**CONFORMED COPY**

**GRANT NUMBER TF099616-ID**

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

**Grant Agreement**

**(THIRD NATIONAL PROGRAM FOR COMMUNITY EMPOWERMENT**

**IN RURAL AREAS – PSF FINANCING)**

**between**

**REPUBLIC OF INDONESIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

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

**June 6, 2011**

**GRANT NUMBER TF099616**

GRANT AGREEMENT

 AGREEMENT dated June 6, 2011, entered into between:

 REPUBLIC OF INDONESIA (“Recipient”); and

 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVLOPMENT (“World Bank”), acting as administrator of grant funds provided by donors under the Support Facility for the National Program for Community Empowerment Multi Donor Trust Fund (TF070967 and TF071562) (“PSF”).

 WHEREAS, this Agreement: (i) sets out the terms and conditions related to the provision of grant financing for the Recipient’s National for Community Empowerment in Rural Areas, or *Program Nasional Pemberdayaan Masyarakat Mandiri Perdesaan* (PNPM Rural), which is also being supported with loan financing by the umbrella Third , which is the subject of a Loan Agreement, between the Republic of Indonesia and the International Bank for Reconstruction and Development, dated April 9, 2010 (Loan No. 7867-ID), as amended (the “PNPM Rural 3 Loan Agreement”); (ii) is financed out of TF071562, which is one of the two parent trust funds comprising the Support Facility for the National Program for Community Empowerment (PSF) which operate under a joint management structure; and (iii) was endorsed by the Joint Management Committee of the PSF on March 31, 2011.

 The Recipient and the World Bank hereby agree as follows:

**Article I**

**Standard Conditions; Definitions**

* 1. The Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010 (“Standard Conditions”), constitute an integral part of this Agreement.
	2. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

**Article II**

**The Project**

2.01. The Recipient declares its commitment to the objective of the project described in Schedule 1 to this Agreement (“Project”). To this end, the Recipient shall carry out the Project, through MOHA, 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 thirty two million seven hundred thousand United States Dollars (US$32,700,000) (“Grant”), to assist in financing the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

3.03. The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions, the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

**Article IV**

**Recipient’s Representative; Addresses**

4.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Recipient’s Minister of Finance.

4.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

 Ministry of Finance

 c/o Directorate General of Debt Management

 Jalan Lapangan Banteng Timur 2-4

 Jakarta 10710

 Indonesia

 Cable address: Telex: Facsimile:

 FINMINISTRY 45799 DJMLN-IA (21) 381 2859

 Jakarta 44319 DEPKEU-IA

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

 International Bank for Reconstruction and Development

 1818 H Street, N.W.

Washington, D.C. 20433

 United States of America

 Cable: Telex: Facsimile:

 INTBAFRAD

INDEVAS 248423 (MCI) or 1-202-477-6391

 Washington, D.C. 64145 (MCI)

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

 **REPUBLIC OF INDONESIA**

 **By /s/ Rahmat Waluyanto**

 **Director General of Authorized Representative**

 **Debt Management**

 **INTERNATIONAL BANK FOR**

 **RECONSTRUCTION AND DEVELOPMENT**

 **acting as administrator of grant funds provided by donors**

**under the Support Facility for the National Program for Community Empowerment (PNPM) Multi Donor Trust Fund (PSF)**

 **By**

**/s/ Stefan Koeberle**

**Country Director, Indonesia**

**SCHEDULE 1**

**Project Description**

 The objective of the Project is that villagers in PNPM rural locations benefit from improved socio-economic and local governance conditions.

The Project consists of the following parts:

**Part 1: Kecamatan Grants**

(a) Provision of Kecamatan Grants to Beneficiaries to support:

(i) planning for community development, including the preparation of Sub-Project proposals;

(ii) training and capacity building, including in development planning and investment;

(iii) investment in social and economic infrastructure identified through community development planning;

(iv) investment in activities identified through community development planning using Revolving Funds; and

(v) preparing for and responding to disaster, emergency or catastrophic event, as needed, through Sub-projects and/or using the Project implementation arrangements.

(b) Provision of Kecamatan Grants to Beneficiaries for Pilot and Special Programs.

**Part 2: Facilitation Support**

Provision of technical advisory services, training and other material support, through Facilitators, to strengthen the capacity of Kabupaten and Kecamatan government institutions and communities in development planning and investment.

