

Public Disclosure Authorized

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LOAN NUMBER 4762 IND

# Loan Agreement

(Government Financial Management and Revenue Administration Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated December 22, 2004

Public Disclosure Authorized



**LOAN NUMBER 4762 IND**

**LOAN AGREEMENT**

AGREEMENT, dated December 22, 2004, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter from the Borrower, dated September 24, 2004, describing a program being undertaken by the Borrower designed to implement policy and process reforms to strengthen efficiency, governance and accountability in public financial management and the revenue administration (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) the Borrower has requested that the Bank support the Borrower's execution of the Program through a series of loans and credits over a period of approximately twelve (12) years to be utilized by the Borrower in the implementation of the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project, which project is an integral part of the Program;

(D) the Borrower has also requested the Association to provide additional financial assistance towards the financing of the Project and by the Development Credit Agreement the Association is agreeing to provide such assistance in a principal amount equivalent to three million four hundred and ten thousand Special Drawing Rights (SDR 3,410,000) (the Credit);

(E) the Borrower and the Bank intend, to the extent practicable, that the proceeds of the credit provided for in the Development Credit Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the loan provided for in Article II of this Agreement (the Loan) are made;

(F) the Borrower has also requested that additional financial assistance towards the financing of the Project be provided out of grant trust funds provided by Japan and administered by the Bank, and by the Japan Grant Agreement of even date herewith between the Republic of Indonesia and the Bank acting as administrator of said trust funds, the Bank is agreeing to provide such assistance in a principal amount equivalent to five million Dollars (\$5,000,000); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

(b) Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Bank Indonesia" means the Borrower's central bank, and any successor thereto.

(b) "BAPPENAS" means the Borrower's National Development Planning Agency, and any successor thereto.

(c) “CHU” means the complaints handling unit established pursuant to Ministerial Decree No. 401/KM.1/2004, and referred to in paragraph 2 of Schedule 5 of this Agreement, responsible for monitoring and processing complaints related to Project implementation.

(d) “Development Credit Agreement” means the agreement of even date herewith between the Borrower and the Association for the Project, as such agreement may be amended from time to time; and such term includes all schedules and agreements supplemental to the Development Credit Agreement.

(e) “DGCE” means the Directorate General of Customs and Excise of the Borrower’s Ministry of Finance, and any successor thereto.

(f) “DGT” means the Directorate General of Tax of the Borrower’s Ministry of Finance, and any successor thereto.

(g) “DPR” means the Dewan Perwakilan Rakyat, the House of Representatives of the Republic of Indonesia.

(h) “Eligible Categories” means Categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement.

(i) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement.

(j) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement.

(k) “Governance and Accountability Action Plan” means the action plan for ensuring appropriate accountability, transparency and integrity in the Borrower’s implementation of the Project, adopted by Decree S-001/KP-1/GFMRAP/2004 issued by the Secretary General of the Ministry of Finance, as such action plan may be amended from time to time with the prior agreement of the Bank.

(l) “MOF” means the Borrower’s Ministry of Finance, and any successor thereto.

(m) “Japan Grant Agreement” means the agreement for the Project of even date herewith between the Borrower and the Bank acting as administrator of Japan grant funds, as such agreement may be amended from time to time; and such term includes all annexes and agreements supplemental to the Japan Grant Agreement.

(n) “Japan Grant” means the grant made available to the Borrower pursuant to the terms of the Japan Grant Agreement.

(o) “NPPO” means the Borrower’s National Public Procurement Office (Lembaga Pengembangan Kebijakan Pengadaan Pemerintah) to be established by Presidential decree in accordance with the provisions of Keppres 80/2003.

(p) “PIU” means the structural unit in each implementing agency for the Project, designated pursuant to the provisions of Ministerial Decree No. 402/KM.1/2004 and referred to in paragraph 2 of Schedule 5 to this Agreement, responsible for the budget, work-plan, procurement, financial management, reporting and other implementation support activities for the sub-Part of the Project for which such agency is responsible.

(q) “Procurement Plan” means the Borrower’s procurement plan, dated September 27, 2004 covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation.

(r) “Project Preparation Advances” means the project preparation advances granted by the Bank to the Borrower pursuant to the letter agreements signed on behalf of the Bank on December 16, 2003, and May 28, 2004, and on behalf of the Borrower on December 24, 2003, and June 7, 2004, respectively.

