Dear Mr. Waluyanto:

Re: TF094792 - Support 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 (the “Original Grant Agreement”), as amended through November 25, 2010, (the “First Additional Financing Amendment”), 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”).

I refer also to the grant discussion meeting held between representatives of the Recipient and the World Bank on May 15, 2012 pursuant to which the Recipient requested additional financing and an amendment to the Grant Agreement to reflect a scale-up of activities in approximately 300 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 “Second Additional Financing Amendment”).

Except as specifically provided for in this Second Additional Financing Amendment, all of the terms and conditions set out in the Original Grant Agreement, as amended by the First Additional Financing Amendment, shall apply to this Second Additional Financing Amendment. References to “Grant” shall, except as the context otherwise requires, include the grant provided by the Original Grant Agreement, the First Additional Financing Amendment and this Second Additional Financing Amendment. References to “this Agreement” shall mean the Original Grant Agreement together with the First Additional Financing Amendment and this Second Additional Financing Amendment.

1. The first paragraph of the Grant Agreement is amended to provide for the grant of an additional nine million United States Dollars (USD 9,000,000) (the “Second 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 thirty two million six hundred eleven thousand two hundred ninety two United States dollars (USD 32,611,292) ("Grant"), of which five million six hundred eleven thousand two hundred ninety two United States Dollars (USD5,611,292) comprises the original grant ("Original Grant"), eighteen million United States Dollars (USD 18,000,000) comprises the first additional grant (the "First Additional Grant") and nine million United States Dollars (USD 9,000,000) comprises the second additional grant (the "Second 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 from the Donor to the trust fund. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to 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 the current Standard Conditions, which shall be applicable to the Grant as of and from the date of countersignature by the Recipient of a copy of this Second Additional Financing Amendment, following receipt by the World Bank of such countersigned copy, as follows:


3. Section 2.02(b) of the Annex to the Grant Agreement is amended to incorporate the current Anti-Corruption Guidelines, which shall be applicable to the Grant as of and from the date of countersignature by the Recipient of a copy of this Second Additional Financing Amendment, following receipt by the World Bank of such countersigned copy, 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 and revised in January 2011 ("Anti-Corruption Guidelines"); and"

4. 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."
5. Section 2.04 (b) of the Annex to the Grant Agreement is amended as follows:

“(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06(b)(ii) of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than December 31, 2014.”

6. Section 2.06(a)(i) of the Annex to the Grant Agreement is amended to incorporate in the Grant Agreement the current Procurement Guidelines, which shall be applicable to the Grant as of and from the date of countersignature by the Recipient of a copy of this Second Additional Financing Amendment, following receipt by the World Bank of such countersigned copy, as follows:

“(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“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 current Consultants Guidelines, which shall be applicable to the Grant as of and from the date of countersignature by the Recipient of a copy of this Second Additional Financing Amendment, following receipt by the World Bank of such countersigned copy, as follows:

“(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“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></th>
<th>Description</th>
<th>Percentage</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>820,000</td>
</tr>
<tr>
<td>2</td>
<td>Number of additional people with sustainable access to improved sanitation facilities, differentiated by socioeconomic status</td>
<td>260,000</td>
</tr>
<tr>
<td>3</td>
<td>Number of villages developing community action plans</td>
<td>730</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>
<tr>
<td>Category</td>
<td>Amount of the Grant Allocated (expressed in USD)</td>
<td>Percentage of Expenditures to be Financed (Exclusive of Taxes)</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>Component 1: Community Empowerment and Local Institutional Development; and Component 3: Implementation Support and Project Management</td>
<td>12,694,292</td>
<td>100%</td>
</tr>
<tr>
<td>Component 2: Village Incentive Grants</td>
<td>19,917,000</td>
<td>100% of grant amount disbursed to Participating Villages</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>32,611,292</td>
<td></td>
</tr>
</tbody>
</table>

9. The World Bank has established **December 31, 2013** as the later date for purposes of Section 3.03 of the Annex to the Grant Agreement.

10. Except as specifically amended by the provisions of this Second Additional Financing 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,

Stefan G. Koeberle  
Country Director, Indonesia

**AGREED:**

REPUBLIC OF INDONESIA

By: [Name]

Title: DG of Debt Management

Date: **June 25, 2012**