

CONFORMED COPY

GRANT NUMBER TF098870

***PNPM Support Facility Trust Fund (PSF)***  
**Grant Agreement**

**(THIRD NATIONAL PROGRAM FOR COMMUNITY EMPOWERMENT  
IN URBAN AREAS - DISASTER MANAGEMENT SUPPORT PROJECT)**

between

**REPUBLIC OF INDONESIA**

and

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**acting as administrator of grant funds provided by donors under the Support Facility for the  
National Program for Community Empowerment (PNPM) Multi Donor Trust Fund (PSF)**

**March 23, 2011**

## GRANT AGREEMENT

AGREEMENT dated March 23, 2011, entered into between:

REPUBLIC OF INDONESIA (“Recipient”); and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“World Bank”), acting as administrator of grant funds provided by donors under the Support Facility for the National Program for Community Empowerment Multi Donor Trust Fund (TF070967) (“PSF”).

WHEREAS, this Agreement: (i) sets out the terms and conditions related to the provision of grant financing for post-disaster management-related activities described herein, which are also being supported with loan financing by the umbrella Third National Program for Community Empowerment in Urban Areas, which is the subject of a Loan Agreement, between the Republic of Indonesia and the International Bank for Reconstruction and Development, dated April 9, 2010 (Loan No. 7866-ID (the “PNPM Urban 3 Loan Agreement”)); (ii) is financed out of one of the two trust funds of the Support Facility for the National Program for Community Empowerment (TF 070967 and TF071562) which operate under a joint management structure; and (iii) is provided together with separate grants out of the PSF for disaster management in rural areas and disaster management through community-based settlement rehabilitation and reconstruction, under separate grant agreements.

The Recipient and the World Bank hereby agree as follows:

### **Article I Standard Conditions; Definitions**

- 1.01. 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. 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.

### **Article II The Project**

- 2.01. The Recipient declares its commitment to the objective of the project described in Schedule 1 to this Agreement (“Project”). To this end, the Recipient shall carry out the Project, through MPW, in accordance with the provisions of Article II of the Standard Conditions.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**Article III  
The Grant**

- 3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant from various sources in the following amounts, which in aggregate equal to one million four hundred thousand United States Dollars (US\$1,400,000) (“Grant”), to assist in financing the Project.
- 3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.
- 3.03. The 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, the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

**Article IV  
Recipient’s Representative; Addresses**

- 4.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Recipient’s Minister of Finance.
- 4.02. 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 Jakarta	45799 DJMLN-IA 44319 DEPKEU-IA	(21) 381 2859

4.03. 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		
INDEVAS	248423 (MCI) or	1-202-477-6391
Washington, D.C.	64145 (MCI)	

AGREED at Jakarta, Indonesia, as of the day and year first above written.

**REPUBLIC OF INDONESIA**

/s/ **Rahmat Waluyanto**

**By Rahmat Waluyanto  
 Director General of  
 Debt Management**

**Authorized Representative**

**INTERNATIONAL BANK FOR  
 RECONSTRUCTION AND DEVELOPMENT  
 acting as administrator of grant funds provided by donors  
 under the Support Facility for the National Program for Community  
 Empowerment (PNPM) Multi Donor Trust Fund (PSF)**

/s/ **Stefan Koeberle**

**By**

**Stefan Koeberle  
 Country Director, Indonesia**

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to assist the Recipient in ensuring that the urban poor benefit from improved socio-economic and local governance conditions in disaster-affected areas.

The Project consists of the following parts:

#### **Part 1: Community and Local Government Capacity Building**

Carrying out community development capacity building training and workshops and conducting facilitation for:

- (a) BKMs, focused on the preparation of Community Development Plans, use of Kelurahan Grants and implementation of Sub-projects, assistance to support consolidation of various poverty alleviation and community driven development programs;
- (b) community groups in Participating Kelurahan including community volunteers and Local Government officials in community development planning and participation in and monitoring of Sub-projects;
- (c) providing preparedness and rapid response to disaster, emergency and/or catastrophic events, as needed using the Project implementation arrangements.

#### **Part 2: Disaster Management Kelurahan Grants**

Provision of Disaster Management Kelurahan Grants to BKMs for Sub-projects: (a) infrastructure investments, (b) Revolving Funds; and/or (c) social assistance activities, in each case as identified through Community Development Plans Beneficiaries to support disaster management.

#### **Part 3: Implementation and Technical Assistance**

- (a) Strengthening the capacity of staff of the Project Management Unit, Province-level government agencies, Participating Kecamatan, Participating Kotas, Participating Kabupaten and Participating Kelurahan in Project implementation and monitoring, including through the National Management Consultants, Oversight Consultants and Facilitators.
- (b) Carrying out evaluations of the impact of the Project on poverty in Participating Kelurahan.