(s) “PSC” means the Project Steering Committee established by Ministerial Decree, No. 401/KM.1/2004, and referred to in paragraph 1 of Schedule 5 to this Agreement, responsible to the Minister of Finance for overall project implementation and coordination through supervision and policy guidance to achieve the objective of the Program.

(t) “PSSU” means the Project Support and Services Unit established within the Directorate General of the Treasury, MOF, by Ministerial Decree No. 402/KM.1/2004, and referred to paragraph 2 of Schedule 5 to this Agreement, to provide administrative, logistical, procurement and financial management support for overall Project implementation, and to coordinate with designated leaders (“Penanggung Jawab”) for each sub-Part of the Project.

(u) “PWC” means the Project Working Committee established by Ministerial Decree 401/KM.1/2004 and referred to in paragraph 1 of Schedule 5 to this Agreement, to coordinate and oversee preparation and implementation of each sub-Part of the Project, monitor and evaluate Project implementation, periodically report progress

to the PSC, and monitor the implementation of the Governance and Accountability Action Plan.

(v) “SPAN” means “Sistem Perbendaharaan dan Anggaran Negara”, the integrated state treasury payment and budget preparation system to be established under Part A.3 of the Project.

(w) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement.

(x) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.4 of Schedule 1 to this Agreement.

(y) “Tax Court” means the Tax Court of Indonesia, established pursuant to the provisions of Law 14/2002.

(z) “Treasury Single Account” means the consolidated treasury account to be established by the Borrower’s Ministry of Finance under Part A.3 of the Project in Bank Indonesia through which all treasury operations of MOF are to be carried out.

(aa) “TWGs” means the Technical Working Groups established pursuant to Ministerial Decree No. 401/KM.1/2004 and referred to in paragraph 1 of Schedule 5 to this Agreement, to provide technical support and guidance to the designated leader (“Penanggung Jawab”) for each sub-Part of the Project, and to review and evaluate the outputs of each such sub-Part.

## **ARTICLE II**

### **The Loan**

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to fifty five million Dollars (\$55,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advances withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advances shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2009, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.



- (b) For the purposes of this Section:
- (i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
  - (ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.
  - (iii) “LIBOR Base Rate” means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
  - (iv) “LIBOR Total Spread” means, for each Interest Period: (A) three-fourths of one percent ( $3/4$  of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.
- (c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out Parts A (other than Parts A.2 (a), A.4 (a)), B, C.2, C.3 and D of the Project through MOF, Parts A.2 (a) and A.4 (a) through BAPPENAS, and Part C.1 of the Project through the Office of the Secretary General of the DPR, in each case with due diligence and efficiency and in conformity with appropriate administrative, management, financial and budgetary practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed for the continued achievement of the Project's objectives; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Bank by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 12 of Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. The Borrower shall make publicly available, and agrees that the Bank may also make publicly available, each final audit report referred to in Section 4.01 of this Agreement, promptly after its issuance by the independent auditors referred to therein.

## ARTICLE V

### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The Program shall have been amended, suspended, abrogated or repealed so as to affect materially and adversely the Borrower's ability to achieve the objectives of the Project.

(b) Law no. 17/2003 on State Finances and Law No. 1/2004 on the State Treasury of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Borrower to perform any of its obligations under this Agreement.

- (c) (i) Subject to sub-paragraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Japan Grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Japan Grant Agreement.
- (ii) Sub-paragraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that any of the events specified in Section 5.01 of this Agreement shall occur.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) each of the Development Credit Agreement and the Japan Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled;

(b) the Project Management Manual, acceptable to the Bank, has been adopted in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement;

(c) each of the CHU, the PIUs and the TWGs shall have been established, and staff appointments have been made, in each case in accordance with the provisions of paragraph 2 to Schedule 5 to this Agreement;

(d) each of MOF, for the purposes of Parts A (other than Parts A.2 (a) and A.4 (a)), B, C.2, C.3 and D of the Project, BAPPENAS, for the purposes of the Parts A.2 (a) and A.4 (a) of the Project, the Office of the Secretary General of the DPR, for the purposes of Part C.1 of the Project, and the Tax Court, for the purposes of Part C.2 of the Project, shall, in accordance with the provisions of paragraph 3 of Schedule 5 to this Agreement, have: (i) designated a structural unit responsible for implementation of said Part of the Project; (ii) designated specified staff, of adequate experience and qualifications, responsible for implementation and oversight of said Part of the Project; and (iii) specified the role and responsibilities (in each case acceptable to the Bank) of said unit vis-à-vis the PSSU in respect of procurement of goods and services and the selection of consultants for the carrying of said Part of the Project;

