National Program for Community Empowerment Support Facility (PSF) Trust Fund Grant Agreement

(National Community Empowerment Program in Urban Areas for 2012-2015)

between

REPUBLIC OF INDONESIA

And

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

(acting as administrator of National Program for Community Empowerment Support Facility (PSF) Trust Fund)

Dated December 28, 2012
AGREEMENT dated December 28, 2012, entered into between:

REPUBLIC OF INDONESIA ("Recipient"); and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("World Bank"), acting as administrator of the National Program for Community Empowerment Support Facility ("PSF") Trust Fund (TF071562).

The Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions


1.02. 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.

Article II
The Project

2.01. The Recipient declares its commitment to the objective of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall carry out the Project through the Ministry of Public Works in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.
Article III
The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to twenty three million five hundred thousand United States Dollars (US$ 23,500,000) ("Grant") to assist in financing the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

3.03. The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the donors to the trust fund. In accordance with Section 3.02 of the Standard Conditions, 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.

Article IV
Recipient's Representative; Addresses

4.01. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.

4.02. The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Directorate General of Debt Management
Gedung Frans Seda
Jalan Dr. Wahidin Raya No. 1
Jakarta 10710
Indonesia

Cable: FACSIMILE:

FINMINISTRY 45799 62-21-381-2859
Jakarta
4.03. 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)
        Washington, D.C.              1-202-477-6391

AGREED at Jakarta, Republic of Indonesia, as of the day and year first above written.

REPUBLIC OF INDONESIA

By

Authorized Representative

Name: Robert Pakpahan
Title: Expert Staff of the MOF on State Revenue With Full Mandate as DG of Debt Management

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
acting as administrator of National Program for Community Empowerment Support Facility (PSF) Trust Fund

By

Authorized Representative

Name: Yogana Prasta
Title: Acting Country Director, Indonesia
SCHEDULE 1

Project Description

The objective of the Project is to support the Republic of Indonesia to ensure that the urban poor in Participating Kelurahans benefit from improved local governance and living conditions.

The Project shall be carried out in the Participating Province.

The Project consists of the following parts:

Part 1: Capacity Building for Communities and Local Governments

Carrying out community development capacity building training and workshops and conducting facilitation for:

(a) BKMs, focused on the preparation of Community Development Plans, use of Kelurahan Grants and implementation of Sub-projects, and for BKMs that have received Kelurahan Grants, assistance to support consolidation of various poverty alleviation and community driven development programs;

(b) community groups in Participating Kelurahans including community volunteers and Local Governments officials in community development planning and participation in and monitoring of Sub-projects; and

(c) Revolving Loan Funds unit staff to support well-performing Revolving Loan Funds, under the Revolving Loan Funds development strategy.

Part 2: Kelurahan Grants

(a) Providing Kelurahan Grants to Participating Kelurahans to co-finance Sub-projects identified in Community Development Plans, which consist of block grants for: (i) infrastructure investment based on proposals from community groups consistent with the priorities in the Community Development Plans; (ii) income generating activities undertaken by community groups supported by Revolving Loan Funds; (iii) social programs to benefit the poorest and most vulnerable groups or individuals, in each case as identified through Community Development Plans; and
(b) Providing Kelurahan Grants to Participating Kelurahans to co-finance Sub-projects identified in Community Development Plans, which consist of block grants for programs targeted to the needs of specific areas, including: (i) pilot interventions for women’s groups to enhance participation; (ii) spatial development programs for neighborhood infrastructure development targeting the poorest; and (iii) interventions to strengthen the livelihood of poor communities.

Part 3: Implementation Support and Technical Assistance

(a) Strengthening the capacity of staff of the Project Management Unit, Province-level government agencies, Participating Kecamatans, Participating Kotas, Participating Kabupatens and Participating Kelurahans in Project implementation and monitoring, including through the National Management Consultants, Oversight Consultants, City Coordinators, and Facilitators.

(b) Carrying out and supporting monitoring and evaluation.

Part 4. Contingency for Disaster Response

Providing preparedness and rapid response measures to address disaster, emergency and/or catastrophic events, as needed, at the Kelurahan level through Sub-projects and/or using the Project implementation arrangements.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. At the national level, the Recipient, through MPW, shall:

   (a) ensure that the Project shall be implemented under the umbrella of PNPM, and subject to the overall guidance of Pokja Pengendali PNPM;

   (b) maintain, until completion of the Project: (i) the PMU, established in MPW, headed by an appropriately qualified project manager, and responsible for the management and monitoring of the Project; and (ii) the Central PIU (Satker), established in MPW, responsible for day-to-day implementation of the Project including recruitment of National Management Consultants and Oversight Consultants and production of reports on the progress of the Project, in each case, with a mandate, composition and terms of reference as set out in the Project Operational Manual and acceptable to the World Bank and the Recipient;

   (c) ensure that each of the PMU and the Central PIU (Satker) are provided at all times with adequate funds and other resources and staffed by qualified personnel in adequate numbers as shall be necessary to accomplish the objectives of the Project; and

   (d) ensure coordination, as necessary, with the Pokja Pengendali PNPM.