**SCHEDULE 2****Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. At the national level, the Recipient shall:
  - (a) ensure that the Project shall be implemented under the umbrella of PNPM, and subject to the overall guidance of the Tim Pengendali PNPM;
  - (b) maintain, until completion of the Project: (i) the PMU (Satker), established in MPW, headed by an appropriately qualified Project Manager, and responsible for the management and monitoring of the Project; and (ii) the central PIU (Satker), established in MPW, responsible for day-to-day implementation of the Project including recruitment of National Management Consultants and Oversight Consultants and production of reports on the progress of the Project, in each case, with a mandate, composition and terms of reference as set out in the Project Manual and supplemental Disaster Management Manual and acceptable to the Recipient and the World Bank;
  - (c) ensure that each of the PMU and the central PIU (Satker) are provided at all times with adequate funds and other resources and staffed by qualified personnel in adequate numbers as shall be necessary to accomplish the objectives of the Project; and
  - (d) ensure coordination, as necessary, with the Tim Pengendali PNPM.
2. The Recipient through MPW, shall:
  - (a) at the level of each Project Province, cause to be established, prior to the commencement of Project activities in each Project Province and thereafter maintain until completion of the Project a Provincial PIU (Satker), responsible for day-to-day implementation of the Project, including recruiting the Facilitators and City Coordinators and managing community training, in both cases with a mandate, composition and terms of reference acceptable to the Recipient and the World Bank;
  - (b) by no later than November 30 in each calendar year of Project implementation, commencing on November 30, 2010, identify each Participating Kecamatan, Participating Kota, Participating Kabupaten and Participating Kelurahan, in each case in accordance with the Project Manual;

- (c) at the level of each Participating Kota and Participating Kabupaten, cause to be established, prior to the commencement of Project activities in such Participating Kota and Participating Kabupaten and thereafter maintain until completion of the Project, a Kota/Kabupaten PIU (Satker), responsible for: (i) day-to-day implementation of the Project, including channeling of the Disaster Management Kelurahan Grants, with a mandate, composition and terms of reference acceptable to the Recipient and the World Bank as set out in the Project Manual; and (ii) ensuring coordination with the Kabupaten Poverty Alleviation Coordination Team and the Kabupaten/Kota Poverty Alleviation Coordination Team;
- (d) at the level of the Participating Kecamatan, maintain until completion of the Project, a PJOK as a Sub-project implementation unit, with a mandate, composition and terms of reference acceptable to the Recipient and the World Bank as set out in the Project Manual, to be responsible for implementation of the Project and administration of proposals from BKMs and Sub-project Agreements;
- (e) at the level of each Participating Kelurahan, establish prior to the commencement of any Sub-project in that Participating Kelurahan, and thereafter maintain until completion of the Project, a BKM, legally established, whose mandate, composition and terms of reference shall include a financial management unit or specialist, and shall be acceptable to the Recipient and the World Bank as set out in the Project Manual, to be responsible for implementation of the Project at the Kelurahan-level; and
- (f) ensure that each Provincial PMU, Provincial PIU (Satker), Kota/Kabupaten PIU (Satker), PJOK and BKM shall be provided with adequate funds and other resources, and supported by qualified technical, financial and administrative personnel in adequate numbers as needed to accomplish the objectives of the Project.

## **B. Implementation Arrangements**

### **1. The Recipient shall, through MPW:**

- (a) ensure that the Project is implemented in accordance with, a Project Manual and supplemental Disaster Management Manual, acceptable to the Recipient and the World Bank, which shall include the description of: (i) implementation arrangements; (ii) the procurement procedures set forth in Section III of this Schedule 2 and standard procurement documentation; (iii) reporting requirements, financial management procedures and audit procedures as set forth in Section II of this Schedule 2; (iv) the Project performance indicators; (v) the Environmental Guidelines and the environmental criteria applicable to Sub-project design including environmental impact mitigation; (vi) the Isolated and Vulnerable Peoples Framework; (vii) the Land Acquisition and Resettlement Framework; (viii) the Better Governance Action Plan; (ix) maintenance provisions for works to be carried out under a Sub-project; (x) the criteria for the selection of Sub-projects, as well as the terms and conditions governing the Disaster Management Kelurahan Grants and Local Government Participation meeting the requirements set out in Annex 1 to this

