Verification Arrangement

Additional Financing for the Local Government and Decentralization Project / Local Government and Decentralization Project Phase II

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

BADAN PENGAWASAN KEUANGAN DAN PEMBANGUNAN

Dated DECEMBER 29 2014
VERIFICATION ARRANGEMENT

Arrangement dated **December 29**, 2014, entered into between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the “Bank” or a “Party”) and BADAN PENGAWASAN KEUANGAN DAN PEMBANGUNAN, the Indonesian National Government Internal Auditor (“BPKP” or a “Party”), (the “Verification Arrangement” or the “Arrangement”).

WHEREAS:

A. The Republic of Indonesia (“Indonesia”) has entered into a Loan Agreement, dated November 27, 2014 (the “Loan Agreement” and “Loan No. 8438-ID”) for the Additional Financing for the Local Government Decentralization Project/Local Government and Decentralization Project Phase II (the “Project”). The Ministry of Finance of the Republic of Indonesia has requested BPKP to act as the Verifier of Outputs for the Project. BPKP has accepted this request.

B. Recognizing that BPKP is an independent agency reporting to the President of the Republic of Indonesia, the Bank has requested BPKP to enter into a direct arrangement to record the understanding between the Bank and BPKP for the Project.

The Bank and BPKP agree as follows:

1. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Arrangement have the meanings ascribed to them in the Loan Agreement. In case of contradiction between the terms of this Verification Arrangement and the terms of the Loan Agreement, the terms of the Loan Agreement shall prevail.

2. **Verification Terms of Reference.** BPKP will carry out the activities set out in the Verification of Outputs (VO) Terms of Reference, as set forth in the Attachment to this Verification Arrangement.

3. **Term of Verification Arrangement.** This Verification Arrangement shall enter into effect as of the date first written above upon countersignature by the Bank and BPKP. Except as may be otherwise notified by either Party in writing, this Verification Arrangement will terminate on the Closing Date of the Loan, as said Closing Date may be extended in accordance with the terms of the Loan Agreement. Should any disputes arise under this Verification Arrangement, they will be resolved in accordance with the dispute resolution provisions applicable to the Loan Agreement.

4. **Contact Information.** The Bank’s address is: International Bank for Reconstruction and Development, ISEB Tower 2, Jl. Jend. Sudirman Kav. 52-53, Jakarta 12190, Telephone: (62-21) 52993000, Facsimile: (62-21) 52993111. The Bank’s representative for the purposes of this Arrangement is the Indonesia Country Director. BPKP’s address is: Jl. Pramuka No. 33, Jakarta Timur 13120 Telp 62-21-859-10031 Fax: 62-21-859-10030. BPKP’s representative for the purposes of this Arrangement is the Head of BPKP.
AGREED at Jakarta, Indonesia, as of the day and year first above written.

BADAN PENGAWASAN KEUANGAN
DAN PEMBANGUNAN

By: [Signature]
Name: Dadang Kurnia
Title: Deputy Chairman for Regional Finance Management Supervisory
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By: [Signature]
Name: Rodrigo A. Chaves
Title: Country Director, Indonesia
Authorized Representative
ATTACHMENT

Local Government & Decentralization Project (LGDP/P2D2) Additional Financing/
Local Government and Decentralization Project Phase II
The Indonesian National Government Internal Auditor (BPKP)
Verification of Outputs: Terms of Reference

I. Project Background

1. **Project Development Objective.** The objective of the Local Government and Decentralization Project Additional Financing / Local Government and Decentralization Project Phase II, henceforth referred to as ‘the Project’, is to improve the accountability and reporting of the central government’s Specific Purpose Grants (DAK) for basic infrastructure, consisting of roads, irrigation, water and sanitation, within Selected Local Governments. This will be achieved through the application of an Output-Based Disbursement (OBD) financing approach, whereby the Project will reimburse a slice of the existing DAK for basic infrastructure (roads, irrigation, water and sanitation) based on reported and verified physical outputs delivered by participating local governments (LGs).

2. **Components.** The Project consists of three components: Component 1: Reimbursement of the Specific Purpose Grants (DAK); Component 2: Institutional Support Program; and Component 3: Verification of Outputs (VO). The Project will be gradually scaled up nationwide to 30 provinces across Indonesia. Thirty of the country’s 34 provinces will be involved in this scale-up, with the four exceptions being the three provinces with special autonomy status (Aceh, Papua, and West Papua) and the Special Capital District (DKI) of Jakarta.