2. The Recipient, through MFW, shall:

   (a) at the Participating Province, cause to be established, prior to the commencement of Project activities in such Province and thereafter maintain until completion of the Project a Provincial PIU (Satker), responsible for day-to-day implementation of the Project, including recruiting the Facilitators and City Coordinators and managing community training, in both cases with a mandate, composition and terms of reference acceptable to the World Bank;

   (b) by no later than November 30 in each calendar year of Project implementation, commencing on November 30, 2012, identify each Participating Kecamatan, Participating Kota, Participating Kabupaten and Participating Kelurahan, in each case in accordance with the Project Operational Manual;
at the level of each Participating Kota and Participating Kabupaten of the Participating Province, cause to be established, prior to the commencement of Project activities in such Participating Kota and Participating Kabupaten and thereafter maintain until completion of the Project, a Kota/Kabupaten PIU (Satker), responsible for: (i) day-to-day implementation of the Project, including channeling of Kelurahan Grants, with a mandate, composition and terms of reference as set out in the Project Operational Manual; and (ii) ensuring coordination with the Kabupaten/Kota Poverty Alleviation Coordination Team;

(d) at the level of the Participating Kecamatan of the Participating Province, maintain until completion of the Project, a PJOK as a Sub-project implementation unit, with a mandate, composition and terms of reference as set out in the Project Operational Manual, to be responsible for implementation of the Project and administration of proposals from BKMs and Sub-project Agreements;

(e) at the level of each Participating Kelurahan of the Participating Province, establish prior to the commencement of any Sub-project in that Participating Kelurahan, and thereafter maintain until completion of the Project, a BKM, legally established, whose mandate, composition and terms of reference shall include a financial management unit or specialist as set out in the Project Operational Manual, to be responsible for implementation of the Project at the Kelurahan-level; and

(f) ensure that the Provincial PIU (Satker), each Kota/Kabupaten PIU (Satker), PJOK and BKM shall be provided with adequate funds and other resources, and supported by qualified technical, financial and administrative personnel in adequate numbers as needed to accomplish the objectives of the Project.

B. Implementation Arrangements

1. The Recipient, through MPW, shall:
   (a) adopt and, thereafter ensure that the Project is implemented in accordance with, a Project Operational Manual, acceptable to the World Bank, which shall include the description of: (i) implementation arrangements; (ii) the procurement procedures set forth in Section III of this Schedule 2 and standard procurement documentation; (iii) reporting requirements, financial management procedures and audit procedures as set forth in Section II of this Schedule 2; (iv) criteria for Eligible Expenditures, including without limitation, under Sub-projects; (v) the Project performance indicators; (vi) the Environmental Guidelines and the environmental criteria applicable to Sub-project design including environmental impact mitigation, the Indigenous Peoples Planning Framework, and the Land Acquisition and Resettlement Policy Framework, including the technical guidelines for implementation of such frameworks; (vii) the Better Governance Action Plan; (viii) maintenance provisions for works to be carried out under a Sub-projects; (ix) the criteria for the selection of Sub-projects, as well as the terms
and conditions governing the Kelurahan Grants and Local Government Participation meeting the requirements set out in Annex 1 to this Schedule; (x) with respect to Sub-projects with activities supported by Revolving Loan Funds, criteria for operation of Revolving Loan Funds, including requirements for formation of community groups to receive such funds and types of income generating activities to be undertaken using such funds; and (xi) the Operational Guidelines for Monitoring and Evaluation of PNPM;

(b) not amend, suspend, abrogate, repeal or waive any provisions of the Project Operational Manual without the prior written agreement of the Recipient and the World Bank;

(c) ensure that the Project Operational Manual is made available, at all times until completion of the Project, to Oversight Consultants, City Coordinators and Facilitators and Participating Kelurahans, and applied in the carrying out of Sub-projects; and

(d) with the prior written agreement of the Recipient and the World Bank, update the Project Operational Manual, as necessary, at all times ensuring compliance thereof with the terms of this Agreement.

(e) In the event of any conflict between the provisions of: (A) the Project Operational Manual; and (B) those of this Agreement, the latter shall prevail.

2. For the purposes of providing Kelurahan Grants under the Project, the Recipient shall only submit applications for withdrawal of the proceeds of the Grant allocated to Category (1) in the Table in Section IV.A of this Schedule to finance Sub-projects prepared and selected in accordance with the criteria set forth in Annex 1 to this Schedule and the Project Operational Manual.