**SCHEDULE 2**

**Project Execution**

**Section I. Implementation Arrangements**

**A. Institutional Arrangements**

1. At the national level, the Recipient shall:
2. ensure that the Project shall be implemented under the umbrella of PNPM, and subject to the overall guidance of Tim Pengendali PNPM;
3. through MOHA, designate PMD to be responsible for the overall management and monitoring of the Project at the national level; and
4. except as the World Bank and the Recipient may otherwise agree, cause PMD to:

(i) maintain, until the completion of the Project, the PMD Secretariat, with a mandate, composition and terms of reference acceptable to the World Bank and the Recipient and set out in the Project Manual, to be responsible for the management and monitoring of the Project;

(ii) ensure that the PMD Secretariat shall be provided with adequate funds and other resources, and supported by qualified personnel in adequate numbers as needed to accomplish the objectives of the Project, including a suitably qualified Project Manager and National Management Consultants;

(iii) ensure coordination, as necessary, with the Tim Pengendali PNPM; and

(iv) in the event that PMD decides to establish more than one PMD Secretariat, in consultation with the World Bank, then each PMD Secretariat shall meet the requirements set out in this paragraph.

1. At the Province level, the Recipient shall, except as the World Bank and the Recipient may otherwise agree:
2. cause to be established in each Province prior to the disbursement of any Kecamatan Grant in such Province, and thereafter maintained until the completion of the Project, a Provincial Satker, to be responsible for the day-to-day implementation of the Project at the Province-level, with a mandate, composition and terms of reference acceptable to the World Bank and the Recipient, and set out in the Project Manual;
3. ensure that each Provincial Satker shall be provided with adequate funds and other resources, and supported by qualified personnel in adequate numbers as needed to accomplish the objectives of the Project, including, a PJOK, and Oversight Consultants; and
4. ensure that each Provincial Satker shall coordinate Project activities, as necessary, with the Provincial Poverty Alleviation Coordination Team responsible for its respective Province.
5. At the Kabupaten level, the Recipient shall, except as the World Bank and the Recipient may otherwise agree:
6. cause to be established in each Project Kabupaten prior to the disbursement of any Kecamatan Grant in such Project Kabupaten, and thereafter maintained until the completion of the Project, a Kabupaten Satker, to be responsible for the day-to-day implementation of the Project at the Kabupaten and Kecamatan levels, with a mandate, composition and terms of reference acceptable to the World Bank and the Recipient, as set out in the Project Manual;
7. ensure that each Kabupaten Satker shall be provided with adequate funds and other resources, and supported by qualified personnel in adequate numbers as needed to accomplish the objectives of the Project, including, a PJOK and Facilitators; and
8. ensure that each Kabupaten Satker shall coordinate Project activities, as necessary, with the Kabupaten Poverty Alleviation Coordination Team responsible for its respective area.
9. The Recipient shall ensure that the appointment letter (*surat keputusan*) for each Provincial Satker and each Kabupaten Satker is issued in a timely manner early in each fiscal year of Project implementation.