- Schedule; (xi) the Operational Guidelines for Monitoring and Evaluation of PNPM; and (xii) criteria for operation of Revolving Funds;
- (b) not amend, suspend, abrogate, repeal or waive any provisions of the Project Manual or supplemental Disaster Management Manual without the prior written agreement of the World Bank and the Recipient;
  - (c) ensure that the Project Manual, and supplemental Disaster Management Manual, as applicable, is made available, at all times until completion of the Project, to each Local Government and all Oversight Consultants and Facilitators, and applied in the carrying out of Sub-projects; and
  - (d) with the prior written agreement of the World Bank, update the Project Manual, and supplemental Disaster Management Manual, as necessary.
2. For the purposes of providing Kelurahan Grants under the Project, the Recipient shall only submit an application for withdrawal of the proceeds of the Loan allocated to Category (1) in the Table in Section IV.A of this Schedule to finance Sub-projects prepared and selected in accordance with the criteria set forth in Annex 1 to this Schedule and the Project Manual.
3. In carrying out Part 2 of the Project, the Recipient shall ensure that prior to participating in the Project, a Participating Local Government has:
- (a) agreed to carry out activities under the Project in accordance with procedures acceptable to the Recipient and the World Bank and included in the Project Manual;
  - (b) taken all steps required to make available the Local Government Participation; and
  - (c) published a list of Project Kelurahans in accordance with the criteria set out in the Project Manual.
4. In carrying out Part 2 of the Project, the Recipient shall ensure that, prior to participating in the Project, a Participating Kelurahan has:
- (a) agreed to carry out activities under the Project in accordance with procedures acceptable to the Recipient and the World Bank and included in the Project Manual and supplemental Disaster Management Manual;
  - (b) established, through the BKM, a Project office for purposes of Project coordination and disbursement of Disaster Management Kelurahan Grants;
  - (c) adopted, through the BKM, a Community Development Plan, or revised, through the BKM, a previous Community Development Plan meeting the requirements set out in the Project Manual and supplemental Disaster Management Manual and identifying each Sub-project; and
  - (d) entered into a Sub-project Agreement for the Sub-project on the terms and conditions set forth in Annex 1 to this Schedule 2.



5. The Recipient shall ensure that, for purposes of Part 2(b) of the Project, a Participating Kelurahan shall only finance Sub-projects through a Revolving Fund if the BKM proposed to receive such Revolving Fund meets the criteria for establishment and operation of a Revolving Fund set out in the Project Manual, including with respect to BKMs that have previously managed revolving funds, that they have a repayment rate meeting the requirements set out in the Project Manual.
6. The Recipient shall ensure, at all times, that public information, for the purpose of disclosing to inhabitants of Participating Kelurahans all administrative, financial, environmental, social, procedural and technical aspects pertaining to the selection, design, preparation and implementation of Sub-projects, including the Project Manual and supplemental Disaster Management Manual, is available free of charge at the government offices of the respective Participating Kelurahan and Participating Local Government.
7. The Recipient, through the PMU (Satker), shall, by the date which is no later than three (3) months after the Effective Date, issue instructions or issue an updated Project Manual, acceptable to the PMU (Satker) and the World Bank, to Local Governments of Participating Kabupaten and Participating Kota, and to Provincial governments and to relevant stakeholders defining time periods within which categories of complaints/cases must be resolved, to whom they should be escalated if not resolved within such time periods and what the consequences will be if such cases are not resolved or escalated in accordance with such instructions.
8. The Recipient shall ensure that, except as the World Bank and the Recipient shall otherwise agree, auditing activities under the Project, including those referred to in Section II.B of this Schedule, are carried out in accordance with: (a) BPKP's audit manual, dated December 19, 2008, as such manual may be amended from time to time with the prior agreement of the World Bank; and (b) in accordance with terms of reference agreed with the World Bank.
9. With respect to PNPM urban sub-projects financed from sources other than the Loan, including PNPM urban sub-projects for which Facilitators are financed by the Project but the PNPM urban sub-projects are themselves financed from such other sources, the PMU (Satker) shall:
  - (i) undertake such sub-projects in accordance with the Project Manual, supplemental Disaster Management Manual, and/or procedures acceptable to the Recipient and the World Bank; and
  - (ii) retain responsibility for the design, construction, fiduciary controls and implementation of such sub-projects.
10. Identification of Affected Areas. The Recipient and the World Bank, with concurrence from the Joint Management Committee of the PSF, may from time to time designate in writing areas as Affected Areas qualifying for support from the Project. The Recipient shall ensure that all Affected Areas shall be designated in the Project Manual.

11. Activities under Part 1 and Part 3 required to accomplish the objectives of the Project, to the extent not financed out of the proceeds of the Grant, will be financed out of the proceeds of the PNPM Urban 3 Loan.
12. In the event of any conflict between the provisions of the Project Manual or the supplemental Disaster Management Manual and this Agreement, the latter shall prevail.