3. In carrying out Part 2 of the Project, the Recipient shall ensure that prior to participating in the Project, a Participating Local Government has:

(a) agreed in writing to carry out activities under the Project in accordance with procedures acceptable to the World Bank and included in the Project Operational Manual;

(b) taken all steps required to make available the Local Government Participation; and

(c) published a list of Project Kelurahans in accordance with the criteria set out in the Project Operational Manual.
4. In carrying out Part 2 of the Project, the Recipient shall ensure that, prior to participating in the Project, a Participating Kelurahan has:

(a) agreed in writing to carry out activities under the Project in accordance with procedures acceptable to the World Bank and the Recipient and included in Project Operational Manual;

(b) established, through the BKM, a Project office for purposes of Project coordination and disbursement of Kelurahan Grants;

(c) adopted, through the BKM, a Community Development Plan, or revised, through the BKM, a previous Community Development Plan meeting the requirements set out in the Project Operational Manual and identifying each Sub-project; and

(d) through the relevant BKM, entered into a Sub-project Agreement with the PJOK for each Sub-project in its Community Development Plan on the terms and conditions set forth in Annex 1 to this Schedule 2.

5. The Recipient shall ensure that, for purposes of Part 2(a)(ii) of the Project, a Participating Kelurahan shall only finance Revolving Loan Fund Sub-projects if the BKM proposed to receive additional funds to a Revolving Loan Fund meets the criteria for establishment and operation of a Revolving Loan Fund set out in the Project Operational Manual, including, with respect to BKMs that have previously managed revolving funds, that they have a repayment rate meeting the requirements set out in the Project Operational Manual.

6. The Recipient shall ensure that, prior to undertaking any activities under Part 4 of the Project: (a) the World Bank and the Recipient have agreed in writing that a disaster, emergency and/or catastrophic event requiring support for such activities has occurred; and (b) the World Bank and the Recipient have entered into a written arrangement and/or the Recipient has adopted a supplement to the Project Operational Manual, satisfactory to the World Bank which defines the scope of such activities, and their implementation and disbursement arrangements.

7. The Recipient shall ensure, at all times, that public information, for the purpose of disclosing to inhabitants of Participating Kelurahans all administrative, financial, environmental, social, procedural and technical aspects pertaining to the selection, design, preparation and implementation of Sub-projects, including the Project Operational Manual, is available free of charge at the government offices of the respective Participating Kelurahan and Participating Local Government.
8. The Recipient, through the PMU (Satker), shall, by the date which is no later than three (3) months after the Effective Date, issue instructions acceptable to the PMU (Satker) and the World Bank, to Local Governments of Participating Kabupaten and Participating Kota, and to the Provincial government and to relevant stakeholders defining time periods within which categories of complaints/cases must be resolved, to whom they should be escalated if not resolved within such time periods and what the consequences will be if such cases are not resolved or escalated in accordance with such instructions.

9. The Recipient shall ensure that, except as the World Bank and the Recipient shall otherwise agree in writing: (a) BPKP shall carry out a continuous audit of the Project in partnership with the Inspectorate General of MPW and Participating Local Government inspectorates; and (b) on terms of reference agreed among PMU (Satker), BPKP and the World Bank, BPKP shall, after PMU (Satker) has compiled each interim financial report, review such interim financial report for each calendar quarter during Project implementation and shall provide to the World Bank its report of each such review not later than forty-five (45) days after the end of each calendar quarter.

10. With respect to PNPM urban sub-projects for which Facilitators are financed by the Project but the PNPM urban sub-projects are themselves financed from sources other than the Grant and/or PNFM urban sub-projects for which facilitators are financed from such other sources but Sub-projects are themselves financed by the Project, the PMU (Satker) shall:

   (a) undertake such sub-projects in accordance with the Project Operational Manual;

   (b) retain responsibility for the design, construction, fiduciary controls and implementation of such sub-projects; and

   (c) ensure that sufficient funds are provided from such other financing sources as are necessary to ensure completion of such sub-projects in accordance with the Project Operational Manual.

11. The Recipient shall ensure that expenditures financed out of the proceeds of the Grant, including Sub-projects, shall not have been financed by sources other than the Grant, including from the budget of the Recipient or from grant funding development partners.

