Letter No. CD/104/ WB-REKOMPAK/V/2016

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

Re: DMF Grant No. TF0A2519
Replication and Mainstreaming of REKOMPAK (Community-based Settlement Rehabilitation and Reconstruction) Project

Dear Mr. Pakpahan:

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 ("World Bank"), acting as administrator of grant funds provided by donors ("Donors") under the Disaster Management Fund ("DMF"), proposes to extend to the Recipient, a grant in an amount not to exceed one million six hundred nineteen thousand five hundred and twenty two United States Dollars (U.S.$1,619,522) ("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 Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

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.

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.
Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By
Rodrigo A. Chaves
Country Director, Indonesia

AGREED:
REPUBLIC OF INDONESIA

By
Authorized Representative

Name: Robert Pakpahan
Title: Director General of Budget Financing and Risk Management, Ministry of Finance
Date: May 30, 2016

Enclosures:

2. Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I
Standard Conditions; Definitions


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 as follows:

(a) "Anticorruption Action Plan" means a stand-alone chapter of the Project Operational Manual exclusively dedicated to the Recipient’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.

(b) "Beneficiary" means the party to a Sub-project Implementation Agreement who is the beneficiary of a Sub-grant; and "Beneficiaries" means, collectively, all such Beneficiaries.

(c) "Community Settlement Plan" means a Community Settlement Plan developed by the community in consultation with the population of areas affected by disaster in Participating Provinces; and "Community Settlement Plans" means, collectively, all such Community Settlement Plans.

(d) "Desa" means a village in the Recipient’s territory.

(e) "Displaced Person" means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and "Displaced Persons" means, collectively, all such Displaced Persons.

(f) "Eligible Household" means a household who is declared eligible, having regard to the eligibility criteria set forth in the Project Operational Manual, to share in the benefits of a Sub-grant.
“Environmental and Social Safeguards Framework” means the Recipient’s Environmental and Social Safeguards Framework, dated November 7, 2006 and last updated on September 16, 2015, consisting of the Environmental Guidelines, and the Land Acquisition and Resettlement Policy Framework, along with details of disclosure requirements and grievance redress mechanisms, and provisions designed to promote transparency and facilitate the full participation of stakeholders in the implementation of the Environmental and Social Safeguards Framework, as such framework maybe amended from time to time with the prior agreement of the Association.

“Environmental Guidelines” means the Environmental Guidelines, dated November 7, 2006 and last updated on September 16, 2015, setting forth a framework of actions, measures and policies designed to eliminate or offset adverse environmental impacts, both direct and indirect, in the design and implementation of Sub-projects and, if such impacts are unavoidable, to manage or mitigate such impacts, including appropriate standards and codes of practice, as well as measures designed to protect and preserve local forest resources.

“Environment Management Plan” means the plan to be prepared for the purpose of the Project and Sub-projects as specified in the Project Operational Manual, and in accordance with the provisions of the Environmental Guidelines, agreed with the World Bank, and such term includes any schedules or annexes to such plan; and “Environment Management Plans” means, collectively, all such Environment Management Plans.

“Kabupaten” means a district, an administrative division of the Recipient.

“Kecamatan” means an administrative sub-district of a Kabupaten.

“Kelurahan” means an urban section of a Kecamatan.

“Ministry of Public Works and Housing” means the Recipient’s Ministry of Public Works and Housing, or any successor thereto.

“Project Management Team” means the team established under the Project and referred to in paragraph 2(b) of Section 2.03.A of this Annex.

“Participating Province” means any one or more of the affected province, including Provinces of Central Java, Yogyakarta, North Sumatera and North Sulawesi.

“Project Management Unit” means the unit established by the Ministry of Public Works and Housing and referred to in paragraph 2(a) of Section 2.03.A of this Annex.

