Mr. Robert Pakpahan  
Director General of Budget Financing and Risk Management  
Ministry of Finance  
Gedung Frans Seda  
Jalan DR. Wahidin Raya No. 1  
Jakarta 10710  
Indonesia  

Dear Mr. Pakpahan:  

Re: Additional Financing for the Third Water Supply and Sanitation for Low-Income Communities (Community Based Water Supply/PAMSIMAS II) Project  
Loan No. 8259-ID; Amendment No. 1

We refer to the loan agreement ("Loan Agreement"), dated June 11, 2013 between the Republic of Indonesia ("Borrower") and the International Bank for Reconstruction and Development ("Bank") for the Additional Financing for the Third Water Supply and Sanitation for Low-Income Communities (Community Based Water Supply/PAMSIMAS II) Project ("Project").

We refer also to the exchanges between the representatives of the Borrower and the Bank in the past few weeks in the course of preparation of the second additional financing for the Project, which resulted in an understanding on the need for Project restructuring and an amendment to the Loan Agreement to: (a) adjust the objective of the Project; (b) revise the Project description and related results indicators; (c) reflect changes to the Project's implementation arrangements; and (d) revise definitions to reflect the changes referred to in (b) and (c) above.

After due consideration, the Bank agreed with the proposed changes, and accordingly the Bank proposes to amend the Loan Agreement as set out below.

1. Section 1.02 of Article I is amended to state as follows:

"Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement."

2. Section 3.01 of Article III is amended to state as follows:

"The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall implement the Project through MoPWH, MoH, MoHA and MoVDAT in accordance with the provisions of Article V of the General Conditions."

3. Schedule 1 to the Loan Agreement is amended and restated to reflect the revised Project objective and revised Project description as set out in Annex 1 to this letter.
4. Sub-paragraphs 1(c) of Section I.A of Schedule 2 to the Loan Agreement are amended and restated as set out below:

“(c) maintain a Central Project Management Unit (CPMU), chaired by a representative of DGHS, and including - among others - representatives of MoH, MoHA, and MoVDAT responsible for overall coordination, day-to-day management, budgeting, financial administration, monitoring and reporting, of the Project at the central level;”

5. Sub-paragraphs 2 (b) (i) and (ii) of Section I.A of Schedule 2 to the Loan Agreement are amended and restated as set out below:

“(i) ROMS responsible for overall coordination, day-to-day management, budgeting, financial administration, environmental and social safeguard management, monitoring and reporting, of the Project at the Province- and District-level;

(ii) Community Facilitation Teams with expertise in technical, environmental and social safeguard, health promotion and community development skills to assist in the development and strengthening of equitable community institutions to ensure sustainable improvements in WSS facilities and related behaviors; and”

6. Two new clauses are added at paragraph 6 and 7 of Section I.C of Schedule 2 to the Loan Agreement as stated below and paragraphs 6 through 8 are renumbered paragraphs 8 through 10.

“6. Support Grants shall be provided to Participating Villages that are yet to meet predetermined project performance criteria based on the Participating Village’s achievement of component specific objectives of hygiene, community mobilization and contribution, and WSS coverage to support complementary activities for the purpose of supporting WSS system improvement and institutional performance.

7. OB Grants. Without limitation to the provision of paragraph 9 below of this Part C the respective Sub-project Grant Agreement for OB Grants shall specify: (a) the outputs and performance targets to be achieved by the Beneficiary; (b) the arrangements for verification of the quantity and quality of outputs delivered; (c) the maximum Grant amounts payable against the outputs specified in the Grant Agreement, the periodicity of payments, the conditions for payments and the methodology for determining the amount of payments including the unit cost of each output.”

