that are effectively managed and financed.</td>
<td>75</td>
</tr>
</tbody>
</table>

6. Section 2.06(a)(i) of the Annex to the Grant Agreement is amended to incorporate in the Grant Agreement the revised Procurement Guidelines, which shall be applicable to Grant as of the date of this Amendment, as follows:

“(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, works and non-consulting services; and”.

7. Section 2.06(a)(ii) of the Annex to the Grant Agreement is amended to incorporate in this Grant Agreement the revised Consultants Guidelines, which shall be applicable to the Grant as of the date of this Agreement, as follows:

“(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”.

8. The World Bank hereby reallocates the proceeds of the Grant allocated in the Table in Section 3.01(c) of the Annex to the Grant Agreement as set out below:
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (Exclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Component 1: Community Empowerment and Local Institutional Development; and Component 3: Implementation Support and Project Management</td>
<td>10,111,292</td>
<td>100%</td>
</tr>
<tr>
<td>(b) Component 2: Village Incentive Grants</td>
<td>13,500,000</td>
<td>100% of grant amount disbursed to Participating Villages</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>23,611,292</strong></td>
<td></td>
</tr>
</tbody>
</table>

9. A new Appendix to this Annex to the Grant Agreement is added as set out in the Appendix to this Amendment.

10. Except as specifically amended by the provisions of this Amendment, all terms and conditions of the Grant Agreement otherwise remain in full force and effect.

    Please confirm your agreement to the foregoing by signing and dating both enclosed copies of this letter in the space provided and returning one signed copy to us. The above amendment will become effective as of the date of the Recipient’s countersignature of this letter.

    Sincerely,

    /s/ Shubham Chaudhuri  
    Acting Country Director, Indonesia

**AGREED:**  
REPUBLIC OF INDONESIA

By: /s/ Rahmat Waluyanto

Name: Rahmat Waluyanto

Title: DG of Debt Management

Date: December 10, 2010
APPENDIX

Modifications to the Anti-Corruption Guidelines

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 subcontractor; 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.”