3. **Eligible Outputs.** For the purposes of the Project’s Component 1, eligible outputs are single sub-projects (*Paket Pekerjaan*) to be carried out by participating LGs and financed by DAK grants. The eligible outputs are defined by Ministry of Public Works (MPW) through the Technical Guidelines and the additional Circular Letter for Supplemental Guidelines (Environment and Social Safeguards), and may include:

   i. **Road Sector:** The scope of this activity includes new construction, periodic maintenance, improvement, and rehabilitation of provincial, district, or city roads and bridges.

   ii. **Irrigation Sector:** The scope of this activity includes improvement, rehabilitation, and development of irrigation networks, including swamp reclamation networks, and village irrigation networks.

   iii. **Water Sector:** The scope of this activity covers the development of water intake from surface water, water intake from wells, small water treatment plants (*Sistem Pengolahan Air Minum - SPAM*), water pipe networks, housing connections, and development of public water hydrants. The sub-projects must be outside the *Perusahaan Daerah Air Minum* (PDAM) network.

   iv. **Sanitation Sector:** The scope of this activity covers the development of basic bathing, washing, toilet facilities, and communal piping wastewater systems.
4. **Disbursement Modalities and Conditions.** The Project will disburse funds using two modalities: (i) Advance Payment (AP); and (ii) Value of Final Reimbursement (VFR). The AP will be equal to the sum of the values of Government of Indonesia (GOI’s) first DAK payment to each LG that has received its first DAK payment for transportation, irrigation, water and sanitation for that Fiscal Year as specified in the DAK Implementing Regulations by March 31 of that year. The VFR will be equal to the sum of the values resulting from the verification of compliance with the conditions of eligibility of reported outputs by LGs (Figure 1 provides an illustration of the disbursement flow). The Project will reimburse both the AP and the VFR values on the basis of the report and recommendation of Indonesian National Government Internal Auditor (*Badan Pengawasan Keuangan dan Pembangunan, BPKP*) to be submitted to the Ministry of Finance (MOF) by May 31 of each year.

**Figure 1. Advance Payment (AP) and Value of Final Reimbursement (VFR)**

![Diagram](image)

**II. Scope of the Assignment**

5. **Objective.** The objective of this assignment is to conduct verification of outputs and provide recommendations to selected LGs under this Project. In detail, the BPKP is expected to undertake three tasks under this Project and will apply these tasks starting from 2015 outputs until the closing date of this Project, unless otherwise agreed between the Bank and BPKP. These three tasks include: Task 1: conduct the verification of reported output eligibility; Task 2: based on verified output eligibility, provide an assessment and recommendation of the disbursement amounts and qualitative reports on findings during the verification, and Task 3: capture and provide information to the Project Outcome Indicator and a few Intermediate Results Indicators. BPKP will issue and submit to MOF and the Bank verification reports, which should include: (i) recommendation on the amount of reimbursement and incentive to LGs; (ii) qualitative report based on results from the verification check list; and (iii) measurement of project outcome indicator and intermediate results indicator.
6. **Task 1: Verification of Reported Outputs.** This task will require the following:

6.1: **Capacity Building.** In the beginning of each year, BPKP will provide sufficient capacity building and socialization to the BPKP representatives in each Province on the Verification Check List, Verification Mechanism and its Manual. This capacity building and socialization should be provided to all the verifiers that will go to the field. During the capacity building and socialization, the BPKP will involve MPW, Inspectorate General (IG) of MPW, and/or consultants including Safeguards specialists to be the resource person for providing description on technical and safeguards requirements, respectively.

6.2: **Certification of Reference Unit Costs (RUC).** By February 28 of each year, BPKP will submit to the MOF and the Bank a certification that the RUCs: (i) were timely issued by MPW; and (ii) represent a reasonable estimate of the cost by province and outputs as specified in MPW Technical Guidelines.

6.3: **Advance Payment Verification Report (APVR).** By May 31 of each year, BPKP will submit to the MOF and the Bank a certification of: (i) the number of LGs that have received the DAK payment 1 from the MOF by March 31 of that year; and (ii) the estimated value of the AP.