7. Section II.A.1 of Schedule 2 to the Loan Agreement is amended to read as follows:

“A. Project Reports
The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank and set forth in the Project Operations Manual. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.”
8. Sub-paragraph 1(e) of Section I.C of Schedule 2 to the Loan Agreement is amended to read as follows:

"(e) the provision of goods, works or services, directly or through intermediaries, by suppliers or contractors, as the case may be, who have been declared ineligible to participate in the procurement of any Bank-financed contract, whether indefinitely or for a stated period of time, as a result of a decision made under the Sanctions System, but only to the extent that such sanctions remains valid and applicable, according to the terms of the decision."

9. Sub-paragraph 2(e) of Section III.C of Schedule 2 to the Loan Agreement is amended to read as follows:

"(e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants."

10. The table in paragraph 2 of Section IV.A of Schedule 2 to the Loan Agreement is amended and restated as set out below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, consultants’ services, non-consulting services, workshops and training under Parts A.1(a), A.2, A.3, A.4, B, C, D.4 and E of the Project</td>
<td>33,703,318</td>
<td>80% of consultants’ services and non-consulting services 100% of goods, workshops and training</td>
</tr>
<tr>
<td>(2) Grants under Part C of the Project</td>
<td>65,090,000</td>
<td>100% of the Grant amount disbursed</td>
</tr>
<tr>
<td>(3) Consultants’ services (pro-memoria)</td>
<td>1,106,682</td>
<td>80%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>99,900,000</td>
<td></td>
</tr>
</tbody>
</table>

11. The Closing Date under paragraph 2 of Section IV.B of Schedule 2 to the Loan Agreement is revised to read December 31, 2017.

12. The Annex to Schedule 2 to the Loan Agreement is amended and restated as set out in Annex 2 to this letter.

13. The Appendix to the Loan Agreement is amended and restated to reflect the revised definitions of terminologies as set out in Annex 3 to this letter.
Except as specifically set out in this letter, all terms and conditions in the Loan Agreement remain unchanged.

The Bank will disclose this letter agreement and related information on this Loan in accordance with the World Bank Policy on Access to Information. By entering into this agreement, the Borrower consents to disclosure of this agreement and related information on this Loan.

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 countersignature of this letter by the Borrower.

Sincerely yours,

By Rodrigo A. Chavez
Country Director, Indonesia

CONFIRMED AND AGREED:

REPUBLIC OF INDONESIA

By: (Authorized Representative)

Name: ROBERT PAYPAHAN
Title: DIRECTOR GENERAL OF BUDGET
FINANCING AND RISK MANAGEMENT

Date: JUNE 20, 2016
ANNEX 1

SCHEDULE 1

Project Description

The objective of the Project is to increase the number of under-served rural and peri-urban populations accessing **sustainable water supply and sanitation services**.

The Project consists of the Original Project as modified below:

**Part A: Community Empowerment and Local and Village Institutional Development**

1. (a) Provision of technical advisory services and training - for governmental and non-governmental organizations, community facilitators, as well as participating communities - to support the preparation and implementation of Community Action Plans (CAPs), focusing on informed choice, design and costs of community and school water supply, community and school hygiene behavior change activities, school sanitation facilities and post-construction management and sustainability.

   (b) Recruitment and provision of community facilitators.

2. Provision of technical advisory services and training to strengthen inter-agency coordination at the Province- and District-level and to develop the institutional capacity of the units, teams and related personnel involved in the implementation of the Project, including development and revision of guidelines and manuals, and training materials to ensure compliance with the relevant rules and procedures.

3. (a) Provision of training, through the recruitment of a Training Development Services (TDS) team at the national level, to provide support to PPMUs and DPMUs, including planning, preparation and quality assurance for training and capacity building activities.

   (b) Implementation of a program of activities designed to support capacity building and advocacy activities for governments and civil society to improve overall WSS delivery, encourage increase or reallocations in overall local government budgets in favor of community-driven development WSS efforts, and promote post-construction innovations to enhance the sustainability of WSS services.