**C. Environmental and Social Safeguards**

1. In carrying out Sub-projects, the Recipient shall:
  - (a) ensure that the proceeds of Disaster Management Kelurahan Grants shall not be used to finance the acquisition of land;
  - (b) take measures to avoid or minimize the acquisition of land or assets of villagers, and to avoid the displacement of such villagers;
  - (c) shall apply, and shall ensure that each Participating Kelurahan shall apply, the Land Acquisition and Resettlement Framework to Sub-project implementation, including:
    - (i) taking all appropriate measures to avoid or minimize the acquisition of land or assets of people and to avoid the displacement of such people;
    - (ii) where the acquisition of land or assets or the displacement of people is unavoidable under a proposed Sub-project, ensuring that all Displaced Persons thereunder shall have been compensated and provided with resettlement and rehabilitation measures prior to the implementation of such Sub-project and in accordance with the provisions of the Land Acquisition and Resettlement Framework; and
    - (iii) in the case of the physical displacement of persons involving the displacement of more than 200 people as a result of a Sub-project, ensure:
      - (A) preparing a Land Acquisition and Resettlement Action Plan in accordance with the Land Acquisition and Resettlement Framework and furnish such plan to the World Bank for approval; and
      - (B) prior to the carrying out of the Sub-project, ensuring that all Displaced Persons shall have been compensated and provided with applicable resettlement and rehabilitation benefits in accordance with the provisions of such plan.
2. In carrying out Sub-projects, the Recipient shall apply, and shall ensure that each Participating Kelurahan shall apply, the Isolated and Vulnerable Peoples Framework to Sub-project implementation, including:
  - (a) avoid, and, if not possible, minimize cultural, social and economic adverse effects on Isolated and Vulnerable People, caused or likely to be caused by the Project, by taking appropriate mitigating measures; and
  - (b) through a process of informed consultation and participation, involving concerned Isolated and Vulnerable People in the design and implementation of Sub-projects so

as to ensure that the benefits received by the Isolated and Vulnerable People under the Project are in harmony with their economic, social and cultural preferences, and likely to protect their customary user rights.

3. In carrying out Sub-projects, the Recipient shall ensure that the provisions of the Environmental Guidelines have been complied with and, where applicable, an Environmental Guidelines fully consistent with this Agreement and the Environmental Guidelines has been prepared and agreed upon and applied in the implementation of such Sub-project.
4. The Recipient shall take all measures necessary on its part to regularly collect, compile, and submit to the World Bank, as part of the Project Reports, information on the status of compliance with the Environmental Guidelines, Isolated and Vulnerable Peoples Framework, Land Acquisition and Resettlement Framework, and any and Land Acquisition and Resettlement Framework, and
5. In carrying out Sub-projects, the Recipient shall not amend, suspend, repeal or waive, or permit to be amended, suspended, repealed or waived, the Environmental Guidelines, Isolated and Vulnerable Peoples Framework, Land Acquisition and Resettlement Framework, or any Land Acquisition and Resettlement Action Plan with the prior written agreement of the World Bank and the Recipient.
6. In the event of any conflict between the provisions of the Environmental Guidelines, Isolated and Vulnerable Peoples Framework, Land Acquisition and Resettlement Framework, or any Land Acquisition and Resettlement Action Plan and this Agreement, the latter shall prevail.

#### **D. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

### **Section II. Project Monitoring Reporting and Evaluation**

#### **A. Project Reports**

1. 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 indicators agreed with the World Bank. Each Project Report shall cover the period of one (1) 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.
2. 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.

**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. The Recipient shall prepare and furnish to the World Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the World Bank.
3. 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 (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.
4. The Recipient shall prepare, under terms of reference satisfactory to the World Bank, and furnish to the World Bank, by September 30 in each year of Project implementation an annual report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Section II.A, on the progress achieved in the carrying out of the Project during the twelve (12) month period preceding the date of said report (it being understood that the first such annual report may cover a period of less than twelve (12) months) and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date.

**Section III. Procurement****A. General**

1. **Goods, Works and Services other than Consultants' Services.** All goods, works and services other than consultants' 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 Section I of the Procurement Guidelines, and with 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.
2. **Consultants' Services.** All consultants' 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 Sections I and IV of the Consultant Guidelines and with 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.

3. **Definitions.** The capitalized terms used below in 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 Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods, Works and Services other than Consultants’ Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and services other than consultants’ services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods, Works and Services other than Consultants’ Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and services other than consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) National Competitive Bidding, subject to the additional procedures set out in Annex 2 to this Schedule
(b) Direct Contracting
(c) Community Participation using procedures acceptable to the World Bank as set out in the Project Manual

**C. Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) Quality Based Selection
(b) Selection based on Consultants’ Qualifications
(c) Least Cost Selection
(d) Selection under a Fixed Budget
(e) Single-source Selection
(d) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g) 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.

**Section IV. Withdrawal of Grant Proceeds****A. General**

1. 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 table in paragraph 2 below.
2. The following 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:

<b><u>Category</u></b>	<b>Amount of Grant Allocated (Expressed in US\$)</b>	<b>Percentage of Expenditure to be Financed</b>
(1) Kelurahan Grants under Part 2 of the Project <sup>^</sup>	1,400,000	100% of Kelurahan Grant amount disbursed
(2) Goods, consultants' services, training and workshops, and incremental operating costs under Parts 1 and 3 of the Project*	0	100%
<b>TOTAL</b>	<b>1,400,000</b>	

<sup>^</sup> For the purposes of this Table, Disaster Management Kelurahan Grants are referred to as "Kelurahan Grants" to track the disbursement arrangements for the PNPM Urban 3 Loan Agreement.