(e) the Specific Procurement Notice and the Request for Proposals for the selection of a consultancy firm for change management and communications services under Part D of the Project (the contract for which services is included in the Procurement Plan) have been issued in accordance with the provisions of Schedule 4 to this Agreement;

(f) a contract with a consulting firm for independent verification and validation services under Part A of the Project (the contract for which services is included in the Procurement Plan) has been entered into in accordance with the provisions of Schedule 4 to this Agreement;

(g) the Specific Procurement Notice and the Request for Proposals for the procurement of SPAN, each satisfactory to the Bank, have been issued in accordance with the provisions of Schedule 4 to this Agreement; and

(h) an evaluation committee has been appointed, which committee is chaired by a senior "Echelon 2" Directorate-General of Treasury official, and includes technical specialists from beneficiary agencies and line ministries, in each case with qualifications and experience acceptable to the Bank, to undertake the evaluation of the SPAN contract bids and formulate recommendations thereon.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
c/o Directorate General of Treasury  
Jalan Lapangan Banteng Timur 2-4  
P.O. Box 1139  
Jakarta 10710  
Indonesia

Cable address:	Telex:	Facsimile:
FINMINISTRY Jakarta	45799 DJMLN-IA 44319 DEPKEU-IA	(21) 381 2859

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Jakarta, Republic of Indonesia as of the day and year first above written.

REPUBLIC OF INDONESIA

By: /s/ Mulia Nasution  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Andrew Steer  
Authorized Representative



**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan, Credit and Japan Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>Amount of the Japan Grant (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) (a) Goods other than for SPAN	-	2,000,000	-	100%
(b) Goods for SPAN under Part A.3 of the Project	-	26,600,000	-	100%
(2) Consultants' services				
(a) other than Part C.1 of the Project	3,410,000	15,215,000	2,950,000	100%
(b) for Part C.1 of the Project	-	-	1,300,000	100%
(3) Training and workshops	-	7,200,000	500,000	100%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>Amount of the Japan Grant (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(4) Incremental operating costs	-	300,000	100,000	100%
(5) Refunding of Project Preparation Advances	-	784,700	-	Amounts due pursuant to Section 2.02 (c) of the Loan Agreement
(6) Front-end Fee	-	275,000	-	Amount due under Section 2.04 of the Loan Agreement
(7) Unallocated	-	2,625,300	150,000	
<b>TOTAL</b>	<b>3,410,000</b>	<b>55,000,000</b>	<b>5,000,000</b>	

2. For the purposes of this Schedule:

(a) the terms “training” and “workshops” mean reasonable expenditures incurred by the Borrower in connection with the holding of training or workshops, as the case may be, under the Project including the travel costs and per diem of: (i) trainers and trainees, in the case of training; and (ii) the organizers and participants, in the case of workshops, and the rental of facilities and the development and/or acquisition of training or workshop materials, as the case may be; and

(b) the term “Incremental Operating Costs” means the reasonable costs of incremental expenditures incurred by the PSSU and the PIUs in the implementation of

the Project (which expenditures would not have been incurred absent the Project), including the costs of training Project personnel, advertising, travel and per diem, office equipment, communications and utilities, and office consumables, but excluding salaries, salary supplements, allowances and honoraria of the Borrower's civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods other than for SPAN costing less than \$50,000 equivalent per contract; (b) for services of individual consultants costing up to \$50,000 equivalent per contract; (c) for services of consulting firms under contracts costing up to \$100,000 equivalent per contract, (d) training and workshops; and (e) incremental operating costs; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in Bank Indonesia or a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Not  
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$6,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are  
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to improve efficiency, governance, integrity and transparency in the Borrower's public financial management and revenue administration.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

#### Part A. Public Financial Management

Upgrading the Borrower's capacity to plan, execute and account for public spending at the national level in accordance with national priorities established in DPR approved national budgets by:

1. Strengthening the policy research capacity of MOF.
2. Strengthening the budget planning, formulation and development system of the Borrower, including establishing an integrated unified budget process and a medium term expenditure framework, and initiating a performance-based budgeting process, through the provision of technical assistance and training to: (a) BAPPENAS; and (b) the Directorate General of Budget and Fiscal Balance of MOF.
3. Modernizing the budget execution and treasury payments system of the Borrower, including strengthening the Directorate General of Treasury of MOF, automating its overall treasury and budget execution operations, and establishing a Treasury Single Account.
4. Carrying out a program for further reforming public procurement, including:
  - (a) the provision of technical assistance for: (i) the establishment of the NPPO; (ii) the accreditation of public procurement professionals; (iii) the development of public procurement legislation; (iv) the development of national public procurement standards; and (v) supporting and promoting the implementation of civil society oversight of public procurement; and
  - (b) developing an overall strategy for e-procurement and piloting e-procurement within MOF.



5. Implementing accrual-based government accounting standards.

## **Part B. Public Revenue Administration**

1. Upgrading the Borrower’s revenue collection capabilities and enhancing the integrity and service delivery of DGCE by:

- (a) Strengthening the organization and management of DGCE through: upgrading the organizational structure and operational management of DGCE, improving human resource management and training, and improving integrity-enhancement mechanisms, including the development of a corruption risk “map”.

- (b) Strengthening the Borrower’s Customs operations, including reviewing the legal framework to determine its consistency with World Trade Organization standards and Revised Kyoto Convention principles and standards and drafting revised legislation where appropriate to achieve such consistency; strengthening the administrative appeals process within DGCE; upgrading DGCE’s risk management and customs compliance systems; upgrading DGCE’s valuation capacity and database; and improving DGCE’s arrears management and collection capabilities.

- (c) Improving mechanisms for trade facilitation, including evaluating and upgrading the customs priority channel system; developing a trade facilitation program (including simplifying and streamlining import clearance documentation requirements); developing mechanisms for promoting business and trading community participation; and institutionalizing feedback from stakeholders on customs operations and modernization initiatives.

- (d) Upgrading the information and communication technology and infrastructure of DGCE through the provision of technical assistance.

2. Strengthening the tax administration capabilities of DGT by monitoring the implementation of its medium term modernization strategy.

## **Part C. Governance and Accountability in Public Financial Management and Revenue**

### **Administration Processes**

1. Carrying out a program to strengthen parliamentary capacity for budget analysis and oversight through the provision of assistance to the Office of the Secretary General of the DPR.

2. Carrying out a program to strengthen the operations and professional capacity (including case management, court administration and procedures, and research and learning capabilities) of the Tax Court.

3. Carrying out a program to strengthen the Office of the Inspector General of MOF, including the vesting of legal powers and the establishment of a unit to investigate allegations of employee misconduct and/or corruption in MOF, the development and implementation of revised standards and operating procedures, and the upgrading of in-house training.

#### **Part D. Project Governance and Implementation**

1. Providing technical assistance to MOF to develop and support the implementation of a change management and communications strategy for the Project.

2. Providing technical assistance to MOF and other executing agencies: (a) to develop and carry out a capacity-building action plan for the monitoring and evaluation of the Project and the periodic dissemination of monitoring and evaluation results; and (b) to strengthen project coordination and implementation.

\* \* \*

The Project is expected to be completed by December 31, 2008.

**SCHEDULE 3**

**Amortization Schedule**

<b>Date Payment Due</b>	<b>Payment of Principal (in US\$)</b>
May 15, 2010	1,560,000
November 15, 2010	1,575,000
May 15, 2011	1,595,000
November 15, 2011	1,610,000
May 15, 2012	1,630,000
November 15, 2012	1,645,000
May 15, 2013	1,665,000
November 15, 2013	1,685,000
May 15, 2014	1,700,000
November 15, 2014	1,720,000
May 15, 2015	1,740,000
November 15, 2015	1,755,000
May 15, 2016	1,775,000
November 15, 2016	1,795,000
May 15, 2017	1,815,000
November 15, 2017	1,835,000
May 15, 2018	1,855,000
November 15, 2018	1,875,000
May 15, 2019	1,895,000
November 15, 2019	1,915,000
May 15, 2020	1,935,000
November 15, 2020	1,960,000
May 15, 2021	1,980,000
November 15, 2021	2,000,000
May 15, 2022	2,025,000
November 15, 2022	2,045,000
May 15, 2023	2,070,000
November 15, 2023	2,090,000
May 15, 2024	2,115,000
November 15, 2024	2,140,000

## **SCHEDULE 4**

### **Procurement**

#### Section I. General

(A) All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule and of Annex A to this Schedule.