**B. Implementation Arrangements**

1. The Recipient shall, through the PMD:
2. apply in the implementation of the Project, a Project Manual acceptable to the World Bank and the Recipient, giving details of: (i) implementation arrangements; (ii) procurement procedures as set forth in Section III of this Schedule and standard procurement documentation; (iii) reporting requirements, financial management procedures and audit procedures as set forth in Section II.B of this Schedule; (iv) project performance indicators; (v) the Environmental Management Framework, the Isolated and Vulnerable Peoples Framework, and the Land Acquisition and Resettlement Framework, including the technical guidelines for implementation of such frameworks; (vi) Eligibility Criteria for the selection of Sub-projects and the terms and conditions of governing the Kecamatan Grants and Local Government Participation, including the terms and conditions set forth in the Annex 1 to this Schedule; (vii) maintenance provisions for works to be carried out under a Sub-project; and (viii) the Better Governance Action Plan;
3. adopt, prior to the commencement of Sub-project selection for any Pilot and Special Program or Sub-project for a natural disaster, emergency or catastrophic event under Part 1(a)(v) of the Project, a Supplemental Manual, acceptable to the Recipient and the World Bank, as necessary to set out criteria and implementation arrangement unique to such Pilot and Special Program;
4. not amend, suspend, abrogate, repeal or waive any provisions of the Project Manual or any Supplemental Manual without the prior written agreement of the World Bank and the Recipient;
5. ensure that the Project Manual, and each Supplemental Manual, as applicable, is made available, at all times until completion of the Project, to each Local Government and all Oversight Consultants and Facilitators, and applied in the carrying out of Sub-projects; and
6. with the prior written agreement of the World Bank, update the Project Manual, and each Supplemental Manual, as necessary, at all times ensuring compliance thereof with the terms of this Agreement.
7. For the purposes of providing Kecamatan Grants to Beneficiaries under the Project, the Recipient shall only submit an application for withdrawal of the proceeds of the Grant allocated to Category (1) in the Table in Section IV.A of this Schedule to finance Sub-projects prepared and selected in accordance with the Eligibility Criteria set forth in Annex 1 to this Schedule, the Project Manual, and any applicable Supplemental Manual.
8. The Recipient shall ensure that Facilitators are contracted, trained and mobilized by no later than April 30 in each year of Project implementation in accordance with the Project Manual.
9. The Recipient, through PMD, shall ensure that, prior to carrying out Sub-project works, the technical Facilitators shall have completed a technical review of each Sub-project in accordance with the Project Manual and the requirements of Annex 1 to this Schedule. The Recipient shall ensure that the applicable Kabupaten Satker shall retain records of each such review.
10. The Recipient shall ensure that, prior to undertaking any activities under Part 1(a)(v) of the Project with respect to any natural disaster, emergency or catastrophic event, (a) the World Bank and the Recipient have agreed in writing that a disaster, emergency and/or catastrophic event requiring support for such activities has occurred; and (b) the World Bank and the Recipient have adopted a Supplemental Manual, if necessary, which defines the scope of such activities, and their implementation and disbursement arrangements.
11. The Recipient, through PMD, shall ensure, on an annual basis during Project implementation, that adequate budget is made for training of Facilitators and Oversight Consultants based on a training plan agreed in writing between the World Bank and the Recipient. The Recipient shall ensure that the Facilitators responsible for Sub-projects shall provide facilitation services until such Sub-projects are completed.
12. The PMD Secretariat shall make available to the public through its website and in hard copy at its office, at all times until completion of the Project, free of charge, a list of each Project Kecamatan, amounts of Kecamatan Grants and the Project Manual.
13. The Recipient, through the PMD Secretariat will coordinate with and ensure that Provincial and Kabupaten Satkers arrange for the public disclosure of complaints and cases related to the Project, if any, and their handling and resolution, including through media sources and on the PNPM website.
14. The PMD Secretariat shall ensure that the relevant Camat and Bupati in each Project Kecamatan and Project Kabupaten shall make publicly available in a manner acceptable to the Recipient and the World Bank for each year of Project implementation by January 15 of the subsequent year, the results of Project implementation and accounts for funds used during such year.
15. The Recipient shall ensure that, except as the World Bank and the Recipient shall otherwise agree, auditing activities under the Project, including those referred to in Section II.B of this Schedule, are carried out in accordance with: (a) BPKP’s audit manual, dated December 19, 2008, as such manual may be amended from time to time with the prior written agreement of the World Bank and subject to its continued acceptability to the World Bank; and (b) in accordance with terms of reference agreed in writing between the Recipient and the World Bank.
16. With respect to PNPM rural sub-projects financed from sources other than the Grant, including PNPM rural sub-projects for which Facilitators are financed by the Project but the PNPM rural sub-projects are themselves financed from such other sources, the PMD Secretariat shall:
17. undertake such sub-projects in accordance with the Project Manual; and
18. retain responsibility for the design, construction, fiduciary controls and implementation of such sub-projects.
19. In the event of any conflict between the provisions of the Project Manual or any supplemental manual and the provisions of this Agreement, the latter shall prevail.

**C. Environmental and Social Safeguards**

1. In carrying out Sub-projects, the Recipient shall:
2. ensure that the proceeds of Kecamatan Grants shall not be used to finance the acquisition of land;
3. take measures to avoid or minimize the acquisition of land or assets of villagers, and to avoid the displacement of such villagers;
4. where the acquisition of land or assets, or the displacement of people is unavoidable under a proposed Sub-project, ensure that the Beneficiary shall, before carrying out the works 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 Framework and any applicable Land Acquisition and Resettlement Action Plan; and
5. in the case of the physical displacement of persons involving the loss of more than ten percent (10%) of their productive assets or the displacement of more than two hundred (200) people as a result of a Sub-project, ensure that:

(i) a Land Acquisition and Resettlement Action Plan shall be prepared in accordance with the Land Acquisition and Resettlement Framework, and furnished to the World Bank for approval; and

(ii) 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.

