

Public Disclosure Authorized

CONFORMED COPY

DECENTRALIZATION SUPPORT FACILITY TRUST
FUND (DSF TF#096864)

FISCAL AGENCY AGREEMENT

(DSF Provincial Governance Strengthening Program Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION

AND DEVELOPMENT/INTERNATIONAL

DEVELOPMENT ASSOCIATION

and

UNITED NATIONS DEVELOPMENT PROGRAMME

DECENTRALIZATION SUPPORT FACILITY TRUST FUND (TF#096864)

**FISCAL AGENCY AGREEMENT
BETWEEN INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
THE UNITED NATIONS DEVELOPMENT PROGRAMME**

AGREEMENT, dated May 21, 2010 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“IBRD”) AND INTERNATIONAL DEVELOPMENT ASSOCIATION (“IDA”) (collectively the “Bank”), acting as Trustee (the “Trustee”) for the Decentralization Support Facility Trust Fund, and the UNITED NATIONS DEVELOPMENT PROGRAMME (the “Partner Agency”).

WHEREAS: (A) the Second Phase of the Decentralization Support Facility (“DSF 2”) Trust Fund (TF#096864) (the “Trust Fund”) is to be administered by the Bank, the purpose of which is to support: (a) analytical and advisory activities designed to bring together donor policies and practices relevant for decentralization; (b) project preparation and technical assistance activities for project implementation; and (c) support to co-financing and investment activities.

(B) the Operational Manual of the Trust Fund of 2008 (the “Operational Manual”) provides for funding proposals to be made on behalf of partner agencies contributing to the Trust Fund (“the Partner Agencies”), and enables the Trustee to make grants to fund such proposals;

(C) the Management Committee of the Trust Fund (the “Management Committee”), having satisfied itself that the DSF Provincial Governance Strengthening Program Project described in Schedule 1 to this Agreement to be funded out of the resources of the Trust Fund (the “Project”) is of high priority and consistent with the objectives of the Trust Fund, has on October 28, 2009 endorsed the Project to be funded under the Trust Fund, and designated UNDP to be the Partner Agency for purposes of the Project;

WHEREAS the Trustee has agreed, on the basis, inter alia, of the foregoing, to make available to the Partner Agency a grant to be administered by the Partner Agency, upon the terms and conditions set forth in this Agreement:

NOW THEREFORE, the Trustee and the Partner Agency hereby agree as follows:

ARTICLE I
Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms and expressions have the following meanings:

a) “Closing Date” means the closing date referred to in Section 2.04 of this Agreement;

b) “Effective Date” means the Effective Date referred to in Section 6.01 of this Agreement;

c) “Financial Year” means the Partner Agency’s financial year;

d) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

e) “Memorandum of Understanding” means the Memorandum of Understanding on financial management requirements dated February 9, 2004 between UNDP and the International Bank for Reconstruction and Development and the International Development Association, as such Memorandum of Understanding may be amended, updated or revised from time to time by mutual arrangement between the parties thereto;

f) “PGSP” means the overall Provincial Governance Strengthening Program of the Republic of Indonesian approved on December 28, 2009, of which this Project comprises part;

g) “Table of Eligible Expenditures” means the table of eligible expenditures set forth in Schedule 2 to this Agreement, as such table may be amended from time to time by agreement in writing between the Trustee and the Partner Agency; and

h) “Trust Fund Account” means the account opened by the Bank in its books in the name of the Trust Fund, to which the resources of the Trust Fund are credited.

ARTICLE II

The Grant

Section 2.01 The Trustee appoints UNDP to be the Partner Agency for the Project.

Section 2.02. The Trustee agrees to make available to the Partner Agency, on the terms and conditions set forth or referred to in this Agreement, an amount not exceeding Two Million United States Dollars (USD 2,000,000) (the Grant).

Section 2.03. The amount of the Grant may be used to finance expenditures in respect of the reasonable cost of goods and services required for carrying out the Project and to be financed out of the proceeds of the Grant, in accordance with the Table of Eligible Expenditures.

Section 2.04. (a) Upon presentation of written applications by the Partner Agency as set out in paragraph (c) of this Section, the Trustee will transfer the Grant to the Partner Agency's designated account in installments as follows:

- (i) beginning on or after the Effective Date, an amount of one million United States Dollars (USD 1,000,000); and
- (ii) upon written confirmation of disbursement of 70 percent of the first installment, the balance of the amount of the Grant not to exceed one million United States Dollars (USD1,000,000);

provided, however, that no further commitments out of the proceeds of the Grant shall be made on account of the Project after 30 September 2011, or such later date as may be agreed for this purpose between the Trustee and the Partner Agency ("the Closing Date").