4. Implementation of a program of capacity building and advocacy activities designed to enhance sustainability of PAMSIMAS-supported water supply and sanitation services over the long-run, such a program to include such activities as integrating of water and sanitation expenditures into the mid-term and annual development plans of village government and facilitating increase of village government’s expenditures for maintenance and expansion of the existing water supply facilities, including provision of capacity building and facilitation for asset management of WSS facilities at village level.
Part B: Improving Hygiene and Sanitation Behavior and Services

1. Provision of technical advisory services and training to support implementation of a phased program of community behavior change, consisting of the promotion of the community-led total sanitation approach to: (i) safe excreta management; (ii) hand-washing and other locally relevant environmental sanitation practices; (iii) water storing and handling; (iv) food hygiene; (v) solid waste and wastewater management; and (vi) water quality surveillance.

2. Provision of technical advisory services and training, and carrying out of studies, to support a sanitation and hygiene marketing program designed to generate consumer demand for improved sanitation, facilitate the ability of local markets to respond to this demand, and promote improved hygiene behavior.

3. Provision of technical advisory services and training to support school-based hygiene promotion training and facilitation, and facilitate school-based hygiene promotion programs and health education programs.

4. Provision of technical advisory services and training to strengthen the capacity of the units responsible for environmental health and hygiene promotion in Participating Provinces and Participating Districts to monitor progress in meeting their universal access of water supply and sanitation, assess performance of their sanitation and hygiene programs and evaluate their impact on hygiene behavior.

Part C: Water Supply and Public Sanitation Infrastructure

1. Provision of technical advisory services and training to support: (a) water supply systems for new villages; (b) the scaling up and expansion of existing village water supply systems; and (c) optimization of existing underperforming village water supply systems, through the design, construction and commissioning and operation of water supply infrastructure at the community-level, based on a menu of technical options, including: rapid technical assessments and community WSS situation analysis to determine water demand and system options; informed water system technology choice; technical surveys and development of the detailed engineering designs; construction, supervision and quality control; and operations, maintenance and repair training.

2. Provision of CAP Grants to support activities under CAPs.

Part D: District and Village Incentives

1. Provision of DVI Grants to Participating Districts that meet or exceed predetermined project performance criteria based on the Participating District’s achievement of WSS coverage, contribution to CAP Grants, and management information system performance, to support activities under CAPs.

2. (a) Provision of DVI Grants to Participating Villages that meet or exceed predetermined project performance criteria based on the Participating Village’s achievement of component specific objectives of hygiene, community mobilization and contribution, and WSS coverage to support complementary activities in view of the scaling up and expansion of existing community WSS services; and (b) carrying out of a program of specific activities to deliver water and sanitation services to low-income communities, through the provision of output-based grants (OB Grants)
to select Participating Villages, as well as associated technical advisory services and training for administering the output-based disbursement including definition of outputs, costing of output units and verification of outputs.

3. Provision of Support Grants to Participating Villages that are yet to meet predetermined project performance criteria based on the Participating Village’s achievement of component specific objectives of hygiene, community mobilization and contribution, and WSS coverage to support complementary activities for the purpose of supporting WSS system improvement and institutional performance.

4. Carrying out a program of activities designed to support select associations of BPSPAMS in: (i) providing technical assistance and support for preventive and corrective maintenance of water supply and sanitation systems operated by BPSPAMS; (ii) providing facilitation support for major technical maintenance; (iii) providing training to systems operators; (iv) promoting health and hygiene education in the communities, in cooperation with local health agencies; (v) improving management competencies in BPSPAMS, and (vi) establishing partnerships with various stakeholders to facilitate service expansion of BPSPAMS.

Part E: Implementation Support and Project Management

1. Provision of technical support, management, advisory services and training, through the recruitment of consultants, to provide support, for the benefit of CPMU, in terms of overall Project management, monitoring of implementation and outcomes, expansion of the national WSS program, and technical and financial reporting, as well as in the fields of sustainable WSS, hygiene promotion, capacity building, institutional strengthening, social and environmental safeguards and community empowerment.