\* 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; (ii) "goods" includes "non-consultants services" means the reasonable cost of services, including printing, arising under the Project and procured in accordance with the Procurement Guidelines; and (iii) "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.

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement except that withdrawals up to an aggregate amount not to exceed \$280,000 equivalent may be made for payments made prior to this date but on or after December 9, 2010, for Eligible Expenditures.
2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2012.

**ANNEX 1 to SCHEDULE 2****Selection Criteria for Sub-projects and Disaster Management Kelurahan Grants****A. Selection Criteria for Sub-projects**

1. Each Sub-Project shall be selected from the Community Development Plan developed by the BKM of the Participating Kelurahan and meet the requirements set out in the Project Manual and supplemental Disaster Management Manual.
2. No Sub-project shall: (a) include expenditures intended for a military or paramilitary purpose; (b) include civil works for government administration or religious purposes; (c) relate to the manufacture or use of environmentally harmful products (including pesticides, ozone-depleting substances, tobacco or tobacco products, materials containing asbestos, arms and drugs); (d) relate to activities producing liquid or gaseous effluents or emissions at harmful levels; (e) relate to activities using, producing, storing or transporting hazardous materials and wastes; (f) relate to logging; (g) relate to activities in protected areas; (h) relate to fisheries activities that are not in accordance with standards set by the Recipient's Fishery Service Agency; or (i) include the financing of government salaries or honoraria of officials or staff of the Recipient; (j) include the provision of goods, works or services, directly or through intermediaries, by suppliers or contractors, as the case may be, who have been declared ineligible to participate in the procurement of any World Bank-financed contract or project or the contract or project of another financier, whether indefinitely or for a stated period of time, as a result of a decision of the World Bank or the World Bank, and in accordance with the terms of the decision; or (k) finance land acquisition.
3. No project shall qualify as a Sub-project eligible for financing out of the proceeds of a Disaster Management Kelurahan Grant until a Sub-project Agreement: (a) has been entered into between the relevant Participating Kelurahan, through its BKM, and the relevant PJOK, in each case on terms and conditions set forth in Section B of this Annex; and (b) has been reviewed and approved by the relevant Oversight Consultants.
4. Additional criteria for Sub-projects under Part 2(a) of the Project.
  - (a) Each Sub-project proposed under Part 2(a) of the Project shall be a public infrastructure or equipment investment project or a social service project (which may include emergency preparedness or risk reduction to reduce vulnerability to natural disasters) which is technically, financially and environmentally viable, and economically justified by the number of people benefiting from it.
  - (b) Each Sub-project proposed under Part 2(a) of the Project in the education sector shall be compatible with the relevant Kabupaten/Kota education master plan, if such plan exists.
  - (c) Each Sub-project proposed under Part 2(a) of the Project in the health sector shall be compatible with the relevant Kabupaten/Kota health master plan, if such plan exists.



5. Additional criteria for Sub-projects under Part 2(b) of the Project. A Sub-project proposed under Part 2(b) of the Project as a Revolving Fund may only be undertaken by a BKM meeting the requirements set out in the Project Manual, including a sufficient repayment history with respect to any other revolving funds managed by such BKM.
6. Additional criteria for Sub-projects under Part 2(c) of the Project. Each Sub-project proposed under Part 2(c) of the Project as a social assistance project shall be designed to meet the needs of Highly Vulnerable Groups.

**B. Sub-project Review and Selection**

The Recipient shall ensure that each Sub-project is the subject of a corresponding proposal for a Disaster Management Kelurahan Grant that has been prepared, submitted and reviewed in accordance with the guidelines, procedures and selection criteria set forth in the Project Manual, supplemental Disaster Management Manual and this Annex.

**C. Terms and Conditions of Sub-project Agreements**

Each Sub-project Agreement shall be on terms and conditions set forth in the Project Manual and supplemental Disaster Management Manual, which shall include:

- (a) the requirement that the Participating Kelurahan carry out its Sub-project in accordance with the Project Manual and supplemental Disaster Management Manual;
- (b) the requirement that the Participating Kelurahan carry out its Sub-Project in accordance with the provisions of the Better Governance Action Plan, the Anti-Corruption Guidelines applicable to recipients of Loan proceeds other than the Recipient, the Environmental Guidelines, the Land Acquisition and Resettlement Framework and the Isolated and Vulnerable Peoples Framework;
- (c) the disbursement schedule for the Disaster Management Kelurahan Grant;
- (d) the requirement that each Participating Kelurahan procure the goods, works and services to be financed out of the Sub-project in accordance with provisions that are fully consistent with the provisions of Section III of Schedule 2 to this Agreement;
- (e) the requirement that each Participating Kelurahan monitor and evaluate the progress of the Sub-project in accordance with the Project Manual and supplemental Disaster Management Manual;
- (f) the requirement that each Participating Kelurahan maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the World Bank; and at the World Bank's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the World Bank and the Recipient, in accordance with consistently applied auditing standards acceptable to the World Bank, and promptly furnish the statements as so audited to the Recipient and the World Bank;