(b) For purposes of paragraph (a) of this Section, the Trustee will deposit each installment of the Grant into the Partner Agency's designated account, details of which are as follows:

Account Name: UNDP Representative in Indonesia US Dollars Account
Account Number: 375-1555-542
Bank Name: Bank of America
Bank Address: 1402 Elm Street, Dallas, Texas, TX 75202, USA
Wire Routing No: 026009593
ACH Routing No: 111-000-12
SWIFT Code: BOFAUS3N

(c) The Partner Agency shall deliver to the Trustee a written application for the transfer of the funds, or part of, in the form specified by the Trustee. Such application shall be: (i) signed on behalf of the Partner Agency by the representative of the Partner Agency designated in this Agreement or such other person as he or she shall have authorized in writing; and (ii) accompanied by such evidence in support of the application as the Trustee shall reasonably request. Authenticated specimen signatures of the person authorized to sign such applications shall be provided with the first application bearing his or her signature. Each such application and its supporting evidence must be sufficient in form and substance to satisfy the Trustee that the Partner Agency is entitled to such amount in accordance with this Agreement.

Section 2.05. In order to compensate the Partner Agency for the general management support costs of appraisal, supervision, and monitoring and evaluation, of the Project, the Partner Agency shall be entitled to reimbursement of such costs in an amount not exceeding seven percent (7 %) of the Grant to be deducted from the Grant and retained for the Partner Agency's own account, in accordance with the Table of Eligible Expenditures.

Section 2.06. Notwithstanding the foregoing, the Trustee shall be not obligated to make the proceeds of the Grant available to the Partner Agency except to the extent that there are corresponding resources available in the Trust Fund Account to cover the Project.

ARTICLE III

Use of Proceeds of the Grant

Section 3.01 (a) The Partner Agency shall administer the Grant with due diligence and efficiency, and in conformity with its own rules, regulations, policies, agreements, guidelines and procedures.

(b) The Partner Agency shall be solely responsible for the management, supervision, and monitoring and evaluation of the Project, and for the administration of the Grant.

(c) Nothing in this Agreement shall be construed to vest responsibility in the Trustee for the management, supervision, or monitoring and evaluation of the Project or the administration of the Grant, or to impose any liability whatsoever upon the Trustee for any act or omission pertaining to or arising out of the Project or the administration of the Grant.

Section 3.02 The Partner Agency shall credit the interest income accrued on the Grant to the Partner Agency's own ledger account for the Project and shall apply such interest income in the same manner and for the same purposes as the Grant.

Section 3.03. The Partner Agency shall account for the proceeds of the Grant in a separate ledger account, apart from any and all other funds and assets of the Partner Agency.

ARTICLE IV

Reporting Obligations of Partner Agency

Section 4.01. (a) In accordance with the Memorandum of Understanding, the Partner Agency shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Trustee, adequate to reflect the operations, resources and expenditures related to the Project.

(b) Upon the Trustee's request, the Partner Agency shall: (i) have the financial statements referred to in subparagraph (a) above audited for the period indicated in the Trustee's request, in accordance with auditing standards, acceptable to the Trustee, by independent auditors acceptable to the Trustee; (ii) furnish to the Trustee, as soon as available, but in any case not later than six (6) months after the date of the Trustee's request for such audit, (A) certified copies of the financial statements referred to in subparagraph (a) above for such period, as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Trustee; and (iii) furnish to the Trustee such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Trustee shall have reasonably requested.

(c) For all expenditures with respect to the Project, the Partner Agency shall: (i) retain, until at least one year after the end of the Financial Year in which the last withdrawal from the Trust Fund Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (ii) furnish to the Trustee, other relevant information concerning such records as the Trustee shall have requested; and (iii) ensure that such records are included in any audit that the Trustee may have requested pursuant to subparagraph (b) above.

- (d) The Partner Agency shall furnish to the Trustee:
 - (i) as soon as available, but in any case not later than forty five (45) days of each March 31, June 30, September 30 and December 31, a provisional statement of receipts and expenditure and funds balance with respect to the Project, through the local office of the Partner Agency;
 - (ii) as soon as available, but in any case not later than six (6) months after the end of each Financial Year, certified copies of said financial statements for such Financial Year; and
 - (iii) such information based on the biennial audit report of the Board of Auditors of the Partner Agency submitted to its governing body which contain observations relevant to the Project.

Section 4.02. (a) The Partner Agency, through its local office, shall prepare and furnish to the Trustee a financial monitoring report (FMR), which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately grant funds provided, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in implementation, both cumulatively and for the period covered by the said report, and explains variances between the actual and planned implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The FMR shall be furnished to the Trustee not later than forty five (45) days after the end of the first calendar quarter after the Effective date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Trustee, not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Partner Agency shall prepare and submit to the Trustee, within six (6) calendar months of the Closing Date, a final report integrating the results of the FMRs, as well as the results of the appraisal, supervision, and

monitoring and evaluation, activities performed pursuant to the provisions of Section 3.01 (b) of this Agreement.