“Project Operational Manual” means the manual dated May 9, 2011 and last updated on January 2013 and referred to in paragraph 1(a) of Section 2.03.B of this Annex.
“REKOMPAK” means the Community-Based Settlement Rehabilitation and Reconstruction Project, which is a subject of a Grant Agreement between the Republic of Indonesia and the International Bank for Reconstruction and Development, acting as administrator of grant funds provided by donors under the Java Reconstruction Fund, dated February 6, 2007, as amended (Grant No. TF090014-IND).

“Steering Committee” means the Steering Committee established by the Recipient and referred to in paragraph 1 of Section 2.03.A of this Annex.

“Sub-grant” means a Sub-grant made or to be made out of the proceeds of the Grant to finance one or more Sub-projects under Part A of the Project; and “Sub-grants” means, collectively, all such Sub-grants.

“Sub-project” means any investment activity referred to under Part A of the Project, and to be financed by a Sub-grant; and “Sub-project” means, collectively, all such Sub-projects.

“Sub-project Implementation Agreement” means the agreement to be entered into between relevant Project implementation units and the Beneficiary in accordance with paragraph 1 of Section 2.03.C of this Annex; and “Sub-project Implementation Agreement” means, collectively, all such Sub-project Implementation Agreements.

Article II
Project Execution

2.01. Project Objectives and Description. (a) The objectives of the Project are to support the Republic of Indonesia in meeting the needs for disaster-resilient settlements for disaster-affected communities and to mainstream community-based processes into the national framework for disaster relief and mitigation.

(b) The Project consists of the following parts:

Part A. Community Neighborhood Reconstruction Support Sub-grants

(i) Providing Sub-grants for the benefit of Eligible Households, using a community based approach, to facilitate the reconstruction of seismically resilient housing units, in selected Desa and Kelurahans.

(ii) Providing Sub-grants to finance the rehabilitation and reconstruction of small-scale tertiary village infrastructure, facilities required for disaster risk-reduction at the community level and other priority investments identified in the updated Community Settlement Plans.

Part B. Community Education and Quality Assurance

Providing technical advisory services to the Project Management team to support the overall implementation, monitoring and evaluation of the Project.
Part C. Project Implementation Support

Providing technical advisory services to the Project Management Team to: (i) manage field activities; (ii) recruit and train facilitators; (iii) collaborate with local agencies and relevant stakeholders; (iv) support capacity building of stakeholders; (v) ensure increased local agency participation in assistance and approval of the Community Settlement Plans; (vi) organize disaster risk reduction activities; (vii) share knowledge gained from the Project activities; (viii) assist with the preparation of studies, information packages, technical guidelines packages and proposals for application of the community-based approach at local as well as national level; and (ix) facilitate collaboration among agencies and stakeholders involved with disaster relief and mitigation

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the Ministry of Public Works and Public Housing 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 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. Institutional and Other Arrangements.

A. Institutional Arrangements

1. The Recipient shall maintain a Steering Committee, whose mandate, composition and terms of reference shall be satisfactory to the World Bank, to provide policy guidance and oversight for the Project and to provide inputs accordingly as required in the course of implementation of the Project.

2. The Recipient shall, through the Ministry of Public Works and Housing:

(a) maintain the Project Management Unit (“PMU”), whose mandate, composition and terms of reference shall be satisfactory to the World Bank, to be responsible for overall coordination of the management of the Project;

(b) establish, and thereafter maintain, to provide support to the PMU, the Project Management Team, whose mandate, composition and terms of reference shall be satisfactory to the World Bank, to be responsible for Project implementation support at central government level, whose mandate, composition and terms of reference shall be satisfactory to the World Bank, to be responsible for Project implementation support in each Participating Province; and

(c) ensure that the PMU shall be headed at all times by a Project manager, whose qualifications and experience shall be acceptable to the World Bank, and such other administrative, technical and financial personnel in adequate numbers and having the necessary qualifications and experience as shall be necessary to accomplish the objectives of the Project.
B. Implementation Arrangements

