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

Dear Mr. Waluyanto:

Re: INDONESIA: IDF Grant for Support to BPKP on Pilot Implementation of COSO Framework Project, IDF Grant No. TF096644

In response to the request for financial assistance made on behalf of the Republic of Indonesia (the “Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (the “World Bank”) proposes to extend to the Recipient, a grant from the World Bank’s Institutional Development Fund (“IDF”) in an amount not to exceed two hundred fifty thousand United States Dollars (U.S.$250,000) (“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 Institutional Development 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effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

/s/ Yogana Prasta
Acting Country Director, Indonesia

AGREED:

REPUBLIC OF INDONESIA

By /s/ Rahmat Waluyanto

Name  Rahmat Waluyanto

Title  Director General of Debt Management

Date  August 9, 2010

Enclosures:


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 modifications 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 meaning given below.

(a) “BPKP” means the Badan Pengawasan Keuangan dan Pembangunan, the Finance and Development Supervisory Agency of the Recipient, and any successor thereto.

(b) “COSO” means the Committee of Sponsoring Organizations, a world organization dedicated to guide executive management and governance entities toward the establishment of more effective, efficient and ethical business operations on a global basis.

(c) “COSO Framework” means an integrated framework designed to assist organizations in mitigating the risk of their failure in achieving objectives.

(d) “DIPA” means Daftar Isian Pelaksanaan Anggaran, the documentation required for the Recipient’s budget process.

(e) “MOF” means the Ministry of Finance of the Recipient, and any successor thereto.

(f) “PMU” means Project Management Unit within the BPKP.

(g) “PP 60/2008” means the Indonesian Government’s Regulation No. 60 of 2008 on the Government Internal Control System.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to assist BPKP in preparation of an implementation strategy for PP 60/2008 (the COSO Framework) and its piloting in selected ministries.

The Project consists of the following parts:

Part 1. Strategy Preparation
(a) A workshop on understanding client expectations;
(b) Draft strategy preparation; and
(c) Finalization of the strategy.

Part 2. Piloting of COSO Framework and hands on training of BPKP staff on implementation

(a) Selection of pilots, which could either be departments of line ministry or local governments;
(b) Planning the pilots; and
(c) Implementation of the pilots – review of existing workflow and control processes.

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 BPKP, 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” (“Anti-Corruption Guidelines”), dated October 15, 2006, with the modifications set forth in Section II of the Appendix to this Agreement; and (c) this Article II.

2.03. **Institutional and Other Arrangements.** The Recipient shall ensure that BPKP shall maintain until the completion of the project, a Project Management Unit (PMU) responsible for Project implementation and for COSO Framework implementation within BPKP. The PMU shall report directly to the Chairperson of BPKP. BPKP shall also provide the necessary coordination with the Ministry of Finance (MOF), and be responsible for overall project implementation and budget execution including making budget application to the MOF (DIPA).

2.04. **Project Monitoring, Reporting and Evaluation.**

(a) The Recipient shall monitor and evaluate the progress of the Project and, upon the World Bank’s request, 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 (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) Final COSO implementation strategy incorporating lessons from the pilots adopted; and

(ii) Revised workflows with improved control process based on COSO Framework.
(c) The Recipient shall, upon the World Bank’s request, 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 five months after the Closing Date.

2.05. **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 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, upon the World Bank’s request, have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the period indicated in the World Bank’s request. The Recipient shall ensure that the audited Financial Statements for such period shall be: (i) furnished to the World Bank not later than six months after the date of the World Bank’s request; and (ii) made publicly available in a timely fashion and in a manner acceptable to the World Bank.

2.06. **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) Section I (excluding paragraph 1.16) 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 goods and services other than consultants’ services; and

(ii) Sections I (excluding paragraph 1.24) 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.

(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 Goods and Services Other than Consultants’ Services.** Goods and services other than consultants’ services shall be procured under contracts awarded on the basis of Shopping.
(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Consultants’ services shall be procured under contracts awarded on the basis of (A) Selection of Individual Consultants; and (B) Sole Source Procedures for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: each contract for services procured on the basis of Sole Source Procurement for Selection of Individual Consultants. 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) 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 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) Goods</td>
<td>4,350</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ Services</td>
<td>223,350</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Training and Workshops*</td>
<td>22,300</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>250,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

* For the purposes of this Section, the term “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, and meals.

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 three years after the date of countersignature of this Agreement by the Recipient.

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**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:    Telex:    Facsimile:
FINMINISTRY 45799    DJMLN-IA    (21) 3812859  
Jakarta    44319 DEPKEU-IA

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:    Telex:    Facsimile:  
INTBAFRAD  248423 (MCI) or 1-202-477-6391  
Washington, D.C. 64145 (MCI)
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.”