(B) All consultants' services shall be procured in accordance with Section I and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule and of Annex A to this Schedule.

(C) The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

#### Section II. Particular Methods of Procurement of Goods and Services (other than Consultants' Services)

##### (A) International Competitive Bidding

1. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of Section II and paragraphs 3.14 and 3.15 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

2. The bidding procedure for SPAN under Part A of the Project shall be carried out in two stages in accordance with the provisions of paragraph 2.6 of the Procurement Guidelines and the Bank's standard document for Two-Stage Bidding for Supply and Installation of Information Systems.

B. Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$500,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding and in accordance with the provisions of Annex B to this Schedule.

2. Shopping

Goods and services (other than consultants' services) estimated to cost less than \$50,000 equivalent per contract, may be procured on the basis of Shopping.

3. Direct Contracting

Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection

Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$400,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection

Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection

Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants

Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV: Review by the Bank of Procurement Decisions

A. Prior Review

1. Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for goods and services (other than consultants' services) to be awarded on the basis of International Competitive Bidding, National Competitive Bidding or Direct Contracting; (b) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (c) each contract for consultants' services provided by a firm to be awarded by Single Source Selection; and (d) the first contract for consultancy services under each sub-Part of the Project, regardless of its estimated cost.

2. The following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval

shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

3. Without limitation upon the provisions of paragraphs 1 and 2 of this Section IV A, the terms of reference of each contract for the employment of consultants, regardless of the estimated cost thereof, shall be furnished to the Bank for its prior review and approval.

B. Post Review.

Each contract for goods, services or consultants' services not governed by Part A of this Section shall be subject to Post Review by the Bank.

#### **ANNEX A TO SCHEDULE 4**

Without limitation on the provisions of Schedule 4 to the Loan Agreement (Schedule 4) and of the Procurement Guidelines and the Consultant Guidelines (as such terms are defined in said schedule and referred to hereafter as the Guidelines), the following provisions shall apply in respect of goods and consultants' services to be procured under the Project:

1. To ensure end-user participation in the procurement of goods, services and consultants' services under this Project, the requester/user of such goods, services or consultants' services (as the case may be) to be acquired shall be represented on relevant procurement/selection committee. The criteria for the selection of procurement/selection committee members shall in all cases be consistent with the provisions of the Guidelines.
2. The Procurement Plans, including all updates thereof, shall be made publicly available promptly after their finalization.
3. All bidding documents and requests for proposals issued in accordance with Schedule 4 shall be made available to any member of the public promptly upon request, subject only to payment of a reasonable fee to cover the cost of printing and delivery. In the case of requests for proposals, the relevant documents will only be made available after notification of award to the successful firm. Each such document will continue to be made publicly available until a year after completion of the contract entered into for the goods or consultants' services in question.
4. All short lists of consultants and, in cases of pre-qualification, lists of pre-qualified contractors and suppliers shall be made available to any member of the public promptly upon request.
5. A summary of the evaluation of all bids and proposals for specific contracts shall be disclosed to all bidders and parties submitting proposals therefor, promptly after the notification of award to the successful bidder/consultant. Information in such summaries will be limited to a list of bidders/consultants, all bid prices and financial proposals as read out at public openings for bids and financial proposals, all bids and proposals declared non responsive (together with reasons for such an assessment), the name of winning bidder/consultant and the contract price. Such summaries will be made available to any member of the public promptly upon request.
6. Contract award information for all contracts for goods above \$100,000 equivalent or more and all contracts for consultants above \$50,000 equivalent or more shall be made publicly available and published widely, and be made available to any member of the public upon request, promptly after such award.



7. A list of all contracts awarded in the three months preceding the date of such request, including, with respect to each such contract, the name of the contractor/consultant selected, the contract amount, the number of bidders/makers of proposals in respect thereof, the procurement method followed and the purpose of such contract shall be made available, promptly upon request by any member of the public.
8. Representatives of the end-users of goods being procured shall be permitted to attend public bid openings in respect thereof.