2. Provision of oversight management services and training, through the recruitment of Regional Oversight Management Services (ROMS) teams, to provide support, for the benefit of PPMUs and DPMUs, in terms of day-to-day Project management, technical matters, implementation of community-driven processes, institutional capacity building, social inclusion and environmental safeguards, monitoring of implementation and sustainability of outcomes, and technical and financial reporting at the Province-, District- and Village-level.

3. (a) Provision of technical advisory services and training, through the recruitment of independent Project evaluation consultants, to evaluate Project performance, having regard to the performance indicators referred to in Section II.A.1 of Schedule 2 to this Agreement.

(b) Provision of technical advisory services and training for improved project monitoring using the latest ICT technologies for: (i) data collection, data verification, and data use; (ii) enhanced grievance redress mechanism to improve community feedback and response mechanisms; (iii) enhancement of monitoring of sanitation progress and open-defecation free status, including the introduction of operational incentive mechanisms for sanitation data collection by field sanitation officials at sub-district level, improvement of monitoring of improved hygiene behaviors and increasing sanitation data use for program planning.
ANNEX 2

ANNEX TO SCHEDULE 2

National Competitive Bidding: Modifications to Procedures

The procedures applicable to the procurement of goods, works, and non-consulting services under contracts awarded on the basis of National Competitive Bidding shall be those of the Pelelangan Umum (Public Tendering) and Penilihan Langsung / Pelelangan Sederhana (Simplified Tendering) methods as set forth in the Borrower’s Presidential Regulation No. 54/2010 and its subsequent amendments as of January 16, 2015, with the modifications set out below in order to ensure economy, efficiency, transparency, and broad consistency with the provisions of Section I of the Procurement Guidelines, pursuant to paragraph 3.3 of said Guidelines. The Penilihan Langsung / Pelelangan Sederhana method shall apply to such procurement up to the financial thresholds specified in said Regulation. In the event of a conflict between the Borrower’s procedures and these modifications, the latter shall govern.

1. Procuring entities shall use the appropriate standard bidding documents acceptable to the Borrower and the Bank. The provisions of Section 1.16 (Fraud and Corruption) of the Procurement Guidelines shall apply, and each bidding document and contract financed out of the proceeds of the Loan shall include provisions on matters pertaining to fraud and corruption as defined in paragraph 1.16(a) of said Guidelines and the contract provisions set out in paragraph 1.16(e) of said Guidelines.

2. Foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign firm determined to be the lowest evaluated responsive bidder shall be given reasonable time for registration. Foreign bidders shall not be required to form a joint venture or sub-contract part of the supply of goods, non-consulting services, and works as a condition for submitting bids or the award of the contract. Bidding documents shall be made available to all international bidders.

3. No preference of any kind shall be given to any bidders.

4. Under the Pelelangan Umum method, bidders shall be allowed at least twenty-one (21) days from the date of the invitation to bid or the date of availability of bidding documents, whichever is later, to prepare and submit bids. This period shall be ten (10) days under the Penilihan Langsung / Pelelangan Sederhana method.

5. Bids invited under the Pelelangan Umum method shall be submitted in one (1) envelope and evaluated using post-qualification.

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

7. Bid security, if it is required by the bidding documents, at the bidder’s option, shall be in the form of a letter of credit or guarantee from a reputable bank or other reputable financial institution and shall without exception follow the form provided for this purpose in the bidding documents.
8. All bids shall not be rejected and new bids solicited without the Bank’s prior written concurrence.

9. Government-owned enterprises in Indonesia shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not dependent agencies of the Borrower or sub-borrower.
ANNEX 3

APPENDIX
Definitions

Section I. Definitions

1. “Anti-Corruption Action Plan” means a stand-alone chapter of the Project Operations Manual exclusively dedicated to the Borrower’s anti-corruption action plan, giving details of a program of actions, measures and policies designed to reduce or eliminate fraud and corruption in all its forms under the Project, including enhanced information disclosure provisions, civil society oversight provisions, mitigation measures to deal with the risks associated with collusion, forgery and fraud, a complaint handling mechanism, and an appropriate regime of sanctions and remedies.