1. In carrying out Sub-projects, the Recipient shall:
2. avoid, and, if not possible, minimize cultural, social and economic adverse effects on Isolated and Vulnerable People, caused or likely to be caused by the Project, by taking appropriate mitigating measures; and

(b) through a process of informed participation, involve concerned Isolated and Vulnerable People in the design and implementation of Sub-projects so as to ensure that the benefits received by the Isolated and Vulnerable People under the Project are in harmony with their economic, social and cultural preferences, and likely to protect their customary user rights, in each case in accordance with the Isolated and Vulnerable Peoples Framework.

1. In carrying out Sub-projects, the Recipient shall ensure that the provisions of the Environmental Management Framework have been complied with and, where applicable, an Environmental Management Plan fully consistent with this Agreement and the Environmental Management Framework has been prepared and agreed in writing between the Recipient and the World Bank and applied in the implementation of such Sub-project.
2. Without limiting the obligations under Section II.A of this Schedule 2, the Recipient shall take all measures necessary on its part to regularly collect, compile, and submit to the World Bank, as part of the Project Reports, (a) information on the status of compliance with the Environmental Management Framework, Land Acquisition and Resettlement Framework, each Land Acquisition and Resettlement Action Plan, and the Isolated and Vulnerable Peoples Framework; (b) giving details of measures taken in furtherance of the Environmental Management Framework and each Land Acquisition and Resettlement Action Plan; and (c) conditions, if any, which interfere or threaten to interfere with the smooth implementation of the Environmental Management Framework and any Land Acquisition and Resettlement Action Plan, and remedial measures taken or required to be taken to address such conditions.
3. In carrying out Sub-projects, the Recipient shall not amend, suspend, repeal or waive, or permit to be amended, suspended, repealed or waived, the Environmental Management Framework or any Land Acquisition and Resettlement Action Plan with the prior written agreement of the World Bank and the Recipient.
4. In the event of any conflict between the provisions of the Environmental Management Framework or any Land Acquisition and Resettlement Action Plan and this Agreement, the latter shall prevail.

**D. Anti-Corruption**

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

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

**A. Project Reports**

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators agreed with the World Bank. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

1. The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

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

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall prepare and furnish to the World Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the World Bank.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07(b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Procurement and Consultants Guidelines.** All goods, works, non-consulting services and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(a) Section I of the Procurement Guidelines in the case of goods, works and non-consulting services, and Section IV of the Consultant Guidelines, in the case of consultants’ services; and

1. 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 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultants 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 Sections Ii and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

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

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

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

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

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

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

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

|  |
| --- |
| **Procurement Method** |
| 1. Quality Based Selection
 |
| (b) Selection based on Consultants’ Qualifications |
| (c) Least Cost Selection |
| (d) Selection under a Fixed Budget |
| (e) Single-source Selection of consulting firms |
| 1. Selection of Individual Consultants
 |
| (g) Single-source procedures for the selection of Individual Consultants |

**D.** **Review by the World Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

**Section IV. Withdrawal of Grant Proceeds**

1. **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) Kecamatan Grants under Part 1(a) of the Project | 31,500,000 | 100% of Kecamatan Grant amount disbursed |
| (2) Kecamatan Grants under Part 1(b) of the Project | 0 | 100% of Kecamatan Grant amount disbursed |
| (3) Consultants services, goods, training and workshops, and incremental operating costs\* for facilitation support under Part 2 of the Project | 1,200,000 | 100% |
| **TOTAL AMOUNT** | **32,700,000** |  |

\*For the purposes of this Table: (i) “training and workshops” means Project-related training and workshops conducted in the territory of the Recipient, including purchase and publication of materials, rental of facilities, course fees, and travel and subsistence of trainees; (ii) “goods” includes “non-consultants services” which means the reasonable cost of services, including printing, arising under the Project and procured in accordance with the Procurement Guidelines; and (iii) “incremental operating costs” means reasonable costs arising under the Project on account of local contractual support staff salaries; travel and other travel-related expenditures; equipment rental and maintenance; vehicle operation, maintenance and repair; office rental and maintenance; materials and supplies; and utilities and communications expenses, but excluding salaries and honoraria of officials and staff of the Recipient.