## **ANNEX B TO SCHEDULE 4**

### **1. General**

Subject to the provisions of paragraph B (1) of Section II of Schedule 4 to this Agreement, the procedures to be followed for national competitive bidding shall be those set forth in Presidential Decree No.80/2003 of the Republic of Indonesia with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the "Procurement Guidelines").

### **2. Registration**

(a) Bidding shall not be restricted to pre-registered firms and shall not be a condition for participation in the bidding process.

(b) Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

### **3. Pre-qualification**

Pre-qualification shall not be used for simple goods. Normally, post-qualification shall be used. When pre-qualification shall be required:

(a) eligible bidders (both national and foreign) shall not be denied pre-qualification; and

(b) invitations to pre-qualify for bidding shall be advertised in at least one widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications.

### **4. Joint Ventures**

A bidder declared the lowest evaluated responsive bidder shall not be required to form a joint venture or to sub-contract part of the supply of goods as a condition of award of the contract.

5. Preferences

(a) No preference of any kind shall be given to national bidders.

(b) Regulations issued by a sectoral ministry, provincial regulations and local regulations, which restrict national competitive bidding procedures to a class of contractors or a class of suppliers shall not be applicable to procurement procedures under the Loan Agreement.

6. Advertising

(a) Invitations to bid shall be advertised in at least one widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids and allowing potential bidders to purchase bidding documents up to twenty-four (24) hours prior to the deadline for the submission of bids.

(b) Bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee.

(c) Bidders domiciled outside the area/district/province of the unit responsible for procurement shall be allowed to participate regardless of the estimated value of the contract.

(d) Foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign firm declared the lowest evaluated bidder shall be given a reasonable opportunity for registering.

7. Bid Security

Bid security, at the bidder's option, shall be in the form of a bank guarantee from a reputable bank.

8. Bid Opening and Bid Evaluation

(a) Bids shall be opened in public, immediately after the deadline for submission of bids, and if bids are invited in two envelopes, both envelopes (technical and price) shall be opened at the same time.

(b) Evaluation of bids shall be made in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the lowest evaluated bidder.

(c) Bidders shall not be eliminated from detailed evaluation on the basis of minor, non-substantial deviations.

(d) 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 concurrence.

9. Rejection of Bids

(a) No bids shall be rejected and new bids solicited without the Bank's prior concurrence.

(b) When the number of responsive bids is less than three, re-bidding shall not be carried out without the Bank's prior concurrence.

## SCHEDULE 5

### Implementation Program

#### Project Management

1. The Borrower shall: (a) maintain, throughout the period of Project implementation, the PSC and the PWC; and (b) establish, and maintain throughout the period of Project implementation, the TWGs, each with a composition, functions and responsibilities acceptable to the Bank, which responsibilities shall consist of:

- (i) in the case of the PSC, overall Project implementation and coordination through supervision and policy guidance, ensuring that: (i) Project activities are appropriately coordinated: (a) among all relevant departments in MOF; (b) between all relevant public institutions of the Borrower, including BAPPENAS and the Office of the Secretary-General of the DPR; and (c) between MOF and Bank Indonesia; and (ii) donor assistance for the Program is appropriately coordinated for the purpose of ensuring efficient use of resources and contributing to the attainment of the Program's objectives;
- (ii) in the case of the PWC, coordinating and overseeing preparation and implementation (referred to in paragraph 3 of this Schedule 5) of each sub-Part of the Project, monitoring and evaluating Project implementation, periodically reporting progress in Project implementation to the PSC, and monitoring the implementation of the Governance and Accountability Action Plan; and
- (iii) in the case of the TWGs, providing technical support and guidance to the designated leader ("Penanggung Jawab") for each sub-Part of the Project, and to review and evaluate the outputs of each such sub-Part.

2. The Borrower shall: (a) maintain until completion of the Project, the PSSU; (b) establish, and maintain until completion of the Project, a PIU in each Project implementing directorate or agency (other than the Office of the Secretary-General of the DPR), until completion of the Project; and (c) establish, and maintain until completion of the Project, the CHU, in each case with functions and responsibilities acceptable to the Bank, and provide said PSSU, each PIU and said CHU at all times with adequate funds and other resources and with qualified and experienced personnel in adequate numbers as shall be necessary for each to accomplish its functions, responsibilities and objectives.

