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Letter No. CD-219/PM/V/2011

May 25, 2011

Mr. Rahmat Waluyanto
Director General of Debt Management
Ministry of Finance
Jl. Lapangan Banteng Timur No. 2-4
Jakarta Pusat 10710

Dear Mr. Waluyanto:

Re: PFM-MDTF Grant No. TF098847
Advisory and Analytical Activities to Support Public Procurement Reform

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 under the Public Financial Management and Revenue Administration Reform Project ("PFM-MDTF") (TF No. 071375), proposes to extend to the Recipient, a grant in an amount not to exceed seven hundred and fifty thousand United States dollars (U.S.$750,000) ("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. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds 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. 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

/s/ Chris Hoban
Acting Country Director, Indonesia

AGREED:
REPUBLIC OF INDONESIA

By:/s/ Rahmat Waluyanto
Authorized Representative
Name: Rahmat Waluyanto
Title: Director General of Debt Management
Date: June 10, 2011

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010

(2) Disbursement Letter dated May 25, 2011, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 31, 2010 ("Standard Conditions") constitute an integral part of this Agreement.

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. The following terms have the meaning given below.

   (a) “LKPP” means *Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah*, the National Public Procurement Agency of the Recipient and any successor thereto.

   (b) “OECD/DAC” means the Development Assistance Committee of the Organization for Economic Cooperation and Development.

   (c) “Perpres” means *Peraturan Presiden*, the Presidential Regulation of the Recipient.

   (d) “PFM-MDTF Management Committee” means the management committee established under the administration agreements between the World Bank and donors for the Public Financial Management and Revenue Administration Reform Project (PFM-MDTF) (TF No. 070661).

   (e) “Project Manual” means the manual produced by the Recipient and acceptable to the World Bank giving details of guidelines and procedures agreed with the World Bank for the implementation, monitoring and evaluation, and reporting.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to provide advisory and analytical activities to support the Recipient’s reform and improvement of the public procurement system. The Project consists of the following parts:

   (a) **Part 1. Regulatory Framework Support**

      (i) Providing support for drafting an operation manual;

      (ii) Providing support for redrafting the current set of standard bidding documents and developing additional standard bidding documents; and
(iii) Organizing workshops for the dissemination of the new Perpres on public procurement.

(b) **Part 2. Human Resource Development**

(i) Developing a strategy for access to training providers and different options of delivering training especially for remote areas; and

(ii) Providing support for a pilot on using the accreditation system and development of standards for training providers and trainers.

(iii) Providing support for the development of human resources strategy

(c) **Part 3. Use of Country System**

(i) Updating the OECD/DAC baseline indicators assessment for Indonesia; and


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 LKPP, 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) The Recipient shall ensure that LKPP shall maintain until completion of the project, a Technical Management Team (“TMT”) chaired by a LKPP’s echelon 2 official, whose mandate, composition and terms of reference shall be acceptable to the LKPP and the World Bank, to be responsible for: (i) the day-to-day coordination and supervision of the Project; (ii) ensuring that the project staff shall be provided with adequate funds and other resources, and supported by suitably qualified and experienced technical, financial and administrative personnel in adequate numbers as needed to accomplish the objectives of the Project; and (iii) coordinating inputs and outputs and for Project reporting in accordance with this agreement.

(b) The Recipient shall ensure that LKPP shall implement the Project in accordance with the Project Manual, acceptable to the World Bank, giving details of guidelines and procedures agreed with the World Bank for the implementation, supervision, and monitoring and evaluation, of the Project, including: (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 2.05 and Section 2.06 of this Annex; and (iv) project performance indicators as set forth in Section 2.05 of this Annex. The Recipient shall not amend the Project Manual except with the written agreement of the World Bank.

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 Donor’s 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 ensure that LKPP shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar quarter, 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 performance indicators referred to above in paragraph (a) consist of the following:

(i) Harmonized standard bidding documents for major categories of procurement used at the national level;

(ii) Road map to provide access to capacity building on procurement developed at national and provincial level; and

(iii) Benchmarks for measuring performance of agencies on public procurement established.

(c) 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.

(d) The Recipient shall submit the Project Reports and the Completion Report referred to above in paragraphs (a) and (c) to the PFM-MDTF Management Committee and the Recipient’s Project Support and Services Unit (PSSU) at the same time as such reports are submitted to the World Bank.

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 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) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of services other than consultants’ services; and

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) 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 1.16 of the Procurement Guidelines and paragraph 1.24 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 the Procurement Guidelines or the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Services Other Than Consultants’ Services**

(i) Except as otherwise provided in sub-paragraph (ii) below, services other than consultants’ services shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of services other than consultants’ services for those contracts specified in the Procurement Plan: (A) National Competitive Bidding, subject to the additional procedures set out in the attachment to this Annex; (B) Shopping; and (C) Direct Contracting.

(d) **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.
(ii) The following methods may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Selection based on Consultants’ Qualifications; (B) Single-source Selection; (C) Selection of Individual Consultants; and (D) Sole Source Procedures for the Selection of Individual Consultants.

(e) 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) Consultants’ services</td>
<td>500,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training, study tours and workshops; incremental operating costs; and non-consulting services*</td>
<td>250,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>750,000</td>
<td></td>
</tr>
</tbody>
</table>

* For the purposes of this Section, the terms (i) “Training, study tours and workshops” means Project-related training, workshops, seminars, studies and surveys conducted in the territory of the Recipient, including purchase and publication of materials, rental of facilities, and meals; (ii) “incremental operating costs” means the reasonable Project-related incremental expenses incurred on account of contractual services and travel-related expenses other than for trainees, including accommodation and per diem of, but excluding salaries or honoraria of, officials and staff of the Recipient; and (iii) “non-consulting services” means services required for the conduct of the Project including surveys and assessments procured in accordance with the Procurement Guidelines.
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 July 31, 2012.

### 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 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 Directorate General of Debt Management  
   Jalan Lapangan Banteng Timur 2-4  
   Jakarta 10710  
   Indonesia

   Cable address: FINMINISTRY 45799  
   Telex: DJMLN-IA  
   Facsimile: (21) 3812859

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
ATTACHMENT

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 Borrower’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 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 1.14 (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 1.14 (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 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 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. imminent