

CONFORMED COPY

GRANT NUMBER TF096865

**Multi-Donor Trust Fund for
Aceh and North Sumatra
Grant Agreement**

(Nias Islands Livelihoods and Economic Development Project)

between

REPUBLIC OF INDONESIA

and

**INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as Partner Agency under the Multi-Donor Trust Fund
for Aceh and North Sumatra**

July 27, 2010

GRANT NUMBER TF096865

**MULTI-DONOR TRUST FUND FOR ACEH AND NORTH SUMATRA
GRANT AGREEMENT**

AGREEMENT dated July 27, 2010, entered into between REPUBLIC OF INDONESIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“World Bank”), acting as Partner Agency under the Multi-Donor Trust Fund for Aceh and North Sumatra.

WHEREAS, pursuant to a joint resolution of the International Bank for Reconstruction and Development and International Development Association (Resolution No. IBRD-2005-0004 and IDA-2005-0002), a Multi-Donor Trust Fund for Aceh and North Sumatra (“MDF”) has been established to finance a post-earthquake and tsunami emergency rehabilitation and reconstruction program in Indonesia, and the World Bank has been appointed as Trustee thereof.

WHEREAS, the Recipient, having satisfied itself as to the feasibility and priority of the Project, has requested assistance to have the Project funded from the resources of MDF, in accordance with the provisions of the Resolution; 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 1, 2008 (“Standard Conditions”), with the modifications set forth in Section II of the Appendix to this Agreement, 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 objectives of the project described in Schedule 1 to this Agreement (“Project”). To this end, the Recipient shall carry out the Project through BAPPENAS and KPDT 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 in an amount equal to eight million two hundred thousand United States Dollars (\$8,200,000) ("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 above-mentioned 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 Effectiveness; Termination

- 4.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied, namely that: (a) the Recipient has adopted the Project Operations Manual acceptable to the Recipient and the World Bank; (b) the KPDT shall have issued a request for proposals in accordance with Section III of Schedule 2 to this Agreement, satisfactory to the Recipient and the Bank, for program management and implementation consultants under Part 3 of the Project; and (c) the execution and delivery of this Agreement on behalf of the Recipient has been duly authorized by all necessary governmental action.
- 4.02. As part of the evidence to be furnished pursuant to Section 4.01, there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Member Country, showing the following matters: that this Agreement has been duly authorized by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.
- 4.03. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Sections 4.01 and 4.02 ("Effective Date"). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.
- 4.04. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article V Recipient's Representative; Addresses

- 5.01. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance of the Recipient.

5.02. 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
P.O. Box 1139
Jakarta 10710, Indonesia

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

5.03. The World Bank's Address referred to in Section 7.01 of the Standard Conditions is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

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

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

REPUBLIC OF INDONESIA

By Rahmat Waluyanto
Director General of Debt Management

/s/ Rahmat Waluyanto
Authorized Representative

Date: July 29, 2010

INTERNATIONAL DEVELOPMENT
ASSOCIATION acting as Partner Agency of the Multi-Donor Trust Fund for
Aceh and North Sumatra

By Shubham Chaudhuri
Acting Country Director, Indonesia

/s/ Shubham Chaudhuri
Authorized Representative

Date: July 27, 2010

SCHEDULE 1

Project Description

The objective of the Project is to facilitate post-disaster economic recovery by improving the ability of the Recipient to work with poor rural households in Nias to identify, develop and sustain livelihood opportunities.

The Project consists of the following parts:

Part 1. Livelihoods Group and Institutional Empowerment

Provision of technical advisory services, training, and other material support for:

- (a) The carrying out of training activities for agricultural livelihood groups in the technical, organizational, financial and marketing aspects of livelihood development mixed-gender groups for agricultural development involving rubber improvement, cocoa rehabilitation and replanting, and livestock breeding activities.
- (b) The carrying out of training activities for women's livelihood groups in socialization and technical training in agriculture and other livelihood activities for mixed-gender groups aimed at developing a wide range of livelihood opportunities.
- (c) The carrying out of activities under Part 2 of the Project, including assistance to Kabupaten and Kota governments in the implementation of an agricultural support services program in respect of selection of target areas, balancing activities to improve gender equity, coordination of rice intensification program, tree-crop nursery management, and other agriculture and livelihood technical trainings.