- (g) the requirement that each Participating Kelurahan enable the Recipient and the World Bank to inspect the Sub-project, its operation and any relevant records and documents; and prepare and furnish to the Recipient and the World Bank all such information as the Recipient or the World Bank shall reasonably request relating to the foregoing; and
- (h) include rights adequate to protect the interests of the Recipient and the World Bank, including the right to: (i) suspend or terminate the right of the Participating Kelurahan to use the proceeds of the Disaster Management Kelurahan Grant; or (ii) obtain a refund of the Disaster Management Kelurahan Grant upon the failure of the Participating Kelurahan, as applicable, to perform any of its obligations under the Sub-project Agreement.

**ANNEX 2 to SCHEDULE 2**  
**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.

- (i) 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.
- (ii) Foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign firm determined to be the lowest evaluated 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.
- (iii) No preference of any kind shall be given to any bidders.
- (iv) 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.
- (v) Bids invited under the *Pelelangan Umum* method shall be submitted in one (1) envelope and evaluated using post-qualification.
- (vi) 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.
- (vii) 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.
- (viii) All bids shall not be rejected and new bids solicited without the Bank's prior written concurrence.

- (ix) 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.

## APPENDIX

### Definitions

1. “Affected Area” means any area (a) in which the Recipient has communicated through the relevant national, Province- or Local Government-level or other authority to the World Bank that a disaster, emergency or catastrophic event has occurred; (b) the Recipient and the World Bank, with the concurrence of the Joint Management Committee of the PSF, have agreed in writing that such area is eligible for the Project; and (c) such area has been added to the Disaster Management Manual.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 as revised in January 2011.
3. “Bappenas” means *Badan Perencanaan Pembangunan Nasional*, the Recipient’s National Development Planning Agency, or any successor thereto.
4. “Better Governance Action Plan” means a stand-alone chapter of the Project Manual designed to integrate the contents of the Anti-Corruption Guidelines and to give effect thereto, and giving details of a program of actions, measures and policies designed to reduce or eliminate fraud and corruption in all its forms under the Project, including enhanced information disclosure provisions, civil society oversight provisions, mitigation measures to deal with the risks associated with collusion, forgery and fraud, a complaint handling mechanism, and an appropriate regime of sanctions and remedies, and included as applicable in each Sub-project Agreement, as such chapter may be revised from time to time with the prior written agreement of the World Bank and the Recipient, and such term includes any annexes or schedules to such chapter.
5. “BKM” means *Badan Keswadayaan Masyarakat*, a Kelurahan level organization with elected members, legally empowered by registering as an association to act on behalf of the Kelurahan community to take actions aimed at reducing poverty in the Participating Kelurahan, and “BKMs” means more than one BKM.
6. “BPKP” means *Badan Pengawas Keuangan dan Pembangunan*, the Recipient’s Financial and Development Supervisory Agency, or any successor thereto.
7. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
8. “Central PIU (Satker)” means the central-level Project implementation unit (*Satuan Kerja, or Satker*) established and operating in accordance with paragraph 1(b) and paragraph 1(c) of Section I.A of Schedule 2 to this Agreement.
9. “City Coordinator” means the consultant assigned to each Participating Kota/Kabupaten to manage implementation of the Project, including coordination of Facilitators, and “City Coordinators” means more than one City Coordinator.

10. “Community Development Plan” means each multi-year development plan for a Participating Kelurahan prepared by a BKM in accordance the procedures and criteria set out in the Project Manual and “Community Development Plans” means more than one Community Development Plan.
11. “Consultant Guidelines” means 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.
12. “Disaster Management Kelurahan Grant” means a grant made available by the Recipient out of the proceeds of this Grant to a Participating Kelurahan for a Sub-project under Part 2 of the Project, and “Kelurahan Grants” means more than one Kelurahan Grant, and “Disaster Management Kelurahan Grants” means more than one Disaster Management Kelurahan Grant.
13. “Disaster Management Manual” means the manual “Special Scheme for Post Disaster Rehabilitation”, meeting the requirements of paragraph 1(a) of Section I.C of Schedule 2 to this Agreement, as such manual may be amended or updated from time to time with the prior written agreement of the World Bank and the Recipient, and such term includes any annexes or schedules to such manual.
14. “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and “Displaced Persons” means, collectively, all such Displaced Persons.
15. “Environmental Guidelines” means the guidelines adopted by the Recipient through MPW and delivered to the Bank on March 1, 2011, setting forth the measures and actions to be taken during the implementation of the Project to eliminate, mitigate or offset adverse environmental impacts or to reduce such impacts to acceptable levels in the design and implementation of Sub-projects, as such guidelines may be amended from time to time with the prior agreement of the World Bank and the Recipient, and such term includes any annexes or schedules to such guidelines.
16. “Environmental Management Plan” or “EMP” means an Environmental Management Plan, acceptable to the World Bank and the Recipient and consistent with the Environmental Guidelines, adopted for the purposes of a Sub-project, and giving details of the agreed actions and policies designed to maximize the benefits of the Sub-project, eliminate or offset any adverse environmental impacts, or reduce such impacts to acceptable levels, along with the procedural and institutional measures needed to implement such actions and policies, as such Environmental Management Plan may be amended from time to time with the prior written agreement of the World Bank and the Recipient, and such term includes any annexes or schedules to such plan.

