CONFORMED COPY

Stefan G. Koeberle
Country Director, Indonesia

Letter No: CD-256/EITI/VI/2011

June 15, 2011

Mr. Rahmat Waluyanto
Director General of Debt Management
Ministry of Finance
Jl. Lapangan Banteng Timur 2-4
Jakarta 10710

Dear Mr. Waluyanto:

Re: EITI MDTF Grant No. TF099302
Support for the Implementation of the Extractive Industries Transparency Initiative (EITI) in Indonesia

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 and the International Development Association (collectively, the “World Bank”), acting as administrator of grant funds provided by Australia, Belgium, Canada, the European Union represented by the European Commission, Finland, France, Germany, the Netherlands, Norway, Spain, Switzerland, the United Kingdom, and the United States of America (the “Donors”) to the Extractive Industries Transparency Initiative (“EITI”) Implementation Support Facility, proposes to extend from the Multi-Donor Trust Fund for EITI Implementation Support (“TF053509”) to the Recipient, a grant in an amount not to exceed one million fifty thousand United States Dollars (US$1,050,000) (“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/ Stefan G. Koeberle
Country Director, Indonesia

AGREED:
REPUBLIC OF INDONESIA

By:/s/ Mr. Rahmat Waluyanto
Authorized Representative

Name: Mr. Rahmat Waluyanto

Title: Director General of Debt Management

Date: June 22, 2011

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010
(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I
Standard Conditions; Definitions

1.01. **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. In addition, the following terms have the meanings set out below:

(a) “EITI Secretariat” means a secretariat established based on Perpres 26/2010, and operating in accordance with Section 2.03 (a) of this Annex.

(b) “IT” means information technology.

(c) “Multi-Stakeholder Steering Committee” means a multi-stakeholder steering committee established based on Perpres 26/2010 and operating in accordance with Section 2.03 (c) of this Annex.

(d) “NGO” means a non-governmental organization authorized to operate in the Recipient’s territory.

(e) “Perpres 26/2010” means the presidential regulation number 26 of 2010 on transparency of national and local extractive industry revenues.

(f) “TOR” means terms of reference.

Article II
Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to ensure increased transparency of payments and revenues from the oil, gas, and mining sectors, and generally promote greater transparency and accountability in the operations of extractive industries in Indonesia. The Project consists of the following parts:

Part 1. Preparation of Scope of EITI Report

Supporting the Recipient in reaching a multi-stakeholder determination on the scope of the EITI report and designing a terms of reference for reconciliation work.
Part 2. Training and Workshops

(i) Training/awareness raising workshops for civil society organizations, local governments and mining, oil and gas companies in resource rich provinces to increase their expertise on the extractives sectors in Indonesia, and to sensitize them to the EITI;

(ii) Training/awareness workshops and instruction in filling out EITI Indonesia reporting templates for national government officials in different revenue collecting agencies; and

(iii) Travel for EITI Indonesia stakeholders to observe EITI implementation overseas.

Part 3. Outreach

(i) Establishment of an EITI Indonesia web site and maintenance of the site;

(ii) Publicity on EITI Indonesia by electronic and print media; and

(iii) Publication and dissemination of EITI reports (workshops and stakeholder outreach).

Part 4. EITI Secretariat

(i) Hiring of consultants in the EITI Secretariat as the work load demands. These positions may include, but not be limited to: financial management and disbursement analyst, procurement analyst, IT analyst, executive director, oil and gas liaison officer, minerals and coal liaison officer, NGO liaison officer, communications liaison, office manager/logistics support officer and a senior advisor; and

(ii) Hiring of a reconciler to crosscheck submissions of data by industry on major revenue streams conveyed to the government and submissions of data by government on receipt of those same revenue streams, and the writing of a report on the results of that reconciliation.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the Deputyship of Energy, Mineral Resources and Forestry of the Coordinating Ministry of Economic Affairs, 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. Without limitations upon the provisions of Section 2.02 above, the Recipient shall:

(a) budget and release agreed counterpart funds for EITI Indonesia;
(b) maintain, throughout the Project implementation, the EITI Secretariat to be responsible for coordinating the activities of the Project with due diligence and efficiency;

(c) maintain, throughout the Project implementation, the Multi-Stakeholder Steering Committee to be responsible for the formulation of policies and strategies to define the direction and ensure the momentum of EITI in the Recipient’s territory;

(d) not used the proceeds of the Grant for the purpose of any payment to persons or entities, or for the import goods, if such payment or import, to the Recipient’s knowledge or belief, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations, including under the United Nations Security Council Resolution 1373 and related resolutions.

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 Donors’ support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donor(s) to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set 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 (45) 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) All required consultants for the EITI Secretariat recruited.

(ii) Scoping study for EITI completed, discussed, and reported.

(iii) A study of implementation constraints to EITI completed and reported.

(iv) Design of capacity building events for EITI participants completed.

(v) Design of EITI reporting template for reporting of payments by companies completed.

(vi) TOR for reconciliation firm completed and bid and vendor selected.
(vii) EITI report completed and publicly disseminated including recommendations for improvement.

(viii) TOR for validation designed and self-assessment workshops held.

(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.

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 one month 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) 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

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

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II, III, IV and V of the Consultant Guidelines.

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

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
(ii) The following methods may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Least Cost 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>Consultant Services, Training and Workshops, Incremental Operating Costs</td>
<td>1,050,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>1,050,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this paragraph:

(i) the term “training and workshops” means training and workshops, including purchase and publication of materials, rental of facilities, course fees, and travel and subsistence of training; and

(ii) the term “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; and utilities and communications expenses, but excluding salaries and 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 October 22, 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