Part 2. Agricultural and Other Livelihoods Improvement

Provision of technical Community Support Grants and technical support services to Community Support Grant Entities to support the implementation of activities designed and identified under Part 1 of the Project in the following areas:

- (a) Implementation of agricultural and women's livelihoods group activities to address low productivity and poor post-harvest processing and market prices for rubber, cocoa, rice and livestock, with a focus on livelihood improvement goals.
- (b) Support to local government agricultural services to strengthen agricultural support services from the Kabupaten and Kota governments and the carrying out of livelihood support activities that are identified during Project implementation.

Part 3. Project Management, Monitoring and Evaluation

Provision of technical advisory services for:

- (a) Program management support to the PMU and PSC to support Project activities in the areas of monitoring and evaluation, financial management, safeguards compliance, quality assurance, procurement, anti-corruption, and reporting.
- (b) Livelihood activities support for the selected Kecamatan in all Kabupaten and Kota in Nias.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional Arrangements

1. The Recipient shall cause BAPPENAS to be the executing agency for the Project and shall, through BAPPENAS, establish and thereafter maintain until the completion of the Project, a Project Steering Committee (PSC) at the central government level to set program policies on, and provide intergovernmental coordination of Project implementation.
2.
 - (a) The Recipient shall cause KPDT to be the central implementing agency for the Project, and shall, through KPDT: (i) establish and thereafter maintain until completion of the Project, a Project Secretariat in KPDT, Jakarta, with terms of reference acceptable to the Recipient and the World Bank to assist with Project implementation at the central level; and (ii) appoint by the date that is one (1) month after the Effectiveness Date and thereafter maintain until completion of the Project, a Project Satker, with terms of reference acceptable to the World Bank and the Recipient, and delegate management of the Project budget to the Project Satker.
 - (b) The Recipient shall ensure that the Project Secretariat and the Project Satker shall each be provided with adequate funds and other resources, and supported by suitably qualified and experienced technical, financial and administrative personnel in adequate numbers as needed to accomplish the objectives of the Project.
3.
 - (a) The Recipient shall, through KPDT, establish and thereafter maintain until completion of the Project: (i) the PMU to be responsible for the day-to-day management of the Project, as set out in the Project Operations Manual; (ii) the PSC, which shall be comprised of representatives of BAPPENAS and KPDT and responsible for Project coordination activities with the World Bank and the MDF; and (iii) the Local Steering Committee, which shall be headed by a representative of the North Sumatra Provincial Government and comprised of representatives from BAPPEDA from each Kabupaten and Kota in Nias, and shall function as the coordinating body to represent local development and program priorities, support operations, and coordinate with the PMU.
 - (b) The Recipient shall, through KPDT, ensure that the PMU is provided with adequate funds and other resources, and supported by suitably qualified and experienced technical, financial and administrative personnel, including experts in procurement and financial management financed with the proceeds of the Grant, in adequate numbers as needed to accomplish the objectives of the Project.
4. The Recipient shall ensure that each Sub-project shall be implemented by a Community Support Grant Entity meeting the eligibility requirements set out in the Sub-project Operations Manual.
5. The PSC shall coordinate with the PMU and the Local Steering Committee.

B. Implementation Obligations

1. The Recipient shall:

- (a) adopt, maintain and apply in the implementation of the Project, the Project Operations Manual, in form and substance agreed between the Recipient and the World Bank, that sets forth in respect of the Project: (i) institutional arrangements including list of selected Kecamatan; (ii) funds flow mechanism; (iii) information disclosure requirements; (iv) procurement procedures as set forth in Section III of this Schedule, sample procurement plan, standard bidding documents, requests for proposals and terms of reference, reporting and record-keeping requirements; (v) payment verification procedures for Sub-projects; (vi) reporting requirements, record keeping requirements financial management procedures and audit procedures meeting the requirements forth in Section II.B of this Schedule; (vii) project performance indicators; (viii) the Environmental and Social Safeguards Framework; (ix) the Indigenous People or Isolated and Vulnerable Peoples' Planning Framework; (x) the Land Acquisition and Resettlement Policy Framework; (xi) information to be made available to communities about the Eligibility and Selection Criteria for Community Support Grants; and (xii) the Nias-LEDP Governance and Accountability Framework;
- (b) not amend, suspend, abrogate, repeal or waive any provisions of the Project Operations Manual, without the prior agreement between the Recipient and the World Bank; and
- (c) with the prior written agreement between the Recipient and the World Bank, update the Project Operations Manual, as necessary.