3. Each of: (a) MOF, for the implementation of Parts A (other than Parts A.2 (a) and A.4 (a)), Part B and Part D of the Project; (b) BAPPENAS, for the implementation of Parts A.2 (a) and 4 (a) of the Project; (c) the Office of the Secretary-General of the DPR, for the implementation of Part C.1 of the Project; and (d) the Tax Court, for the implementation of Part C.2 of the Project, the Borrower shall, through an appropriate legal instrument (the provisions of which shall be consistent with the Project Management Manual): (i) designate a structural unit responsible for implementation of said Part/s of the Project, (ii) designate a leader (“Penanggung Jawab”) of, and staff for, said unit, in each case with terms of reference, experience and qualifications acceptable to the Bank; and (iii) specify the role and responsibility of said unit vis-à-vis the PSSU in respect of procurement of goods and services and the selection of consultants for the carrying of said Part/s of the Project.

4. The Borrower shall, through MOF, adopt and thereafter apply a Project Management Manual acceptable to the Bank to serve as a reference manual to Project staff. Said manual shall set out, inter alia: the organizational structure and responsibilities for project governance and accountability (including responsibilities for carrying out the Governance and Accountability Action Plan); coordination arrangements; staffing and training requirements; fund flow arrangements; the financial management, reporting and auditing requirements set forth in Article IV to this Agreement and the arrangements for complying with said requirements; and the procurement procedures set forth in Schedule 4 to this Agreement and the arrangements for complying with said procedures. Except as the Bank may otherwise agree, the Borrower shall not amend, suspend, abrogate or waive the Project Management Manual or any part thereof.

#### Project Implementation

5. The Borrower shall:

- (i) by no later than January 31 and July 31 in each year, commencing July 31, 2005, and until completion of the Project, prepare and furnish to the Bank for its review and comments, a semi-annual work program; and
- (ii) not later than February 28 and August 31 in each year, commencing February 28, 2005, finalize the above-mentioned work program for implementation, taking into account the Bank’s comments thereon, and thereafter implement such program in a satisfactory manner.

6. The Borrower shall:
  - (i) not later than July 31 in each year, commencing July 31, 2006, and until completion of the Project, furnish to the Bank for its review and comments, an annual plan (including budget provisions) for the maintenance of the hardware and software systems (including SPAN) acquired under the Project under contracts costing \$100,000 or more, and the connectivity of said systems, said annual plan to include the estimated costs therefore, including non-personnel, maintenance and other operating costs; and
  - (ii) not later than August 31 in each year, commencing August 31, 2006, finalize the above-mentioned plan for implementation, taking into account the Bank's comments thereon, and thereafter implement such plan in a satisfactory manner.
  
7. In carrying out Part A of the Project the Borrower shall, through MOF:
  - (i) not later than March 31, 2005, furnish to the Bank for its review an Information Technology Infrastructure Support Services Plan for MOF, which plan is to: (a) include an implementation schedule; (b) cover organization, staffing and operational modalities; and (c) take into consideration the recommendations from the reports submitted by the consultants engaged by MOF and funded by the Project Preparation Advances to prepare user and technical requirements for SPAN;
  - (ii) not later than July 31, 2005, adopt the said Plan, taking into account the Bank's comments thereon, and thereafter implement such plan in a satisfactory manner;
  - (iii) not later than September 30, 2005, or such later date as the Bank may agree, appoint and thereafter maintain a full-time team, appropriately staffed and with qualifications and experience to be an effective MOF counterpart for the SPAN implementation contractor; such team to include functional experts in budget execution, budget classification, revenue remittances, government accounting, payment and revenue processing, statistical and financial analysis, and IT infrastructure;
  - (iv) not later than January 31, 2006, enter into a contract for the procurement of SPAN in accordance with the provisions of Section II (A) of Schedule 4 to this Agreement; and

- (v) ensure that, not later than December 31, 2007, the stage one roll-out of SPAN (as described in the Invitation to Bid for SPAN) is completed.

8. By no later than December 31, 2006, the Borrower, through MOF, shall take all such measures as are necessary to have the Treasury Single Account established and functioning, with all on-budget central government bank accounts and own-revenue bank accounts of line ministries included therein.