1. The Recipient shall:
   
   (a) adopt the updated Project Operational Manual acceptable to the World Bank, giving details of: (i) implementation arrangements, (ii) procurement procedures as set forth in Section 2.07 of this Annex and standard procurement documentation, (iii) reporting requirements, financial management procedures and audit procedures as set forth in Section 2.06 of this Annex, (iv) project performance indicators as set forth in Section 2.05 of this Annex, (v) the Environmental and Social Safeguards Framework, (vi) criteria for the selection of Eligible Households and villages, approval of Sub-projects under Part A(i) of the Project, (vii) criteria for the selection and approval of Sub-projects under Part A(ii) of the Project, (viii) procedures for the selection, implementation, fund flows, financial monitoring, and supervision of Sub-projects by community representatives, (ix) terms and conditions of Sub-grants as set forth in sub-paragraph C of this Section, (x) criteria and procedures for the selection of community representatives who will select and approve Sub-projects under Part A(i) and A(ii) of the Project, and (xi) the Anticorruption Action Plan; and
   
   (b) implement the Project in accordance with the Project Operational Manual and, except as the World Bank shall otherwise agree, shall not amend or waive any provision thereof.

2. For purposes of Part A of the Project, the Recipient shall apply the proceeds of the Grant allocated to provide Sub-grants to finance Sub-projects in accordance with the guidelines and procedures set forth in the Project Operational Manual, as well as the additional terms and conditions set forth in sub-paragraph C of this Section.

3. Not later than September 30 of each year, beginning not later than September 30, 2016 and until completion of the Project, the Recipient shall furnish to the World Bank, for its review and comments, a proposed annual work plan, giving details of its proposed work plan and related budget for the following year, and proceed thereafter to carry out such work plan taking into account any comments which may have been provided thereon by the World Bank.

C. Terms and Conditions Governing Sub-grants

1. (a) For purposes of every Sub-grant, a Sub-project Implementation Agreement shall be entered into between the PMU and the Beneficiary, setting forth the respective obligations of the parties thereunder, including: (i) the total amount of the Sub-grant and the purpose thereof; (ii) in the case of a Sub-grant under Part A(i) of the Project, the total number of housing facilities to be repaired or reconstructed, and details of the Sub-project implementation plans; (iii) details of the agreed disbursement schedule; (iv) procurement procedures consistent with the provisions of Section 2.07 of this Annex; (v) provisions for audits of the Sub-grant; (vi) environmental and social requirements consistent with the Environmental and Social Safeguards Framework and the Land Acquisition and Resettlement Policy Framework, (vii) the amount of any required local counterpart contribution, whether in cash or in kind; and (viii) an undertaking on the part of the Beneficiary to execute the Sub-project with due
diligence and efficiency and, upon its completion, to provide for any required maintenance of the Sub-project and otherwise ensure the continued achievement of the objectives of the Sub-grant.

(b) No Sub-project shall be eligible for financing out of the proceeds of a Sub-grant unless a Sub-project Implementation Agreement has been concluded to this effect on terms and conditions set forth in this Agreement and the Project Operational Manual.

2. No Sub-grant shall be made to finance expenditures involving or likely to involve: (a) a military or paramilitary purpose; (b) civil works for government administration or religious purposes; (c) the manufacture or use of tackle or dynamite; (d) the financing of government salaries; (e) the purchase of non-approved pesticides, ozone-depleting substances, or the use of pesticides or herbicides without an approved basic integrated pesticides management plan and monitoring procedures; (f) the manufacture or use of environmentally hazardous goods (including asbestos, pesticides and herbicides), arms or drugs; (g) the production, processing, handling, storage or sale of tobacco or products containing tobacco; (h) activities within a nature reserve or any other area designated by the Recipient for the management and/or the protection of biodiversity, except with the prior written approval of the Recipient's agency responsible for the management and/or protection of such area; (i) agricultural extensification into natural areas or activities with the potential for significant conversion or degradation of critical forest areas or related critical natural habitats; (j) mining or excavation of live coral; (k) water resources development on rivers which flow into or out of another country; (l) alterations to river courses; (m) land reclamation covering an area in excess of 50 hectares; (n) new irrigation schemes covering an area in excess of 50 hectares; (o) construction of water retaining or storage structures of a capacity greater than 10,000 cubic meters; (p) over-exploitation of water resources and/or contamination of domestic water supplies; or (q) 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 World Bank-financed contract.