In the event of any inconsistency or conflict between any provisions of this Agreement and any provisions of the Project Operations Manual, the provisions of this Agreement shall prevail.

2. The Recipient shall maintain and apply in the implementation of activities under Part 2 of the Project the Sub-project Operations Manual, in form and substance acceptable to the Recipient and the World Bank, which shall set forth: (i) Eligibility and Selection Criteria for Community Support Grants including those set forth in paragraphs 1 and 2 of Annex 1 to this Schedule; (ii) terms and conditions of Community Support Grant Agreements, including those set forth in paragraph 3 of Annex 1 to this Schedule; and (iii) Sub-project implementation, monitoring and evaluation requirements. In the event of any inconsistency or conflict between any provisions of this Agreement and any provisions of the Sub-project Operations Manual, the provisions of this Agreement shall prevail.
3. Unless otherwise agreed by the Recipient and the World Bank, for the purposes of identifying, appraising, documenting and implementing Sub-projects, the Recipient, through the PMU, shall ensure that:
 - (a) the Sub-project Operations Manual shall be applied by the PMU in implementation of the Project;

- (b) the PMU shall: (i) review each Community Support Grant Proposal for compliance with the Eligibility and Selection Criteria; and (ii) enter into a Community Support Grant Agreement with each Community Support Grant Entity, on terms and conditions acceptable to the Recipient and the World Bank and meeting the requirements set out in paragraph 3 of Annex 1 to this Schedule, prior to the disbursement of any Grant funds for the purposes of such Sub-project; and
 - (c) each Sub-project is implemented in accordance with this Agreement, the Sub-project Operations Manual and the respective Community Support Grant Agreement.
4. The Recipient shall ensure that: (a) KPDT shall delegate to the Project Satker referred to in paragraph 2(a) of Section I.A of this Schedule the authority for implementation of the Project budget for approval of Project payments, including payments to consultants and Community Support Grant Entities; and (b) KPDT shall be responsible for reconciliation of the Project budget and replenishment of the designated account as set out in the additional instructions on disbursement provided for in paragraph 1 of Section IV.A of this Schedule.
 5. The Recipient shall ensure that KPDT shall make publicly available on an on-going basis information on proposed and approved Sub-projects at the village and Kecamatan levels in accordance with the Project Operations Manual.
 6. The Recipient shall ensure the individual financial management consultant with terms of reference acceptable to the Recipient and the Bank shall be engaged at the central Project implementation level by the date which is not later than the date which is one (1) month after the Effective Date.

C. Environmental and Social Safeguards

1. The Recipient shall ensure that each Community Support Grant Entity shall apply the provisions of the Environmental and Social Safeguards Framework, the Indigenous People or the Isolated and Vulnerable Peoples' Planning Framework and the Land Acquisition and Resettlement Policy Framework in Sub-project implementation, including screening of each Sub-project to ensure that potential environmental and social impacts for each Sub-project are identified prior to implementation.
2. In carrying out each Sub-project, the Recipient shall:
 - (a) ensure that no proceeds of any Community Support Grant shall be used for the purchase or acquisition of land;
 - (b)
 - (i) take measures to avoid or minimize the acquisition of land or assets of villagers, and to avoid the displacement of villagers;
 - (ii) where the acquisition of land or assets, or the displacement of people is unavoidable under a proposed Sub-project, ensure that the Community Support Grant Entity shall, before carrying out the Sub-project which would result in such acquisition or displacement, provide to such people, adequate compensation, and other resettlement and rehabilitation benefits, in accordance with the Land Acquisition and Resettlement Policy Framework; and