3. “Bappeda” means Badan Perencanaan Pembangunan Daerah or the Regional Development Planning Agency of a Province or a District, as the case may be, or any successor thereto.

4. “Bappenas” means Badan Perencanaan Pembangunan Nasional or the National Development Planning Board of the Borrower, or any successor thereto.

5. “BPSPAMS” means Village Water-Board Committee, a community group that is given a mandate by beneficiaries to manage the project funded-water supply facilities.

6. “Beneficiary” means a Participating District or Participating Village, as represented by a Village Implementation Team, which is the recipient of a Grant and party to a Sub-project Grant Agreement; and “Beneficiaries” means more than one Beneficiary.

7. “CAP” or “Community Action Plan” means a community action plan referred to under Part A.1 of the Project, designed to ensure universal access to water and sanitation services and “CAPs” means more than one CAP.

8. “CAP Grant” means a grant to be financed out of the proceeds of the Loan and designed to finance a Sub-project under Part C.2 of the Project.

9. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

10. “Community Facilitation Team” means a Community Facilitation Team referred to under paragraph 2(b)(ii) of Section I.A of Schedule 2 to this Agreement.

12. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated March 12, 2012, with the modifications set forth in Section II of this Appendix.

13. "CMAC" means the Central Management Advisory Consultants referred to in paragraph (1)(d)(ii) of Section I.A of Schedule 2 to this Agreement.

14. "CPMU" means the Central Project Management Unit referred to in paragraph 1(c) of Section I.A of Schedule 2 to this Agreement.

15. "DCC" means a District Coordinating Committee referred to in paragraph 2(a)(ii)(A) of Section I.A of Schedule 2 to this Agreement or any successor thereof.


17. "District" means an administrative subdivision of a Province.

18. "DPMU" means a District Project Management Unit referred to in paragraph 2(a)(ii)(B) of Section I.A of Schedule 2 to this Agreement.

19. "DVI Grant" means a District Village Incentive grant, a grant designed to finance a Sub-project under Parts D.1 and D.2 of the Project; and "DVI Grants" means more than one DVI Grant.

20. "Environmental and Social Safeguards Policy Framework" means the Environmental and Social Safeguards Policy Framework issued by the Borrower on September 1, 2015, giving details of a program of actions, measures and policies designed to maximize the benefits accruing under the Project, avoid or mitigate any adverse impacts arising thereunder, or, if such adverse impacts cannot be avoided altogether, reduce such impacts to acceptable levels, as the same may be updated from time to time in agreement with the Bank.

21. "Fiscal Year" means the Borrower’s fiscal year commencing January 1 and ending December 31 of the same year.

22. "Grant" means any of CAP Grant, DVI Grant, Support Grant or OB Grant.

23. "ICT" means information and communication technologies.

24. "Indigenous Peoples" means those social groups in Indonesia that have a distinct social and cultural identity, and that are susceptible to being disadvantaged in the development process affected by the Project or any part thereof as follows: (a) masyarakat adat (customary law communities) based on lineage or locality and bound by customary law with characteristics including: (i) self-identification as a distinct indigenous cultural group; (ii) collective attachment to ancestral territories and to the natural resources in the territories; and (iii) customary cultural, economic, social, or political institutions; and (b) Komunitas Adat Terpencil (KAT) (Isolated and Vulnerable communities), a category of customary law communities designated by the Borrower that live in isolated areas with characteristics including: (i) collective attachment to ancestral territories and to the natural resources in the territories; (ii) customary cultural, economic, social, or political
institutions; (iii) an indigenous language; (iv) having a subsistence economy; (v) using simple tools and technology; (vi) having a high dependence on the environment and local natural resources; and (vii) having restricted access to social, economic, and political services.