Section 4.04. The Partner Agency shall furnish to the Trustee such other information relating to the progress of the Project, as the Trustee may from time to time reasonably request.

ARTICLE V

Disclosure of Information and Visibility

Section 5.01. All information materials, such as publications, press releases, training programs, seminars or symposia related to the Project, shall clearly indicate that the Project has benefited from funding from the DSF and Contributors, individually or collectively as appropriate, having regard to the context, circumstances and location.

ARTICLE VI

Effectiveness & Termination

Section 6.01. This Agreement shall become effective on the date of its signature by the parties thereto (the "Effective Date").

Section 6.02. This Agreement shall terminate upon the earlier of: (a) the date on which all commitments and liabilities incurred by the Partner Agency in the carrying out of the Project shall have been satisfied; or (b) the Closing Date, whichever is earlier.

Section 6.03 Notwithstanding the provisions of Section 6.02 above, either party may terminate this Agreement at any time upon giving not less than thirty (30) days' notice in writing to the other party.

Section 6.04 Upon termination of this Agreement, the Partner Agency shall take immediate steps to bring the Project to a close in a prompt and orderly manner, minimize its administration costs and return to the Trustee the uncommitted portion of the Grant.

Section 6.05 The representations, warranties and other statements of the Partner Agency set forth in, or made or delivered in writing pursuant to this Agreement, together with the obligations of the Partner Agency under this Agreement, shall continue to be effective for as long as they remain valid and

applicable, notwithstanding the termination or early termination of this Agreement pursuant to the provisions of Section 6.02 and 6.03, respectively, of this Agreement.

Section 6.06 The Agreement may be amended through an exchange of letters between the Trustee and the Partner Agency. The letters exchanged to this effect shall become an integral part of the Agreement.

ARTICLE VII

Communications

Section 7.01 The officials responsible for coordination of all matters related to this Agreement are:

For the Trustee:

The Program Manager,
Decentralization Support Facility Trust Fund
World Bank Office Jakarta
Indonesia Stock Exchange Building, Tower 1, 9th Floor
Jl. Jenderal Sudirman Kav 52-53
Jakarta 12190

Tel.: (+62 21)5299-3000

Fax: (+62 21) 5299-3111

For the Partner Agency:

Beate Trankmann
Country Director
United Nations Development Programme
9th floor, Menara Thamrin Building
Kav. 3, Jalan Thamrin,
Jakarta 10250

Tel: (+62 21) 314 1308

Fax: (+6221) 314 5251

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Jakarta, Republic of Indonesia, as the day and the year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT/ INTERNATIONAL DEVELOPMENT
ASSOCIATION, acting as Trustee for the Decentralization Support
Facility Trust Fund

By: /s/ Chris Hoban

Joachim von Amsberg
Country Director, Indonesia

Date: 5/21/2010

UNITED NATIONS DEVELOPMENT PROGRAMME

By: /s/ Beate Trankmann

Beate Trankmann
Country Director
Date: 5/26/2010

SCHEDULE 1

Description of the Project and Outputs

The objective of the Project is to: strengthen provincial government role and functions through effective participatory policy making, regional development planning and public service delivery, leading to realization of national development objectives and the improvement of quality of life for the poorest.

The Project consists of the following outputs in line with current work plan indicators, subject to such modifications thereto as may be agreed upon from time to time in writing by the Partner Agency and the Trustee to achieve such objective.

Output 1: Enhanced policy and regulatory framework that further clarifies and strengthens roles and functions of provincial government and council (DPRD).

Output 2: Strategic regional economic development planning strengthened, effectively link planning and budgeting using the United Nations human development index/human development report; with participatory decision-making mechanism in place.

Output 3: Achievement of better development outcomes at provincial level through governance innovations: implementation of minimum service standards, civil service reform, participatory monitoring and evaluation and sustainable cross province learning.

SCHEDULE 2**Table of Eligible Expenditures**

The table below sets forth the categories of items to be financed out of the proceeds of the Grant for each Part of the Project and the indicative allocation of amounts of the Grant to each category for each Part of the Project:

	<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in USD)</u>	<u>% of Expenditures to be Financed</u>
(1)	Consultants' services	580,000	100%
(2)	Goods	10,000	100%
(3)	Training and Workshops	1,160,000	100%
(4)	Operational Cost	110,000	100%
(5)	UNDP administrative fee (7%)	140,000	100%
	Total	2,000,000 =====	