- (iii) in the case of the physical displacement of persons as a result of a Sub-project, ensure that: (A) a land acquisition and resettlement action plan shall be prepared in accordance with the Land Acquisition and Resettlement Policy Framework, and furnished to the World Bank for approval; and (B) prior to the carrying out of the Sub-project, ensure that all Displaced Persons shall have been compensated and provided with applicable resettlement and rehabilitation benefits in accordance with the provisions of such land acquisition and resettlement action plan.
- 3. In carrying out each Sub-project, the Recipient shall:
 - (a) avoid, and, if not possible, minimize cultural, social and economic adverse effects on Indigenous People or Isolated and Vulnerable Peoples, caused or likely to be caused by the Project, by taking appropriate mitigating measures; and
 - (b) through a process of informed participation, involve concerned Indigenous People or Isolated and Vulnerable Peoples in the design and implementation of Sub-projects so as to ensure that the benefits received by the Indigenous People or Isolated and Vulnerable Peoples under the Project are in harmony with their economic, social and cultural preferences, and likely to protect their customary user rights in accordance with the Indigenous People or the Isolated and Vulnerable Peoples' Planning Framework and any applicable Indigenous People or Isolated and Vulnerable Peoples' Plan.
- 4. In carrying out each Sub-project, the Recipient shall ensure that the provisions of the Environmental and Social Safeguards Framework have been complied with and, where applicable, an environmental management plan fully consistent with this Agreement and the Environmental and Social Safeguards Framework has been prepared and agreed upon and applied in the implementation of such Sub-project.
- 5. The PMU shall provide the World Bank with bi-annual monitoring reports covering environmental safeguards issues during implementation of Sub-projects.
- 6. In the event of any inconsistency or conflict between any provisions of this Agreement and any provisions of the Environmental and Social Safeguards Framework, the provisions of this Agreement shall prevail.

D. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 ("Anti-Corruption Guidelines") with the modifications set forth in Section III of the Appendix to this Agreement.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports; Completion Report**

1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators agreed between the Recipient and the World Bank as of the date of this Agreement. 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.
 - (b) (i) The Recipient shall prepare, under terms of reference satisfactory to the Recipient and the World Bank, and furnish to the World Bank, by September 30, 2011 or such later date as may be agreed between the Recipient and the World Bank, a mid-term 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 period preceding the date of such 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.
 - (ii) The Recipient shall review such mid-term report with the World Bank, by the date which is forty-five (45) days after the date on which such mid-term report is submitted pursuant to the foregoing paragraph, 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 such report and the World Bank's views on the matter.
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 (6) months after the Closing Date.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.
3. The Recipient shall have its Financial Statements for the Project 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.

Section III. Procurement

A. General

1. **Procurement and Consultant Guidelines.** All goods and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:
 - (a) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”) in the case of works, goods and services other than consultants services, and Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”) in the case of consultants’ services; and
 - (b) the provisions of this Section III, 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 and paragraph 1.24 of the Consultant Guidelines.
2. **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 Works, Goods and Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, works, goods and services other than consultants’ services (non-consultants’ services) shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Works, Goods and Services.** The following methods, other than International Competitive Bidding, may be used for procurement of works, goods and services other than consultants’ services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to the following additional provisions set out in Annex 2 to this Schedule 2; and (b) Shopping.

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 methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (a) Selection Based on Consultants’ Qualifications; (b) Single Source Selection; (c) Selection of Individual Consultants; and (d) Sole Source Procedures for the Selection of Individual Consultants.

D. Review by the World Bank of Procurement Decisions

1. 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:

Category*	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Community Support Grants	340,000	100% of Community Support Grant amount disbursed
(2) Goods and non-consultants' services; training; consultants’ services; and works	7,230,000	100%
(3) Incremental operating costs	630,000	100%
TOTAL AMOUNT	8,200,000	

* For the purposes of this Table, “Incremental operating costs” means reasonable Project-related incremental expenses incurred on account of Project implementation support and management including communications supplies and charges; website design and maintenance; newspaper and media advertisements; workshop costs; document production and copying; office equipment, administration, works and maintenance costs; vehicle rental and maintenance; domestic travel and per diem, international travel and per diem, but excluding salaries of officials and staff of the Recipient; “Consultants services and training” means the services of consultants procured in accordance with Section III of this Schedule and training and other deliverables thereof in accordance with the Project Operations Manual.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made: (a) for payments made prior to the date of this Agreement; or (b) under Category 1 unless the Recipient shall have adopted the Sub-project Operations Manual, in form and substance satisfactory to the Recipient and the World Bank and shall have hired financial management consultants at the PMC in such number and with qualified and terms of reference agreed between the Recipient and the World Bank.
2. The Closing Date referred to in Section 3.06(c) of the Standard Conditions is June 30, 2012.