C. Environmental and Social Safeguards

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

   (a) ensure that the proceeds of Kelurahan Grants 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
apply, and shall ensure that each Participating Kelurahan shall apply, the Land Acquisition and Resettlement Policy Framework to Sub-project implementation, including:

(i) taking all appropriate measures to avoid or minimize the acquisition of land or assets of people and to avoid the displacement of such people;

(ii) where the acquisition of land or assets or the displacement of people is unavoidable under a proposed Sub-project, ensuring that all Displaced Persons thereunder shall have been compensated and provided with resettlement and rehabilitation measures prior to the implementation of such Sub-project and in accordance with the provisions of the Land Acquisition and Resettlement Policy Framework; and

(iii) in the case of the physical displacement of persons as a result of a Sub-project:

(A) where the affected people are not physically displaced and less than ten (10) percent of their productive assets are lost or where fewer than two-hundred (200) people are involved: preparing an abbreviated Land Acquisition and Resettlement Action Plan in accordance with the Land Acquisition and Resettlement Policy Framework and furnishing such plan to the World Bank for written no-objection prior to the carrying out of the Sub-project;

(B) where the affected people are not physically displaced and ten (10) percent or more of their productive assets are lost or where two-hundred (200) people or more are involved: preparing a full Land Acquisition and Resettlement Action Plan in accordance with the Land Acquisition and Resettlement Policy Framework and furnishing such plan to the World Bank for written no-objection prior to the carrying out of the Sub-project; and

(C) prior to the carrying out of the Sub-project, ensuring that all Displaced Persons shall have been compensated and provided with applicable resettlement and rehabilitation benefits in accordance with the provisions of such plan; and

(d) in the case of voluntary land donation, ensure that the planning and verification procedures for land donation (voluntary donation without compensation and voluntary transfer with compensation) set out in the Project Operational Manual shall have been followed and documented in a manner satisfactory to the World Bank and the PMU prior to the commencement of the Sub-Project.
2. Where Indigenous Peoples are present in, or have a collective attachment to, the area of the Participating Kelurahan, the Recipient shall apply, and shall ensure that the Participating Kelurahan shall apply, the Indigenous Peoples Planning Framework, including:

(a) avoiding, and, if not possible, minimizing cultural, social and economic adverse effects on Indigenous Peoples caused or likely to be caused by the Project;

(b) through a process of free, prior and informed consultation and participation, involving concerned Indigenous Peoples in the design and implementation of Sub-projects so as to ensure that there is broad community support for Sub-Projects and that the benefits received by the Indigenous Peoples under the Project are in harmony with their economic, social and cultural preferences and protect their customary user rights; and

(c) preparing an Indigenous Peoples Plan for the Participating Kelurahan based on the foregoing consultations and furnish such Indigenous Peoples Plan to the World Bank for written no-objection prior to carrying out the Sub-projects in such Participating Kelurahan; and thereafter implement the Sub-project in accordance with such plan.

3. In carrying out Sub-projects, the Recipient shall apply and shall ensure that each Participating Kelurahan shall apply the Environmental Guidelines and, where applicable: (a) prepare and ensure that each Participating Kelurahan shall prepare an Environmental Management Plan for each Sub-project fully consistent with this Agreement and the Environmental Guidelines; (b) furnish such Environmental Management Plan to the World Bank for written no-objection prior to carrying out the Sub-project; and (c) thereafter implement the Sub-project in accordance with such plan.

D. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

E. Donor Visibility and Visi:

1. The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

2. 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 donors to visit any part of the Recipient’s territory for purposes related to the Project.
Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. 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 indicators agreed with the World Bank and set forth in the Project Operational Manual. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

2. The Recipient shall prepare, under terms of reference satisfactory to the World Bank, and furnish to the World Bank, by September 30 in each year of Project implementation an annual report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Section II.A, on the progress achieved in the carrying out of the Project during the twelve (12) month period preceding the date of said report (it being understood that the first such annual report may cover a period of less than twelve (12) months) and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date.

3. 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.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. 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 (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

3. The Recipient shall have its Financial Statements for the Project 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 (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.
Section III. Procurement

A. General

1. Procurement and Consultant Guidelines. All goods, works, non-consulting services and 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:

(a) 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 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

(b) the provisions of this Section III, 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 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

2. Definitions. The capitalised terms used below in 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 and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to the following additional provisions set out in Annex 2 to this Schedule; (b) Shopping; (c) Direct Contracting; and (d) Community Participation procedures which have been found acceptable to the World Bank as set out in the Project Operational Manual.

C. Particular Methods of Procurement of Consultants' Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants’ Qualifications; (e) Single-source Selection of consulting firms; (f) Procedures set forth in paragraph 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants.

D. **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.

Section IV. **Withdrawal of Grant Proceeds**

A. **General**

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of 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 table in paragraph 2 below.

2. The following 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) Kelurahan Grants under Part 2 of the Project</td>
<td>14,200,000</td>
<td>100% of Kelurahan Grant amount disbursed</td>
</tr>
<tr>
<td>(2) Goods, consultants' services, non-consulting services, training and workshops* and incremental operating costs* under Parts 1 and 3 of the Project</td>
<td>9,300,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Kelurahan Grants, goods, consultants' services, non-consulting services, training and workshops* and incremental operating costs* under Part 4 of the Project</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>23,500,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

* For the purposes of this Table: (i) “training and workshops” means Project-related training and workshops conducted in the territory of the Recipient, including purchase and publication of materials, rental of facilities, course fees, and travel and subsistence of trainees; and (ii) “incremental operating costs” means reasonable costs arising under the Project on account of local contractual support staff salaries; travel and other travel-related expenditures; equipment rental and maintenance; vehicle operation, maintenance and repair; office rental and maintenance; materials and supplies; bank charges; advertising expenses; and utilities and communications expenses, but excluding salaries and honoraria of officials and staff of the Recipient.