25. “Indigenous Peoples Planning Framework” means the updated Indigenous Peoples Planning Framework issued by the Borrower on September 1, 2015, giving details of a program of actions, measures and policies designed to facilitate a process of free, prior and informed consultation involving Indigenous Peoples in the design and implementation of every Sub-project, and to ensure that such Indigenous Peoples derive benefits from the Sub-project which are socially, economically and culturally appropriate, and gender and inter-generationally inclusive.

26. “MoH” or Ministry of Health means the Borrower’s ministry responsible for health or any successor thereto.

27. “MoHA” or Ministry of Home Affairs means the Borrower’s ministry responsible for home affairs or any successor thereto.

28. “MoPWH” or Ministry of Public Works and Housing means the Borrower’s ministry responsible for public works and housing or any successor thereto.

29. “MOVDAT” or Ministry of Villages. Disadvantaged Areas and Transmigrations means the Borrower’s ministry responsible for villages or any successor thereto.

30. “OB Grant” means the grant referred to in Part D.2(b) of the Project.

31. “Original Loan Agreement” means the agreement dated June 11, 2013 between the Borrower and the Bank, as amended to the date of this Agreement (IBRD Loan No 8259-ID).

32. “Original Project” means the Project described in Schedule 1 to the Original Loan Agreement.

33. “Participating District” means any District in a Participating Province which is selected to participate in the Project in accordance with the provisions of the Project Operations Manual.

34. “Participating Province” means any Province which is selected to participate in the Project in accordance with the provisions of the Project Operations Manual.

35. “Participating Village” means any Village in a Participating District which is selected to participate in the Project in accordance with the provisions of the Project Operations Manual.

36. “PCC” means a Provincial Coordinating Committee referred to in paragraph 2(a)(i)(A) of Section I.A of Schedule 2 to this Agreement, or any successor thereof.

37. “PCSC” means the Project Coordination and Steering Committee referred to in paragraph 1(a) of Section I.A of Schedule 2 to this Agreement.
38. "PPMU" means Provincial Project Management Unit referred to in paragraph 2(a)(i)(B) of Section I.A of Schedule 2 of this Agreement.


40. "Procurement Plan" means the Borrower’s procurement plan for the Project, dated October 20, 2015 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

41. "Project Operations Manual" means the updated Project Operations Manual, dated October 20, 2015 referred to in paragraph 1(a) of Section I.B of Schedule 2 to this Agreement, as the same may be amended from time to time in accordance with the provisions of said paragraphs.

42. "Province" means an administrative subdivision of the Borrower’s territory.

43. "ROMS" means Regional Oversight Management Services referred to under paragraph 2(b)(i) of Section I.A of Schedule 2 to this Agreement.

44. "Sanctions System" means the system in the World Bank Group agencies to review allegations of fraud and corruption under projects financed by the agencies and to impose appropriate sanctions.

45. "Stakeholders Committee" means the stakeholders committee referred to under paragraph 2(b)(iii) of Section I.A of Schedule 2 to this Agreement; and "Stakeholders Committees" means more than one Stakeholders Committee.

46. "Sub-project" means a WSS scheme, a school sanitation and hygiene improvement program, or complementary activities under Parts C or D of the Project, to be financed in whole or in part out of the proceeds of a Grant.

47. "Sub-project Grant Agreement" means the Sub-project Grant Agreement referred to in paragraph 7 of Section I.C of Schedule 2 to this Agreement.

48. "Support Grant" means the grant referred to in Part D.3 of the Project.

49. "TDS" means Training Development Services referred to under Part A.3 of this Project.

50. "Village" means an administrative subdivision of a District.

51. "VIT" means a Village Implementation Team referred to in paragraph 2(a)(iii) of Section I.A of Schedule 2 to this Agreement.

52. "WSS" means water supply and sanitation.