ANNEX 1 TO SCHEDULE 2

Eligibility and Selection Criteria for Sub-projects

1. No Community Support Grant shall be eligible for financing out of the proceeds of the Credit unless (a) the corresponding proposal for the Sub-project and Community Support Grant Entity for such Community Support Grant has been prepared and submitted, and the review of Sub-project proposal and award of such Community Support Grant has been undertaken, in accordance with the guidelines, procedures and selection criteria set forth in the Sub-project Operations Manual; and (b) a Community Support Grant Agreement has been entered into between the approved Community Support Grant Entity and the Recipient for such Sub-project, and such agreement meets the requirements set out in the Sub-project Operations Manual.

2. No Community Support Grant shall be made to finance expenditures pertaining to or involving:
 - (a) Goods or services supplied under a contract which any national or international financing institution or agency other than the World Bank has financed or agreed to finance, or which the World Bank has financed or agreed to finance under another loan, credit, or grant;

 - (b) goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	717	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	72	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations;
 - (e) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Grant proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur;
 - (f) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (g) procurement or application of pesticides;
 - (h) development in protected areas (no Sub-project will be financed that would be located in a protected area or might change the purpose and/or designation of a protected area, in each case as identified in the Decree or the Minister of the State for the Environment of the Republic of Indonesia Number KEP-11/MENLH/2006, entitled *Concerning the Types of Businesses Activities Required Completing an Environmental Impact Assessment*, which includes forest protection area; marine/freshwater conservation areas; nature tourism park; areas surrounding lakes and reservoirs; coastal mangrove areas; national parks; coastal edges; forest parks; cultural reserves; areas surrounding springs; scientific research areas; and nature conservation areas);
 - (i) conversion of mixed forest to pure stands or rubber or cacao in flooding and landslide sensitive zones;
 - (j) any activities that would impact peat swamp areas, areas of primary forest, lengths of coasts with coral reefs and gazette protected areas under the laws of the Recipient;
 - (k) any activities that would affect Indigenous People or Isolated Vulnerable Peoples, except those undertaken fully in compliance with the Indigenous People or Isolated and Vulnerable Peoples' Planning Framework; or
 - (l) any activities that would require the acquisition of land or other land associated assets or result in Displaced Persons, except those fully in compliance with the Land Acquisition and Resettlement Policy Framework and any land acquisition and resettlement action plan required thereunder.
3. Each Community Support Grant Agreement shall be on terms and conditions, which shall include:
- (a) details of the activities with a budget and sample procurement plan;

- (b) the requirement that the Community Support Grant Entity carry out its Sub-project in accordance with the Sub-project Operations Manual; Environmental and Social Safeguards Framework; Environmental Management Plan; Indigenous People or Isolated and Vulnerable Peoples Planning Framework; Land Acquisition and Resettlement Action Plan prepared in accordance with the Land Acquisition and Resettlement Policy Framework, as the case may be; and the provisions of the Anti-Corruption Guidelines applicable to recipients of grant proceeds other than the Recipient and the Nias-LEDP Governance and Accountability Framework;
- (c) the requirement that the Community Support Grant Entity procure the goods and services to be financed out of the Community Support Grant in accordance with provisions that are fully consistent with the provisions of Section III of Schedule 2 to this Agreement;
- (d) the requirement that each Community Support Grant Entity monitor and evaluate the progress of the Sub-project in accordance with the Sub-project Operations Manual;
- (e) the requirement that the Community Support Grant Entity 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;
- (f) the requirement that the Community Support Grant Entity 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
- (g) include rights adequate to protect the interests of the Recipient and the World Bank, including the right to: (A) suspend or terminate the right of the Community Support Grant Entity to use the proceeds of Community Support Grant; or (B) obtain a refund of the Community Support Grant upon the failure of the Community Support Grant Entity to perform any of its obligations under the Community Support Grant Agreement.

ANNEX 2 TO SCHEDULE 2**Clarifications Relating to National Competitive Bidding Procedures**1. General

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 and revised in October 2006 and May 2010 (the 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

- (a) Pre-qualification shall not be used for simple goods and works. Normally, post-qualification shall be used. Pre-qualification shall be required only for large or complex works with the prior ‘no objection’ of the World Bank. When pre-qualification shall be required.
- (b) Eligible bidders (both national and foreign) shall not be denied pre-qualification.
- (c) Invitations to pre-qualify for bidding shall be advertised in at least one (1) 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 work or 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 Grant.