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:

   (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed US$4,700,000 equivalent may be made for payments made prior to this date but on or after March 31, 2012 but in no case made more than twelve (12) months prior to the date of this Agreement for Eligible Expenditures under Category (1) and Category (2); or
(b) under Category (3) until: the Recipient has declared a disaster, emergency or
catastrophic event through the relevant national, Province- or Local Government-
level or other authority, and the World Bank and the Recipient have agreed in
writing to address such disaster, emergency or catastrophic event under Part 4 of
the Project and in accordance with the provisions of this Agreement.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December
31, 2014.
ANNEX 1 to SCHEDULE 2

Selection Criteria for Sub-projects and Kelurahan Grants

A. Selection Criteria for Sub-projects

1. Each Sub-Project shall be selected from the Community Development Plan developed by the BKM of the Participating Kelurahan and meet the requirements set out in the Project Operational Manual.

2. No Sub-project shall: (a) include expenditures intended for a military or paramilitary purpose; (b) include civil works for government administration or religious purposes; (c) relate to the manufacture or use of environmentally harmful products (including pesticides, ozone-depleting substances, tobacco or tobacco products, materials containing asbestos, arms and drugs); (d) relate to activities producing liquid or gaseous effluents or emissions at harmful levels; (e) relate to activities using, producing, storing or transporting hazardous materials and wastes; (f) relate to logging; (g) relate to activities in protected areas; (h) relate to fisheries activities that are not in accordance with standards set by the Recipient’s Fishery Service Agency; (i) include the financing of government salaries; (j) relate to mining or excavation of live coral or coral reef; (k) include 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, whether indefinitely or for a stated period of time, as a result of a decision of the World Bank, and in accordance with the terms of the decision; or (l) finance land acquisition.

3. No project shall qualify as a Sub-project eligible for financing out of the proceeds of a Kelurahan Grant until a Sub-project Agreement: (a) has been entered into between the relevant Participating Kelurahan, through the relevant PJOK, and BKM, in each case on terms and conditions set forth in Section B of this Annex; and (b) has been reviewed and approved by the relevant Oversight Consultants.

4. Additional criteria for Sub-projects under Part 2(a)(i) of the Project.

(a) Each Sub-project proposed under Part 2(a)(i) of the Project shall be a public infrastructure or equipment investment project or a social service project (which may include emergency preparedness or risk reduction to reduce vulnerability to natural disasters) which is technically, financially and environmentally viable, and economically justified by the number of people benefiting from it.

(b) Each Sub-project proposed under Part 2(a)(i) of the Project that is in the education sector shall be compatible with the relevant Kabupaten/Kota education master plan, if such plan exists.
(c) Each Sub-project proposed under Part 2(a)(i) of the Project that is in the health sector shall be compatible with the relevant Kabupaten/Kota health master plan, if such plan exists.

(d) Additional criteria for Sub-projects under Part 2(a)(ii) of the Project. For each Sub-project in which income generating activities will be supported by a Revolving Loan Fund, such Sub-project shall: (i) only be undertaken by a BKM meeting the requirements set out in the Project Operational Manual, including a sufficient repayment history with respect to any other revolving funds managed by such BKM; (ii) require that the activities supported by such Revolving Loan Fund be income generating and meet the criteria set out in the Project Operations Manual; and (iii) require that the community groups to receive support from such Revolving Loan Fund be duly constituted in accordance with the Project Operational Manual.

(e) Additional criteria for Sub-projects under Part 2(a)(iii) of the Project. Each Sub-project proposed under Part 2(a)(iii) of the Project as a social assistance project shall be designed to meet the poverty alleviation needs of Highly Vulnerable Groups following criteria set out in the Project Operational Manual.

(f) Additional criteria for Sub-Projects under Part 2(b). Each Sub-project proposed under Part 2(b) of the Project shall be in Participating Kelurahan that meet the requirements set out in the Project Operational Manual, including that such Participating Kelurahan: (i) has high population density; (ii) has high poverty incidence; (iii) is prone to natural disasters; and/or (iv) is in need of complex interventions.

5. Additional criteria for Sub-projects (if any) under Part 4 of the Project.

(a) The Recipient has declared a disaster, emergency or catastrophic event through the relevant national, Province- or Local Government-level or other authority and the World Bank and the Recipient have agreed in writing that such an event eligible for support for such activities under the Project has occurred; and

(b) the World Bank and the Recipient have entered into a written arrangement and/or the Recipient has adopted a supplement to the Project Operational Manual, satisfactory to the World Bank which defines the scope of such activities, and their implementation and disbursement arrangements.