6.4: **Output Verification.** BPKP will create a uniform working paper for the verification agent at the Provincial level and the result of their verification of outputs should be recorded to the database of BPKP at the central level. BPKP will randomly sample 20 percent of total contracts per selected Local Governments that has a Commitment Letter to participate in the program.

**Assessing compliance with eligibility criteria.** BPKP will verify, for each reported output in the sample, compliance with the output eligibility criteria as follows:

<table>
<thead>
<tr>
<th>Eligibility Criteria for Reimbursement of DAK Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Reference Unit Costs (RUCs) for defined Outputs.</td>
</tr>
<tr>
<td>iii. Compliance of: (a) the sub-project contracts with the threshold amounts and corresponding eligibility criteria for procurement stipulated in the Loan Agreement; (b) the procurement process of the specific sub-project contracts with the competitive procurement procedures, i.e Pelelangan Umum and Pemilihan Langsung with post qualification set out in the Perpres 54/2010 as amended by Perpres 70/2012 and its revisions; and (c) the procurement process of the specific sanitation sub-project contracts with the community participation competitive procurement procedures, i.e. Pengadaan Barang/Jasa dengan Pelelangan Sederhana set out in sub-paragraph 3.6.2 and sub-paragraph 3.7 of the Annex for Implementation Guidance on Procurement of Goods and Services of Community Based Sanitation as attached to the Implementing Guidance for DAK Community Based Sanitation of 2014.</td>
</tr>
<tr>
<td>iv. Compliance with Environmental and Social Safeguards (Reference to Supplemental Guidelines (Environment and Social Safeguards) of the MPW Technical Guidelines).</td>
</tr>
</tbody>
</table>
6.4.1 Review on DAK Allocation, Requirements for Reimbursements, Financial, and Technical Reporting. BPKP will certify, for each reported output in the sample, the following:

- The DAK allocation has been made to the given LG being reviewed.
- Comply with the existing government regulation on financial verification.
- Conformity of reported output with MPW’s Technical Guidelines and its revision \(^1\)
- Provision Hand Over (PHO) certificate with published date December 31
- Each output has to comply with the Loan Agreement.
- LG has sent to MOF the financial reports and to MPW the technical reports related to the usage of DAK
- Conformity of using matching fund for each output with minimum 10% of DAK allocation.

6.4.2 Verification on Procurement and Safeguards compliance conditions. BPKP will certify, for each reported output in the sample, the following:

- **Procurement**

  (i) Compliance of the specific sub-project contracts with the threshold amounts and corresponding eligibility criteria for procurement stipulated in the Loan Agreement, as also listed below:

  a. The Sub-project was for a contract value of up to $500,000 equivalent; or
  b. The Sub-project was for a contract value of more than $500,000 equivalent and up to $1,000,000 equivalent; and (A) a decree for establishing the Procurement Service Unit (ULP) has been issued by the relevant Local Government; and (B) each such ULP has been properly staffed and budgeted in a manner satisfactory to the Borrower and the Bank; or
  c. The Sub-project was for a contract value of more than $1,000,000 equivalent and up to $2,000,000, and (A) a decree for establishing the ULP has been issued by the relevant Local Government; (B) each such ULP has been properly staffed and budgeted in a manner satisfactory to the Borrower and the Bank, and (C) the Government’s e-procurement system has been used to invite and receive bids and award the contract, and,

  (ii) Compliance of the procurement process of the specific sub-project contracts procured by the respective participating LGs, with the competitive procurement procedures, i.e Pelelangan Umum and Pemilihan Langsung with post qualification set out in the Perpres 54/2010 as amended by Perpres 70/2012, and its revisions, and of the specific sanitation sub-project contracts with the community participation competitive procurement procedures set out in Pengadaan Barang/Jasa dengan Pelelangan Sederhana in sub-paragraph 3.6.2 and sub-paragraph 3.7 of the Annex for Implementation Guidance on Procurement of Goods and Services of Community Based

---

\(^1\) Synchronizing between Proposed Activities Plan (URK) and Activities Plan (RK) will be measured by BPKP as information and not a part of eligibility criteria (Source: Approval of RK by MPW at consultation session between LGs and MPW);
Sanitation as attached to the Implementing Guidance for DAK Community Based Sanitation of 2014. This will include the following actions to be taken by BPKP:

- verification of the availability and maintenance by the participating LGs/communities of complete records of procurement, contract and purchase order documents;
- review of the invitation for bids (tender notice) and request for quotations;
- review of bidding and quotations documents;
- review of bid and quotations evaluation reports;
- review of signed contracts and purchase orders;

• Environmental and Social Safeguards

Compliance with Environment and Social Safeguards; evidenced by Supplemental Guidelines (Environment and Social Safeguards) of MPW Technical Guidelines. The implementing LG agencies will be responsible to ensure that all aspects related to safeguards in the aspect of environmental, indigenous peoples, and involuntary resettlements have been complied with. Depending on the project, the BPKP will verify if these safeguards are in compliance.

6.4.3 Verification on Physical Conditions and Site Visit. BPKP will certify, for a sample of reported outputs, through the following mechanism:

• Involvement of IG MPW and/or technical experts on roads, irrigation, water and sanitation, and safeguards specialist during the verification to all participating Provinces.
• Conduct site visits to selected sub-projects to evaluate the status and certify both technical functionality and service delivery to end users. The assigned verifiers need to have technical expertise.
• Review the standard compliance reports submitted by contractors to LGs and assessment of their completeness and appropriateness vis-à-vis scheduled payments, and compliance with other contract obligations.
• Obtain visual photographic evidence of the status of reported outputs.
• Ensure that the Verification Check List and other supporting documents are being well documented in all BPKP representatives at the Provinces.

6.5: Output Verification Report (OVR). Based on the verification activities undertaken under section 6.4, BPKP will prepare the OVR. Prior to the submission of final OVR to the MOF, BPKP should invite the Bank and the Project Implementation Unit (PIU) for a technical meeting to present the draft of OVR and to agree on the structure of the report. By May 31 of each year, BPKP will submit to MOF an OVR: (i) certifying compliance with the eligibility criteria of the outputs delivered by each LG; (ii) recommending the reimbursement amount and LG incentive from the Project; and (iii) a report on the qualitative information based on the results from the verification check list and sampling to the field. The MOF will submit the OVR to the Bank in order to request reimbursement. The qualitative report will be the basis for Technical Assistance (TA) in the following year, provide information on the challenges and improvement needed at the LGs in delivering the DAK outputs, and provide information on the compliance with the Loan Agreement.
7. **Task 2: Assessment and Recommendation of Reimbursement Amounts and Qualitative Reports on Findings from the Verification Process.** This task will require the following:

7.1: **BPKP will provide a detail description of the result of their calculation for reimbursement, including the incentive for LGs.** The BPKP recommendation to the MOF should include the total amount that the MOF should request from the Bank for reimbursement and incentive.

7.2: **BPKP will provide feedback to the LGs after conducting the VO.** This feedback will be useful for the LGs to improve the implementation of DAK activities. Besides providing feedbacks to the LGs, as mentioned in the OVR section, BPKP should provide a qualitative report on findings based on each requirement in the Verification Check List, provide recommendations on possible TA needed for the LGs based on challenges and LG needs, and provide information on qualitative reports of each category in the verification check list. BPKP and MOF will discuss and decide on appropriate remedies if the review finds contracts that failed to comply with local rules and procedures. The same will apply if physical verification finds contracts without the corresponding deliverables or when deliverables could not be made available for inspection by the auditors.

7.3: **Value of Potential Reimbursement.** BPKP will calculate a Value of Potential Reimbursement (VPR) for each LG by multiplying reported outputs by their reference unit costs.

7.4: **Qualifying Percentage.** Based on the number of outputs in the LG sample that meet the eligibility criteria, BPKP will then calculate the Qualifying Percentage (QP). For example, if half of the sampled contracts meet the eligibility criteria, the QP will be 50% (or 0.5).

7.5: **Value of Qualifying Reimbursement.** By multiplying the QP by the VPR for each LG, BPKP will calculate the value qualifying of reimbursement (VQR) for each LG.

7.6: **Value of Total Reimbursement.** BPKP will calculate the value of total reimbursement (VTR) to be made from the Project to MOF, which is the sum across all LGs for the Value of Qualifying Reimbursement (VQR) by LG.