6. Advertising

- (a) Invitations to bid shall be advertised in at least one (1) 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 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 letter of credit or 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 (2) 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 responsive 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 World Bank's prior concurrence.

9. Rejection of Bids

- (a) All bids shall not be rejected and new bids solicited without the World Bank's prior concurrence.
- (b) When the number of responsive bids is less than three (3), re-bidding shall not be carried out without the World Bank's prior concurrence.

APPENDIX

Section I. Definitions

1. “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 with the modifications set forth in Section III of this Appendix.
2. “BAPPEDA” means *Badan Perencanaan Pembangunan Daerah*, each an agency of the Recipient for planning and development at the local government level.
3. “BAPPENAS” means *Badan Perencanaan Pembangunan Nasional*, the Recipient’s National Development Planning Agency, and any successor thereto.
4. “Community Support Grant” means a grant made available by the Recipient out of the proceeds of the Grant to a Community Support Grant Entity, pursuant to the terms of a Community Support Grant Agreement to a Community Support Grant Entity for a Sub-project in accordance with the Eligibility and Selection Criteria under Part 2 of the Project, and “Community Support Grants” means more than one Community Support Grant.
5. “Community Support Grant Agreement” means the agreement entered into between the relevant Community Support Grant Entity and the Project Satker for purposes of implementing a Sub-project on the terms and conditions set forth in paragraph 3 of Annex 1 to Schedule 2 to this Agreement, and “Community Support Grant Agreements” means more than one Community Support Grant Agreement.
6. “Community Support Grant Eligible Expenditures” means those expenditures incurred in accordance with a Community Support Grant Agreement meeting the Eligibility and Selection Criteria and the requirements of the Sub-project Operations Manual, which shall exclude any expenditures on the negative list set out in paragraph 2 of Annex 1 to Schedule 2 to this Agreement.
7. “Community Support Grant Entity” means an entity meeting the Eligibility and Selection Criteria to carry out a Sub-project, and “Community Support Grant Entities” means more than one Community Support Grant Entity.
8. “Community Support Grant Proposal” means the documentation to be prepared for a Sub-project for review by the PMU as part of Sub-project selection in accordance with the Sub-project Operations Manual.
9. “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.

10. “Eligibility and Selection Criteria” means the eligibility and selection criteria for Sub-projects and Community Support Grant Entities, acceptable to the World Bank to be included in the Sub-project Operations Manual, which criteria shall be consistent with those set forth in Annex 1 to Schedule 2 to this Agreement.
11. “Environmental and Social Safeguards Framework” means the framework included in the Project Operations Manual, setting forth guidelines for the measures and actions to be taken during the implementation of the Project to eliminate, mitigate or offset adverse environmental and social impacts or to reduce such impacts to acceptable levels in the design and implementation of Sub-projects, as such framework may be amended from time to time with the prior agreement of the Recipient and the World Bank.
12. “Environmental Management Plan” means, for any Sub-project, the plan to mitigate potential adverse environmental impacts associated with the carrying out of such Sub-project, which plan shall be fully consistent with the Environmental and Social Safeguards Framework prior to commencement of Sub-project implementation.
13. “Fiscal Year” means the Recipient’s fiscal year starting on January 1 and ending on December 31 of each year.
14. “Indigenous People or 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, which are described in more detail in the Project Operations Manual.
15. “Indigenous People or Isolated and Vulnerable Peoples’ Plan” means, for any Sub-project, the plan prepared by a Community Support Grant Entity in accordance with the Indigenous People or Isolated and Vulnerable Peoples’ Planning Framework, giving details of the rules, guidelines and procedures needed to: (a) involve Indigenous People or Isolated and Vulnerable People, through a process of informed consultation, in the design and implementation of Sub-projects in locations in which such people reside or make their living; and (b) design and implement measures to provide benefits which are socially and culturally acceptable to them, and reduce, mitigate and offset adverse impacts of the Sub-project.
16. “Indigenous People or Isolated and Vulnerable Peoples’ Planning Framework” means the Indigenous People or Isolated and Vulnerable Peoples’ Planning Framework, included in the Project Operations Manual and adopted and maintained by the Recipient, that sets out the framework for measures through which the Recipient shall ensure that: (a) Indigenous People or Isolated and Vulnerable People affected by the Project receive culturally appropriate social and economic benefits; and (b) when potential adverse effects on Indigenous People or Isolated and Vulnerable People are identified, those adverse effects are avoided, minimized, mitigated, or compensated for.
17. “Kabupaten” means a district, an administrative subdivision of a province of the Recipient.
18. “Kecamatan” means a sub-district, an administrative subdivision of a Kabupaten.