9. In carrying Part B.2 of the Project, the Borrower, through DGCE, shall:

- (i) not later than March 31, 2006, complete a Customs information systems study (which study is to be carried out by consultants engaged in accordance with the provisions of Schedule 4 to this Agreement and with the Procurement Plan) and provide said study to the Bank for its review; and
- (ii) not later than June 30, 2006, adopt a time-bound action plan to acquire and install a Customs information system, which action plan shall take account of the recommendations of the study referred to in sub-paragraph (a) of this paragraph 9 and the comments of the Bank thereon.

10. In carrying out Part C.3 of the Project, the Borrower, through MOF, shall: (a) establish by no later than December 31, 2006, a unit within the Office of the Inspector-General to investigate allegations of employee misconduct and/or corruption in MOF, with functions and responsibilities as agreed with the Bank; and (b) provide said unit at all times with adequate funds and other resources and with qualified and experienced personnel in adequate numbers as shall be necessary to accomplish its functions, responsibilities and objectives.

11. The Borrower shall, through MOF, implement the Governance and Accountability Action Plan.

Monitoring and Reporting

12. The Borrower shall:

- (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;



- (ii) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, by February 28 and August 31 of each year, commencing August 31, 2005, and until completion of the Project, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (i) of this paragraph 12, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the six (6) months following such date, which measures shall include in each report due by August 31 in any year, the proposed update of the Procurement Plan pursuant to the provisions of Section 3.02 (b) of this Agreement;
- (iii) review with the Bank, on or about March 31 and September 30 of each year, commencing September 30, 2005, or such later date as the Bank shall request, the report referred to in sub-paragraph (ii) of this paragraph 12, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter;
- (iv) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about August 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (i) of this paragraph 12, on the progress achieved in the carrying out of the Project during the period preceding the date of said report 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;
- (v) review with the Bank, by September 30, 2006, or such later date as the Bank shall request, the report referred to in sub-paragraph (iv) of this paragraph 12, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter; and
- (vi) make publicly available the report referred to in sub-paragraph (iv) of this paragraph 12, at the same time as it is furnished to the Bank pursuant to said sub-paragraph.

## **SCHEDULE 6**

### **Performance Indicators**

#### Part A of the Project:

Part A.2: First medium term expenditure framework endorsed by the Government of Indonesia and forward estimates presented to DPR.

Part A.3: SPAN Stage I (as such is described in the invitation for bids for the contract for the procurement thereof) evaluated with user input with respect to content, timeliness and verifiability; specified periodic financial reports prepared for concerned entities.

Treasury Single Account system functioning with acceptable parameters: all on-budget central government bank accounts and own-revenue bank accounts of line ministries are brought into the Treasury Single Account system.

Central Government financial statements meet Government Accounting Standards as promulgated by MOF and the consolidated management reports produced by the DG Treasury include financial assets and liabilities, and cash-based reports of extra-budgetary funds.

Part A.4: An evaluation of MOF e-procurement pilot is completed and an action plan is adopted by MOF for wider rollout; a survey of procurement prices relative to international benchmarks is completed.

#### Part B of the Project:

Part B.1: DGCE has: (a) adopted a comprehensive and consultatively prepared modernization action plan with inputs from stakeholders; (b) institutionalized an annual survey of stakeholders, and annually publishes a summary of the results; and (c) implemented Web-based filing for approximately 75% of trade transactions.

Part B.2: DGT has adopted a Results-oriented Modernization Strategy and Plan with measurable performance indicators, aimed at the eventual redesign of processes along single taxpayer account lines and based on the results of the pilot re-engineering of one representative district office.

Part C of the Project:

Part C.1: Survey verifies strengthened capacity of the Budget Committee of the DPR.

Part C.2: Annual surveys of stakeholder satisfaction with tax court administration and case management have been established; an action plan has been adopted to address systems weaknesses; Tax Court decisions are accessible to the public through the Tax Court website.

Part D of the Project:

Periodic reviews verify that: (a) Project governance and all Project activities are consistent with the Governance and Accountability Action Plan and Project procurement is consistent with the Procurement Plan; (b) the PSC is strengthening project governance and oversight; and (c) an investigation unit is established and fully operational in the Office of the Inspector General of MOF, including the establishment of the necessary legal powers to investigate fully allegations of misconduct and/or corruption against MOF staff.