17. “Facilitator” means a technical, economic or social consultant assigned to work with Participating Kelurahan to develop and implement a Community Development Plan and Sub-projects, and “Facilitators” means more than one Facilitator.
18. “Fiscal Year” and “FY” mean the Recipient’s fiscal year commencing January 1 and ending December 31.
19. “Highly Vulnerable Groups” means groups of peoples, including widows, the elderly, the disabled and the victims of natural disaster, having special poverty alleviation needs and to be addressed in the Community Development Plan.
20. “Isolated and Vulnerable People” means those social groups in Indonesia that have a distinct social and cultural identity, and that are susceptible to being disadvantaged in the development process induced by the Project or any part thereof.
21. “Isolated and Vulnerable Peoples Framework” means the framework, acceptable to the World Bank, adopted by the Recipient through MPW and delivered to the Bank on March 1, 2011 setting forth the principles, procedures, measures and organizational arrangements to be adopted during the implementation of the Project for: (i) the informed involvement of Isolated and Vulnerable Peoples, through a process of informed participation, in the design and implementation of each Sub-project to be, or being, carried out in a location in which such people reside or use for their livelihood; and (ii) designing and implementing measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts of Sub-projects, as such Isolated and Vulnerable People Framework; as such framework may be amended from time to time with the prior agreement of the World Bank and the Recipient and the Recipient, and such term includes any annexes or schedules to such framework.
22. “Kabupaten” means a district, an administrative sub-division of a Province.
23. “Kabupaten/Kota Poverty Alleviation Coordination Team” means the local government-level working group established under Perpres 13/2009 in each Participating Kabupaten, Participating Kecamatan or Participating Kota, or any successor thereto.
24. “Kecamatan” means a sub-district, an administrative sub-division of a Kabupaten.
25. “Kelurahan” mean an urban section of a Kecamatan.
26. “Kota” means a municipality, an administrative division within a province of the Recipient.
27. “Kota/Kabupaten PIU (Satker)” means each Project implementation unit (*Satuan Kerja, or Satker*) established by each Participating Kota and each Participating Kabupaten in accordance with paragraph 2(c) of Section I.A of Schedule 2 to this Agreement.
28. “Land Acquisition and Resettlement Action Plan” means a resettlement and rehabilitation action plan for a Sub-project giving details of the agreed provisions for compensation, rehabilitation and resettlement assistance to Displaced Persons under the Sub-project, along with the procedural and institutional measures needed to implement such agreed provisions,

acceptable to the World Bank and the Recipient, prepared and implemented by a BKM, pursuant to the Land Acquisition and Resettlement Framework, as such Plan may be amended from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such Plan.

29. “Land Acquisition and Resettlement Framework” means the Land Acquisition and Resettlement Policy adopted by the Recipient through MPW and delivered to the Bank on March 1, 2011 setting forth the measures and actions to be taken during the implementation of the Project for the provision of compensation, rehabilitation and resettlement assistance to Displaced Persons, as such framework may be amended from time to time with the prior agreement of the World Bank and the Recipient and the Recipient, and such term includes any annexes or schedules to such framework.
30. “Local Government” means the government of a Kabupaten, Kecamatan or Kota, as the context requires, and “Local Governments” means more than one Local Government.
31. “Local Government Participation” means Local Government funding of the total Sub-project cost for participating in the Project, to be made available by a Participating Local Government to a Participating Kelurahan for a Sub-project in accordance with the formula set forth in the Project Manual.
32. “Menko Kesra” means the Recipient’s Coordinating Ministry for Peoples’ Welfare, and any successor thereto.
33. “Ministry of Finance” means the Recipient’s Ministry of Finance, or any successor thereto.
34. “Ministry of Public Works” or “MPW” means the Recipient’s Ministry of Public Works, or any successor thereto.
35. “MOHA” means the Recipient’s Ministry of Home Affairs, or any successor thereto.
36. “National Management Consultants” means the team of consultants within the Project Management Unit at the central level engaged to assist in Project implementation and monitoring.
37. “Operational Guidelines for Monitoring and Evaluation of PNPM” means the guidelines, included in the Project Manual, outlining the common objectives, mechanisms and responsibilities for monitoring and evaluation of the Project
38. “Oversight Consultants” means the team of consultants and facilitators at the provincial and district level engaged to assist Participating Kelurahans with Project implementation and monitoring.
39. “Part” means a part of the Project described in Schedule 1 to this Agreement.