7.7: **Value of Advance Payment.** The Advance Payment (AP) will be equal to the sum of the values of GOI’s first DAK payment to each LG that has received its first DAK payment by March 31. The amount of the Advance Payment in any Fiscal Year shall not exceed the sum of the Rupiah values of the first of the DAK Transfers made by MOF to each Selected Local Government by March 31 in such Fiscal Year as such transfers are verified by BPKP, provided however that in no event shall the Advance Payment exceed 30% of the Annual DAK Allocation for transportation, irrigation, water and sanitation for that Fiscal Year as specified in the DAK Implementing Regulations.

7.8: **Value of Final Reimbursement.** The amount of the Value of Final Reimbursement (VFR) should be the VTR minus AP, provided that the amount disbursed by the project in any year shall in no event exceed the annual DAK budget for roads provided by Selected Local Governments and Annual DAK Allocation for irrigation, water and sanitation made by the Borrower for such Fiscal Year plus 10%. In the event that the amount of the AP in a given year exceeds the total amount of DAK that can be reimbursed (i.e. the VTR) for that year based on the verification review by the

---

2 Reimbursement will be made only to the basic infrastructure, consisting of roads, irrigation, water and sanitation. Road safety and rural transportation works, which are also included in the DAK Transportation, will not be eligible for reimbursement.
BPKP, then the Bank will not reimburse anything for the VFR. This will also require that the amount of the AP be reduced in the subsequent year by the amount of overpayment.

7.9: Value of Local Government Incentive and Reimbursement. The amount of the LG Incentive and Reimbursement will be calculated as follows: (i) VQR times 10% summed for all Selected LGs that utilized the Web-Based Reporting System (WBRS) for the reporting of eligible DAK expenditures; and (ii) VQR times 7.5% summed for all Selected LGs that have not utilized the Web-Based Reporting System (WBRS) for the reporting of eligible DAK expenditures. The two percentages in the previous sentence for calculating the LG Incentive and Reimbursement may be revised by prior written agreement between the Borrower and the Bank.

The following table provides a summary of steps for Task 2 (Assessment of Reimbursement Amounts):

<table>
<thead>
<tr>
<th>Calculation</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STEP 1: Calculate for each LG</strong></td>
<td></td>
</tr>
<tr>
<td>Value of Potential Reimbursement (VPR)</td>
<td>Sum of reported outputs by their reference unit costs.</td>
</tr>
<tr>
<td>Qualifying Percentage (QP)</td>
<td>Number of outputs in the sample that meet the eligibility criteria, expressed as a share of sampled outputs.</td>
</tr>
<tr>
<td>Value of Qualifying Reimbursement (VQR)</td>
<td>QP multiplied by VPR.</td>
</tr>
<tr>
<td><strong>STEP 2: Sum across LGs</strong></td>
<td></td>
</tr>
<tr>
<td>Value of Total Reimbursement (VTR)</td>
<td>Sum of Value of Qualifying Reimbursement (VQR) across all LGs.</td>
</tr>
<tr>
<td><strong>STEP 3: Determine Bank reimbursement:</strong></td>
<td></td>
</tr>
<tr>
<td>Advance Payment (AP)</td>
<td>Sum of the GoI’s first DAK payment to each LG that has received its first DAK payment.</td>
</tr>
<tr>
<td>Value of Final Reimbursement (VFR)</td>
<td>VTR – AP</td>
</tr>
<tr>
<td>Value of LG Incentive and Reimbursement</td>
<td>10 percent of VQR for all Selected LGs using WBRS for DAK reporting and 7.5 percent of VQR for all Selected LGs not using WBRS for DAK reporting.</td>
</tr>
</tbody>
</table>

7.10: The final report should also include attachment on information of the final output produced from DAK, including: road length (km), irrigation size (ha/m), water supply connections (number of tap, capacity, etc.), number of basic bathing, washing, and toilet facilities, and number of communal piping wastewater facilities from the sampled verified outputs.

7.11: BPKP will monitor the use of unutilized DAK allocation in the previous and current year for each LG and will provide these findings in the final report.