B. Sub-project Review and Selection

The Recipient shall ensure that each Sub-project is the subject of a corresponding proposal for a Kelurahan Grant that has been prepared, submitted and reviewed in accordance with the guidelines, procedures and selection criteria set forth in the Project Operational Manual and this Annex.

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C. **Terms and Conditions of Sub-project Agreements**

Each Sub-project Agreement shall be on terms and conditions set forth in the Project Operational Manual, which shall include:

(a) the requirement that the Participating Kelurahan carry out its Sub-project in accordance with the Project Operational Manual;

(b) the requirement that the Participating Kelurahan carry out its Sub-project in accordance with the provisions of the Better Governance Action Plan, the Anti-Corruption Guidelines applicable to recipients of Grant proceeds other than the Recipient, the Environmental Guidelines, the Land Acquisition and Resettlement Policy Framework and the Indigenous Peoples Planning Framework, and any Environmental Management Plan, Land Acquisition and Resettlement Action Plan or Indigenous Peoples Plan;

(c) the disbursement schedule for the Kelurahan Grant;

(d) the requirement that each Participating Kelurahan procure the goods, works and services to be financed out of the Sub-project in accordance with provisions that are fully consistent with the provisions of Section III of Schedule 2 to this Agreement;

(e) the requirement that each Participating Kelurahan monitor and evaluate the progress of the Sub-project in accordance with the Project Operational Manual;

(f) the requirement that each Participating Kelurahan maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the World Bank; and at the World Bank's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the World Bank and the Recipient, in accordance with consistently applied auditing standards acceptable to the World Bank, and promptly furnish the statements as so audited to the Recipient and the World Bank;

(g) the requirement that each Participating Kelurahan enable the Recipient and the World Bank to inspect the Sub-project, its operation and any relevant records and documents, and prepare and furnish to the Recipient and the World Bank all such information as the Recipient or the World Bank shall reasonably request relating to the foregoing, and

(h) rights adequate to protect the interests of the Recipient and the World Bank, including the right to: (i) suspend or terminate the right of the Participating Kelurahan to use the proceeds of the Kelurahan Grant; or (ii) obtain a refund of the Kelurahan Grant upon the failure of the Participating Kelurahan, as applicable, to perform any of its obligations under the Sub-project Agreement.
ANNEX 2 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 Pemilihan Langsung / Pelelangan Sederhana (Simplified Tendering) methods as set forth in the Recipient’s Presidential Regulation No. 54/2010, 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 Pemilihan 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 Recipient’s procedures and these modifications, the latter shall govern.

1. Procuring entities shall use the appropriate standard bidding documents acceptable to the Recipient and the World Bank. The provisions of Section 1.14 (Fraud and Corruption) of the Procurement Guidelines shall apply, and each bidding document and contract financed out of the proceeds of the Grant shall include provisions on matters pertaining to fraud and corruption as defined in paragraph 1.14(a) of said Guidelines and the contract provisions set out in paragraph 1.14(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, by mail or in person, to all international bidders who are willing to pay the required fee.

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 Pemilihan 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 World Bank’s prior written concurrence.
7. Bid security, 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 World 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 Recipient or sub-recipient.
APPENDIX

Definitions


2. “Better Governance Action Plan” means a stand-alone chapter of the Project Operational Manual designed to integrate the contents of the Anti-Corruption Guidelines and to give effect thereto, and 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, and included as applicable in each Sub-project Agreement.

3. “BKM” means Badan Keswadayaan Masyarakat, a Kelurahan level Board of Community Trustees with elected members, legally empowered by registering as an association to act on behalf of the Kelurahan community to take actions aimed at reducing poverty in the Participating Kelurahan, and “BKMs” means more than one BKM.


5. “Board of Community Trustees” means a BKM, and “Boards of Community Trustees” means BKMs.

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

7. “Central PIU (Satker)” means the central-level Project implementation unit (Satuan Kerja, or Satker) established and operating in accordance with paragraph 1(b) and paragraph 1(c) of Section I.A of Schedule 2 to this Agreement.

8. “City Coordinator” means the consultant and its teams assigned to each Participating Kota and/or Participating Kabupaten to manage implementation of the Project, including coordination of Facilitators, and “City Coordinators” means more than one City Coordinator.

9. “Community Development Plan” means each multi-year development plan for a Participating Kelurahan prepared by a BKM in accordance the procedures and criteria set out in the Project Operational Manual, and “Community Development Plans” means more than one Community Development Plan.


12. "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: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) 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.

13. "Eligible Expenditures" means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement.

