Dear Mr. Waluyanto:

Re: Decentralization Support Facility II Formulation of Norms, Standards, Procedures and Criteria (NSPK) for Local Government Service Delivery (TF No.096670)

In response to the request for financial assistance made on behalf of the Republic of Indonesia (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development/International Development Association (“World Bank”), acting as administrator of grant funds provided by donors (“Donors”) under the multi-donor Second Phase of the Decentralization Support Facility Trust Fund (TF070582), proposes to extend to the Recipient a grant in an amount not to exceed nine hundred five thousand United States Dollars (US$905,000) (“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 specified by the World Bank in accordance with Section 4.02 of the Annex to this Agreement.

Very truly yours,
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Joachim von Amsberg
Country Director, Indonesia

AGREED:
REPUBLIC OF INDONESIA

By:/s/ Rahmat Waluyanto
Authorized Representative

Name: Rahmat Waluyanto
Title: Director General of Debt Management
Date: July 22, 2010

Enclosures:

(2) Disbursement Letter dated June 8, 2010, 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 1, 2008 (“Standard Conditions”), with the modification set forth in Section I of the Appendix to this Agreement, 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 meanings given below.


   (c) “Local Government” means a government at the province or district level in the territory of the Recipient.

   (d) “MOHA” means the Ministry of Home Affairs of the Recipient, and any successor thereto.

   (e) “NSPK” means norma, standard, prosedur and kriteria or norms, standards, procedures and criteria as guidance for local government in implementing their functions to provide services.

   (f) “Project Manual” means the manual, acceptable to the World Bank and the Recipient, meeting the requirements of Section 2.03(b) of this Annex to be followed by the Recipient in implementation of the Project, as the same may be amended from time to time with the written agreement of the Recipient and the World Bank.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to accelerate the formulation of NSPK by sectoral ministries to be used as guidance for local government in implementing their functions in providing services. The Project consists of the following parts:

   (a) **Part 1. Development of NSPK in Selected Ministries.** (i) Support MOHA to identify targeted ministries for the formulation of NSPK; and (ii) Support MoHA and the targeted ministries to conduct thorough analysis of government functions that require high priority for NSPK, including...
consultation with stakeholders; (iii) support targeted ministries in the development of NSPK through capacity building to draft NSPK; incorporate feedback from stakeholders; inform/educate local governments about issued NSPK and follow up on their implementation.

(b) **Part 2. Monitoring and Evaluation of NSPK Implementation.** Supporting MOHA to monitor and evaluate implementation of NSPK developed under Part 1 of the Project and/or NSPK implemented before the project activity.

(c) **Part 3. Assessment of Organizational and Other Implications of NSPK Implementation.** Supporting MOHA to assess the likely effects on Local Governments of the changes arising from the implementation of NSPK and associated with allocations of responsibility and authority for service delivery through assessment of local policies and regulations, assessment of selected NSPK implementation experiences and assessment of local capacity especially capacity related to office management system, organizational structure, personnel and budget to carry the burden of local government functions according to NSPK.

(d) **Part 4. Comparative Study of International Experience.** Support MOHA to undertake two international study tours to allow MOHA staff learn how NSPK is implemented in other countries, focusing on legislative frameworks and regulations, problem identification and solving, and identification of good practices for application in Indonesia.

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 Directorate General of Regional Autonomy, MOHA 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 (“Anti-Corruption Guidelines”), with the modification set forth in Section II of the Appendix to this Agreement; and (c) this Article II.

2.03. **Institutional and Other Arrangements.** (a) The Recipient shall ensure that MOHA maintains until completion of the project, project staff, whose mandate, composition and terms of reference shall be acceptable to the World Bank, to be responsible for the day-to-day coordination and supervision of the Project and ensure 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.

(b) The Recipient shall adopt and thereafter apply in implementation of the Project a Project Manual, at all times acceptable to the Recipient and 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) institutional arrangements; (ii) eligibility and selection criteria and procedures participants in the study tours set by the Recipient and the Bank under Part 4 of the Project; (iii) procurement procedures as set forth in Section 2.07 of this Annex and standard procurement documentation; (iv) financial reporting requirements, financial management procedures and audit procedures as set forth in Section 2.06 of this Annex; (v) project reporting requirements project performance indicators as set forth in Section 2.05 of this Annex; and (vi) procedures for implementation of the Anti-Corruption Guidelines.

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 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 agreed with the World Bank and set out in the Project Manual. Each Project Report shall cover the period of one 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.

(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 (45) 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 goods and 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 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

(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 1.24 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 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) Quality-based Selection; (B) Selection based on Consultants’ Qualifications; (C) Single-source Selection; (D) Selection of Individual Consultants; and (E) Sole 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.

**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>734,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training and Workshops *</td>
<td>31,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Operating Expenses*</td>
<td>140,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>905,000</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) “Operating Expenses” means reasonable Project-related incremental expenses incurred on account of contractual services and travel including for international comparative study tour, but excluding salaries or honoraria of officials and staff of the Recipient.
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 September 30, 2011.

**Article IV**

**Effectiveness; Termination**

4.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the following condition specified has been satisfied: that the Recipient has adopted a Project Manual meeting the requirements of Section 2.03(b) of this Agreement and acceptable to the Recipient and the World Bank.

4.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 4.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

4.03. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date 90 days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

**Article V**

**Recipient’s Representative; Addresses**

5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.

5.02. **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  
Telex: 45799 DJMLN-IA  
Facsimile: (21) 381 2859  
Jakarta  
44319 DEPKEU-IA
5.03. **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/International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America  

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

Modifications to the Standard Conditions and the Anti-Corruption Guidelines

Section I. The Standard Conditions are modified as follows:

1. The provisions of Section 4.02 (j) of the Standard Conditions are modified to read as follows:
   ...
   (j) Ineligibility. IBRD or IDA has declared the Recipient (other than the Member Country) ineligible to receive proceeds of any financing made by IBRD or IDA or otherwise to participate in the preparation or implementation of any project financed in whole or in part by IBRD or IDA, as a result of: (i) a determination by IBRD or IDA that the Recipient has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by IBRD or IDA; and/or (ii) a declaration by another financier that the Recipient is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Recipient has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Section II. The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:
   “…(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:
   “… (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”
Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”