40. “Participating Kabupaten” means a Kabupaten which is responsible for a Local Government Participation for a Sub-project in accordance with the Project Manual, and “Participating Kabupatens” means more than one Participating Kabupaten.
41. “Participating Kecamatan” means a Kecamatan in which one or more Participating Kelurahan are located and which establishes a PJOK for the Project in accordance with the Project Manual, and “Participating Kecamantans” means more than one Participating Kecamatan.
42. “Participating Kelurahan” means a Kelurahan participating in the Project meeting the eligibility requirements set out in the Project Manual.
43. “Participating Kota” means a Kota which is responsible for a Local Government Participation for a Sub-project, and “Participating Kotas” means more than one Participating Kota.
44. “Participating Local Government” means the government of a Participating Kota or a Participating Kabupaten designated by the Recipient as one in which a Participating Kelurahan shall carry out a Sub-project in accordance with the Project Manual, and “Participating Local Governments” means more than one Participating Local Government.
45. “Perpres” means a *Peraturan Presiden*, a presidential regulation.
46. “PIU (Satker)” means the central-level Project implementation unit (*Satuan Kerja, or Satker*) established and operating in accordance with paragraph 2 of Section I.A of Schedule 2 to this Agreement.
47. “PJOK” means the Project operations officer at the Kecamatan level responsible for each Sub-project in the relevant Participating Kelurahans, established in accordance with paragraph 2(d) of Section I.A of Schedule 2 to this Agreement, and “PJOKs” means more than one PJOK.
48. “PMU” means the central-level Project management unit established and operating in accordance with paragraph 1(b) of Section I.A of Schedule 2 to this Agreement.
49. “PNPM” means *Program Nasional Pemberdayaan Masyarakat*, the Recipient’s National Program for Community Empowerment, as described in Perpres 15/2010, as the same may be amended or updated from time to time.
50. “PNPM Urban 3 Loan Agreement” means the agreement for Loan No. 7866 dated April 9, 2010, between the Recipient (as borrower) and the World Bank for the Third National Program for Community Empowerment in Urban Areas.
51. “Provincial PIU (Satker)” means each Province-level Project implementation unit (*Satuan Kerja, or Satker*) established by each Project Province in accordance with paragraph 2(a)

Section I.A of Schedule 2 to this Agreement, and “Provincial PIUs (Satkers)” means more than one Provincial PIU (Satker).

52. “Procurement Guidelines” means 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.
53. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 14, 2011, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
54. “Project Manual” means the Project Manual, referred to in paragraph 1 of Section I.B of Schedule 2 to this Agreement, as such Project Manual may be amended from time to time with the prior agreement of the World Bank and the Recipient, and includes, where applicable for a particular Sub-project, the Disaster Management Manual, as well as any annexes or schedules to such Manual.
55. “Province” means an administrative sub-division of the Recipient’s territory at the first level below the national level.
56. “Provincial Poverty Alleviation Coordination Team” means the province-level working group established under Perpres 13/2009, as updated from time to time, in each Province, or any successor thereto.
57. “PSF” means the Support Facility for the National Program for Community Empowerment Multi-Donor Trust Fund (TF070967 and TF071562).
58. “Revolving Fund” means a fund established as a Core Sub-project meeting the requirements set out in the Project Manual, and “Revolving Funds” means more than one Revolving Fund.
59. “Rupiah” and “Rap” mean the currency of the Recipient.
60. “Standard Conditions” means the Standard Conditions for Grants Made by the World Bank out of Various Funds, dated July 31, 2010 (“Standard Conditions”).
61. “State Ministry for Development of Disadvantaged Regions” means the Recipient’s State Ministry for Development of Disadvantaged Regions, and any successor thereto.
62. “Sub-project” means an activity qualifying for financing by a Disaster Management Kelurahan Grant in accordance with the terms of this Agreement, the Project Manual and the supplemental Disaster Management Manual, and “Sub-projects” means more than one Sub-project.
63. “Sub-project Agreement” means the agreement to be entered into between the relevant Participating Kelurahan, through the BKM, and the relevant PJOK for purposes of implementing a Sub-project on the terms and conditions set forth in Annex 2 to Schedule 2 to

this Agreement and included in the Project Manual, and “Sub-project Agreements” means more than one Sub-project Agreement.

64. “Tim Pengendali PNPM” means the national-level oversight body of PNPM, chaired by Menko Kesra (Tim Pengendali PNPM), with representatives of relevant ministries, including BAPPENAS, MOHA, Ministry of Finance, Ministry of Public Works, and State Ministry for Development of Disadvantaged Regions, and any successor thereto.