14. "Environmental Guidelines" means the guidelines adopted by the Recipient through MPW on February 9, 2012 (Letter No. 13/PMU-P2KP/II/2012), setting forth the measures and actions to be taken during the implementation of the Project to eliminate, mitigate or offset adverse environmental impacts or to reduce such impacts to acceptable levels and ensure management and conservation of physical cultural resources in the design and implementation of Sub-projects, as such guidelines may be amended from time to time with the prior written agreement of the World Bank.

15. "Environmental Management Plan" or "EMP" means an Environmental Management Plan, acceptable to the World Bank and consistent with the Environmental Guidelines, adopted for the purposes of a Sub-project, and giving details of the agreed actions and policies designed to maximize the benefits of the Sub-project, eliminate or offset any adverse environmental impacts, or reduce such impacts to acceptable levels, along with the procedural and institutional measures needed to implement such actions and policies.

16. "Facilitator" means a technical, economic or social consultant assigned to work with Participating Kelurahans to develop and implement a Community Development Plan and Sub-projects, and "Facilitators" means more than one Facilitator.

17. "Fiscal Year" and "FY" means the Recipient's fiscal year commencing January 1 and ending December 31.

18. "Highly Vulnerable Groups" means groups of peoples, including widows, the elderly, the disabled and the victims of natural disaster, having special poverty alleviation needs and to be addressed in the Community Development Plan.
19. "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 induced by the Project or any part thereof.

20. "Indigenous Peoples Planning Framework" means the framework, acceptable to the World Bank, adopted by the Recipient through MPW on February 9, 2012 (Letter No. 13/PMU-P2KP/II/2012) setting forth the measures and actions to be taken during the implementation of the Project for: (a) the process of free, prior, and informed consultation leading to broad community support of Indigenous Peoples, in the design and implementation of each Sub-project to be, or being, carried out in a location in which such people reside or use for their livelihood; and (b) designing and implementing measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts of Sub-projects, as such Indigenous Peoples Planning Framework; as such framework may be amended from time to time with the prior written agreement of the World Bank and the Recipient.

21. "Indigenous Peoples Plan" means each plan for a Sub-project meeting the requirements of the Indigenous Peoples Planning Framework, that sets out the agreed measures to: (a) involve Indigenous Peoples, through a process of free, prior and informed consultation, in the design and implementation of each Sub-project in locations in which such people reside or make their living; (b) ensure that Indigenous Peoples affected by the project receive culturally appropriate social and economic benefits; and (c) when potential adverse effects on Indigenous Peoples are identified, those adverse effects are avoided, minimized, mitigated, or compensated for, in each case in a manner acceptable to the World Bank and the Recipient.

22. "Inspectorate General of MPW" means an inspectorate general of the MPW, or any successor thereof.

23. "Kabupaten" means a district, an administrative division of the Recipient.

24. "Kabupaten/Kota Poverty Alleviation Coordination Team" means the local government-level working group established under Perpres 15/2010 in each Participating Kabupaten, Participating Kecamatan or Participating Kota, or any successor thereto.

25. "Kecamatan" means a sub-district, an administrative sub-district of a Kabupaten.

26. "Kelurahan" mean an urban section of a Kecamatan.

27. "Kelurahan Grant" means a grant made available by the Recipient out of the proceeds of the Grant to a Participating Kelurahan for a Sub-project under Part 2 or Part 4 of the Project, and "Kelurahan Grants" means more than one Kelurahan Grant.

28. "Kota" means a municipality, an administrative division within the Participating Province.
21. "Kota/Kabupaten PIU (Satker)" means each Project implementation unit (Satuan Kerja, or Satker) established and operated by each Participating Kota and each Participating Kabupaten in accordance with paragraph 2(c) and paragraph 2(f) of Section 1.A of Schedule 2 to this Agreement.

30. "Land Acquisition and Resettlement Action Plan" means a resettlement and rehabilitation action plan for a Sub-project giving details of the agreed provisions for compensation, rehabilitation and resettlement assistance to Displaced Persons under the Sub-project, along with the procedural and institutional measures needed to implement such agreed provisions, acceptable to the World Bank and the Recipient, prepared and implemented by a BKM, pursuant to the Land Acquisition and Resettlement Policy Framework.

31. "Land Acquisition and Resettlement Policy Framework" means the Land Acquisition and Resettlement Policy Framework adopted by the Recipient through MPW on February 9, 2012 (Letter No. 13/PMU-P2XPII/2012) setting forth the measures and actions to be taken during the implementation of the Project for the provision of compensation, rehabilitation and resettlement assistance to Displaced Persons, as such framework may be amended from time to time with the prior written agreement of the World Bank and the Recipient.

32. "Local Government" means the government of a Kabupaten, Kecamatan or Kota, as the context requires, and "Local Governments" means more than one Local Government.