19. “Kota” means an urban subdivision of a province of the Recipient.
20. “KPDT” means *Kementerian Pembangunan Daerah Tertinggal*, the Recipient’s Ministry for Development of Disadvantaged Areas, and any successor thereto.
21. “Land Acquisition and Resettlement Policy Framework” means the Land Acquisition and Resettlement Framework acceptable to the World Bank, included in the Project Operations Manual adopted by the Recipient, and giving details of provisions for scheme for land acquisition, compensation, rehabilitation and resettlement assistance, consultations and disclosure to Displaced Persons, as such Land Acquisition and Resettlement Policy Framework may be amended from time to time in agreement with the Recipient and the World Bank.
22. “Local Steering Committee” means the Local Steering Committee (LSC) established and maintained in accordance with paragraph 3(a)(iii) of Section I.A of Schedule 2 to this Agreement, and any successor thereto.
23. “Nias-LEDP Governance and Accountability Framework” means a stand-alone chapter of the Project Operations Manual designed to integrate the contents of the Anti-Corruption Guidelines and to give effect thereto, and setting forth a framework of a program of actions, measures and policies designed to reduce or eliminate fraud and corruption under the Project, including enhanced information disclosure provisions, mitigation measures to deal with the risks associated with corruption, collusion and fraudulent and obstructive practices; a complaint handling mechanism, and an appropriate regime of sanctions and remedies.
24. “PMC” means the program management consultant under Part 3 of the Project, with terms of reference acceptable to the Recipient and the World Bank, which will be engaged to assist KPDT in management of the Project.
25. “PMU” means the project management unit established within KPDT in accordance with paragraph 3 of Section I.A of Schedule 2 to this Agreement, and any successor thereto.
26. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 22, 2010 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.
27. “Project Operations Manual” means the manual for implementation of the Project, as described in paragraph 1 of Section I.B of Schedule 2 to this Agreement.
28. “Project Satker” means *Satuan Kerja*, the working group appointed by KPDT that is delegated with the authority for implementation of the Project budget for approval of Project payments, including payments to consultants and Community Support Grant Entities, and any successor thereto.
29. “Project Secretariat” means the entity established by KPDT to assist in implementation of the Project, as described in paragraph 2 of Section I.A of Schedule 2 to this Agreement, and any successor thereto.

30. “PSC” means the Recipient’s Project Steering Committee established and maintained in accordance with paragraph 3(a)(ii) of Section I.A of Schedule 2 to this Agreement, and any successor thereto.
31. “Results Framework and Monitoring Plan” means the framework for monitoring and evaluation included in the Project Operations Manual.
32. “Standard Conditions” means the Grants Made by the World Bank Out of Various Funds, dated July 1, 2008, with the modifications set forth in Section II of this Appendix.
33. “Sub-project” means the activities carried out under Part 2 of the Project by a Community Support Grant Entity for the provision of goods, works or services, meeting the Eligibility and Selection Criteria, and “Sub-projects” means more than one Sub-project.
34. “Sub-project Operations Manual” means the manual for implementation of Part 2 of Project, meeting the requirements of paragraph 2 of Section I.B and Annex 1 of Schedule 2 to this Agreement.

Section II. Modifications to the Standard Conditions. The Standard Conditions are modified as follows:

1. The provisions of Section 4.02 (j) of the Standard Conditions are modified to read as follows:

... (j) *Ineligibility.* IBRD or IDA has declared the Recipient (other than the Member Country) ineligible to receive proceeds of any financing made by IBRD or IDA or otherwise to participate in the preparation or implementation of any project financed in whole or in part by IBRD or IDA, as a result of: (i) a determination by IBRD or IDA that the Recipient has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by IBRD or IDA; and/or (ii) a declaration by another financier that the Recipient is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Recipient has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Section III. Modifications to the Anti-Corruption Guidelines. The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“...(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”