3. (a) Sub-grants under Part A(i) of the Project shall be made to finance partial or whole reconstruction of heavily damaged houses or new houses for the benefit of Eligible Households, using a community based approach and adhering to seismic construction standards.

(b) Sub-grants under Part A (ii) of the Project shall be made to finance rehabilitation and reconstruction of small-scale tertiary village infrastructure, facilities required for disaster risk reduction at the community level and other priority investments identified in the Community Settlement Plans at disaster-affected villages and relocation sites.

D. Safeguards

1. The Recipient shall carry out the Project in accordance with the provisions of the Environmental and Social Safeguards Framework and, except as the World Bank shall otherwise agree in writing, the Recipient shall not assign, amend, abrogate or waive, or permit to be assigned, amended, abrogated or waived, said instrument or any provision thereof.
2. In the event of a conflict between the provisions of the Environmental and Social Safeguards Framework and those of this Agreement, the latter shall govern.

3. The Recipient shall, for the purposes of each Sub-project, and prior to the award of a contract for the implementation thereof, carry out a screening of the Sub-projects for any potential environmental impacts in accordance to the Environmental and Social Safeguards Framework:

(a) updated, if necessary, in accordance with the provisions of the Environmental and Social Safeguards Framework, templates included in said Environmental and Social Safeguards Framework, and in form and substance satisfactory to the Recipient and the World Bank; and

(b) adopted and locally disclosed.

4. The Recipient shall ensure that any contract for works under a Sub-project includes the obligation of the respective contractor to implement the Environmental and Social Safeguards Framework.

5. In carrying out the Sub-projects, the Recipient shall:

(a) ensure that the Sub-grant proceeds shall not be used to finance the acquisition of land;

(b) take measures to avoid or minimize the acquisition of land or assets of villagers, and to avoid the displacement of such villagers; and

(c) where the acquisition of land or assets, or the displacement of people is unavoidable under a proposed Sub-project, ensure that the Beneficiary shall, before carrying out the works which would result in such acquisition or displacement, provide to such people, adequate compensation, and other resettlement and rehabilitation benefits, in accordance with the Environmental and Social Safeguards Framework.

6. Without limitation upon its other reporting obligations under Section 2.05 of this Annex, the Recipient shall cause the Project Management Unit to collect and submit quarterly consolidated reports on compliance with Environmental and Social Safeguards Framework, giving details of measures taken in furtherance of the Environmental and Social Safeguards Framework, conditions, if any, which interfere or threaten to interfere with the smooth implementation of the Environmental and Social Safeguards Framework, and remedial measures taken or required to be taken to address such conditions.

2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor(s) to visit any part of the Recipient’s territory for purposes related to the Project.
2.05. **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 the indicators set out in the Project Operational Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty-five 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.

2.06. **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 as part of the Project Report not later than forty-five 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. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07. **Procurement**

(a) General. All consultants' 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 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 (revised July 2014) (“Consultant Guidelines”) in the case of consultants’ services; and

(ii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(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 Sections II, III, IV and V of 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.
The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Least Cost Selection; and (C) Selection based on Consultants’ Qualifications.

Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. 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 Section; 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>(1) Sub-grants under Part A of the Project</td>
<td>449,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, Non-consulting Services, and Consultants’ Services under Parts B and C of the Project</td>
<td>1,170,522</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>1,619,522</td>
<td></td>
</tr>
</tbody>
</table>

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2016.
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 the Recipient’s 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 Director General of Budget Financing and Risk Management  
Gedung Frans Seda  
Jalan DR. Wahidin Raya No. 1  
Jakarta 10710  
Indonesia

Cable address: FINMINISTRY 45799  
Facsimile: (62-21) 381 2859  
Jakarta

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

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable: INTBAFRAD  
Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: 1-202-477-6391