33. "Local Government Participation" means Local Government funding contributed to the total Sub-project cost for participating in the Project, to be made available by a Participating Local Government to a Participating Kelurahan for a Sub-project in accordance with the formula set forth in the Project Operational Manual.

34. "Ministry of Finance" means the Recipient's Ministry of Finance, or any successor thereto.

35. "Ministry of Home Affairs" and "MOHA" means the Recipient's Ministry of Home Affairs, or any successor thereto.


38. "National Management Consultants" means the team of consultants within the Project Management Unit at the central level engaged to assist in Project implementation and monitoring.
39. "Operational Guidelines for Monitoring and Evaluation of PNPM" means the guidelines, included in the Project Operational Manual, outlining the common objectives, mechanisms and responsibilities for monitoring and evaluation of the Project.

40. "Oversight Consultants" means the team of consultants and facilitators at the provincial and district level engaged to assist Participating Kelurahans with Project implementation and monitoring.

41. "Part" means a part of the Project described in Schedule 1 to this Agreement.

42. "Participating Kabupaten" means a Kabupaten which is responsible for a Local Government Participation for a Sub-project in accordance with the Project Operational Manual, and "Participating Kabupatens" means more than one Participating Kabupaten.

43. "Participating Kecamatan" means a Kecamatan in which one or more Participating Kelurahans are located and which establishes a PJOK for the Project in accordance with the Project Operational Manual, and "Participating Kecamantans" means more than one Participating Kecamatan.

44. "Participating Kelurahan" means a Kelurahan participating in the Project meeting the eligibility requirements set out in the Project Operational Manual.

45. "Participating Kota" means a Kota which is responsible for a Local Government Participation for a Sub-project, and "Participating Kotas" means more than one Participating Kota.

46. "Participating Local Government" means the government of a Participating Kota or a Participating Kabupaten designated by the Recipient as one in which a Participating Kelurahan shall carry out a Sub-project in accordance with the Project Operational Manual, and "Participating Local Govcrnments" means more than one Participating Local Government.

47. "Participating Province" means the Province of Aceh.


49. "PJOK" means the Project operations officer at the Kecamatan level responsible for each Sub-project in the relevant Participating Kelurahans, established in accordance with paragraph 2(d) of Section I.A of Schedule 2 to this Agreement, and "PJOKs" means more than one PJOK.

50. "PNPM" means Program Nasional Pemberdayaan Masyarakat Mandiri, the Recipient's National Program for Community Empowerment, as described in Perpres 13/2009, as the same may be amended or updated from time to time.


“Procurement Plan” means the Recipient’s procurement plan for the Project, dated July 26, 2012 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.

“Project Management Unit” or “PMU (Satker)” means the central-level Project Management Unit (Satker) established and operating in accordance with paragraph 1(b) of Section I.A of Schedule 2 to this Agreement.

“Project Operational Manual” means the Project Operational Manual or Pedoman Pelaksanaan PNPM Manciri Ferkotaan, acceptable to the World Bank and the Recipient dated May 31, 2012 referred to in paragraph 1 of Section I.B of Schedule 2 to this Agreement, as such Project Operational Manual may be amended or supplemented from time to time with the prior written agreement of the Recipient and the World Bank.

“Province” means an administrative sub-division of the Recipient’s territory at the first level below the national level.

“Provincial PIU (Satker)” means the Province-level Project implementation unit (Satuan Kerja, or Sater) established and operated by the Participating Province in accordance with paragraph 2(a) and paragraph 2(f) of Section I.A of Schedule 2 to this Agreement, and “Provincial PIUs (Saters)” means more than one Provincial PIU (Satker).

“Revolving Loan Fund” means a fund established and managed by a BKM or through other arrangements satisfactory to the World Bank and the Recipient and set out in the Project Operational Manual to support Sub-project income generating activities under Part 2(a)(ii) of the Project undertaken by community groups constituted in accordance with the Project Operational Manual, and “Revolving Loan Funds” means more than one Revolving Loan Fund.

“Rupiah” and “Rp” mean the currency of the Recipient.

“State Ministry for Development of Disadvantaged Regions” means the Recipient’s State Ministry for Development of Disadvantaged Regions, or any successor thereto.

62. "Sub-project" means an activity identified in a Community Development Plan: (a) under Part 2 of the Project or identified in a Community Development Plan or (b) under Part 4 of the Project agreed in writing between the Recipient and the World Bank, in each case selected pursuant to criteria and procedures set forth in the Project Operational Manual and utilizing the proceeds of a Kelurahan Grant, and "Sub-projects" means more than one Sub-project.

63. "Sub-project Agreement" means the agreement to be entered into between the relevant Participating Kelurahan, through the BKM, and the relevant PJOK for purposes of implementing a Sub-project on the terms and conditions set forth in Annex 1 to Schedule 2 to this Agreement and included in the Project Operational Manual, and "Sub-project Agreements" means more than one Sub-project Agreement.