8. Task 3: Provide Information to the Project Outcome Indicator and Intermediate Results Indicators. This task will require timely information from BPKP, through their annual verification activities to a sample of participating LGs. As indicated in the Project Results Framework (cf. LGDP AF/LGDP Phase II Project Paper, Annex 1), BPKP will be responsible for capturing and providing the following information:
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Measurement Frequency</th>
<th>Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Development Objective Level Results Indicator</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of physical outputs reported, verified, and meeting eligibility criteria</td>
<td>Annually</td>
<td>Verification</td>
</tr>
<tr>
<td><strong>Intermediate Results Indicator</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% LGs providing 10% matching funds</td>
<td>Annually</td>
<td>Verification</td>
</tr>
<tr>
<td>% contracts with quality of outputs delivered according to contract by Dec 31</td>
<td>Annually</td>
<td>Verification</td>
</tr>
<tr>
<td>% contracts where work is completed with documented physical handover by Dec 31</td>
<td>Annually</td>
<td>Verification</td>
</tr>
<tr>
<td>% of LGs with functioning procurement unit</td>
<td>Annually</td>
<td>Verification</td>
</tr>
<tr>
<td>BPKP submits to PIU a quantitative and qualitative Verification Report consistent with the ToRs for the same as specified in the Verification Arrangement by May 31 of each FY</td>
<td>Annually</td>
<td>Verification</td>
</tr>
<tr>
<td>Issuance by BPKP of Verification Manual and socialization of BPKP regional representatives by February 28 of each FY</td>
<td>Annually</td>
<td>Verification</td>
</tr>
</tbody>
</table>

BPKP is expected to include the above information in the annual Qualitative Report (Management Letter) of the Verification of Output that is submitted to the Bank and MOF.

The information above is not part of the LG eligibility criteria.

### III. Organization and Resources

9. The verification of the agreed outputs (VO) under Component 3 is a core condition of disbursement, and a key project assurance from GOI that Project funds have been used for the intended purposes, following principles of economy, efficiency and transparency. BPKP will establish a working unit at the national level to manage and oversee the VO functions. BPKP will determine its needs with regard to additional financial and human resources at both the national and LG levels in order to do the VO functions, and communicate this officially to the MOF.

10. BPKP will maintain adequate staffing arrangements (including in technical, procurement, financial management and environmental and social safeguards capacity) with qualified personnel, technical assistance consultants and/or arrangements with personnel of IG of MPW in order to accomplish the verification of outputs in accordance with the VO Terms of Reference. As for the verification team at the LG level, the team should comprise staff with knowledge and experience in implementation of infrastructure projects (i.e. road, irrigation, water and sanitation), procurement specialist, and environment and social safeguards specialists.
11. BPKP will work in close coordination with IG of MPW staff in doing the VO task. BPKP and IG of MPW will have a Memorandum of Understanding (MOU) and/or minutes of meeting signed by both parties and/or assignment letter for IG of MPW, which should specify the detailed responsibilities for IG of MPW to provide technical experts for the verification of outputs in 30 Provinces. The source of funds for the verification activities should also be specified in the MOU or minutes of meeting or assignment letter. The institutional structure and working relationship between BPKP and IG of MPW will be communicated to MOF and the Bank.

12. BPKP will provide to the Bank by no later than January 1 of each year, starting January 1, 2015, a satisfactory Annual Work Plan for verification activities, including technical and environmental and social safeguards capacity, for the upcoming year. Such plan should include the needs assessment, work plan, staffing, procurement plan and detailed budget needs for verification purposes. In the staffing plan for verification, the BPKP will provide a list of qualifications for the verifiers and their area of expertise, which should include technical staff from IG of MPW as well as safeguards specialists.

13. BPKP and the Bank should cooperate in the furtherance of the verification activities. To that end, BPKP and the Bank should from time to time, at the request of any one of them, exchange views on the Project and the VO Terms of Reference, and furnish to the other Party all such information related to such matters as it should reasonably request, and promptly inform each other of any condition which interferes with, or threatens to interfere with, such matters. The Bank team will conduct implementation support mission, where the team will review the BPKP working paper at the BPKP province, as needed.

14. In order to ensure that adequate funding is available for BPKP, the following will be conditions for each year’s DAK to be eligible for reimbursement: (i) agreed upon funds are allocated by BPKP to do the VO function; and (ii) the work plan is prepared, which will include reasonable and sufficient time and budget allocation for BPKP representative to conduct the VO in the field, and agreed upon with the Bank by January 1 of each year, starting January 1, 2015. In the event that the BPKP has not provided the budget and work plan for the fiscal year being verified, then the Bank has the right not to make Advance Payment or Reimbursement for that year.