**B. Withdrawal Conditions; Withdrawal Period**

1.Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement except that withdrawals up to an aggregate amount not to exceed $6,520,000 equivalent may be made out of the Grant for payments made prior to this date but on or after March 31, 2011, for Eligible Expenditures.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2012.

**ANNEX 1 to SCHEDULE 2**

**Terms and Conditions for Sub-projects and Kecamatan Grants**

**A. Eligibility Criteria for Sub-projects**

1. (a) Kecamatan Grants may be provided for: (i) planning; (ii) training; and (iii) investment to support investment proposals presented on behalf of communities to finance economic or social infrastructure activities pertaining to disaster management, reconstruction and rehabilitation Sub-projects other than those which are prohibited pursuant to paragraphs 2-4 of this Section A of this Annex, provided, however, that such Sub-projects:

(i) are technically and financially feasible, and capable of being implemented by the communities themselves with only locally available technical assistance; and

(ii) are of benefit to the communities, and to the poor in particular; and respond to a public need.

(b) The amount of each Kecamatan Grant shall be calculated in accordance with the Circular Letter No. 900/717/PMD on indicative allocation for additional post-crisis block grants for PNPM Rural, dated February 10, 2011, as such decree and letters may be revised or re-issued from time to time with the concurrence of the World Bank.

1. No Kecamatan Grant shall be made to finance expenditures pertaining to or involving: (a) a military or paramilitary purpose; (b) civil works for government administration or religious purposes; (c) the manufacture or use of environmentally hazardous goods (including asbestos, pesticides and herbicides), arms or drugs; (d) the manufacture or use of dynamite; (e) the financing of government salaries or honoraria of officials or staff of the Recipient; (f) the production, processing, handling, storage or sale of tobacco or products containing tobacco; (g) activities within a nature reserve or any other area designated by the Recipient for the management and/or the protection of biodiversity, except with the prior written approval of the Recipient’s agency responsible for the management and/or protection of such area; (h) mining or excavation of live coral; (i) water resources development on rivers which flow into or out of another country; (j) alterations to river courses; (k) land reclamation covering an area in excess of 50 hectares; (l) new irrigation schemes covering an area in excess of 50 hectares; (m) the construction of water retaining or storage structures of a capacity greater than 10,000 cubic meters; or (n) the provision of goods, works or services, directly or through intermediaries, by suppliers or contractors, as the case may be, who have been declared ineligible to participate in the procurement of any World Bank-financed project or World Bank-financed contract or the project or contract of another financier, whether indefinitely or for a stated period of time, as a result of a decision of the World Bank, and in accordance with the terms of the decision; or (o) to finance land acquisition.
2. No Kecamatan Grant shall be eligible for financing out of the proceeds of the Grant unless Facilitator(s) are engaged and carry out their functions in such Kecamatan accordance with the Project Manual, for a cumulative period of at least eight (8) months in each fiscal year.
3. No Kecamatan Grant shall be eligible for financing out of the proceeds of the Loan for a Pilot and Special Program unless the Recipient shall have adopted a Supplemental Manual for such Pilot and Special Program acceptable to the Recipient and the World Bank, or the Recipient and the World Bank shall have agreed in writing that a Supplemental Manual is not required for such Pilot and Special Program.
4. No Kecamatan Grant shall be eligible for financing out of the proceeds of the Loan for Part 1(a)(v) of the Project with respect to any natural disaster, emergency or catastrophic event unless: (a) the World Bank and the Recipient have agreed in writing that a disaster, emergency and/or catastrophic event requiring support for such activities has occurred; and (b) the World Bank and the Recipient have adopted a Supplemental Manual, if necessary, which defines the scope of such activities, and their implementation and disbursement arrangements.

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

1. The Recipient shall ensure that each Sub-project is the subject of a corresponding proposal for a Kecamatan Grant that has been prepared, submitted and reviewed in accordance with the guidelines, procedures and selection criteria set forth in the Project Manual, any Supplemental Manual and this Annex.
2. The Recipient, through PMD, shall ensure that, with respect to each Sub-project and prior to carrying out Sub-project works, a technical Facilitator shall have completed a technical review of each Sub-project in accordance with the Project Manual and any Supplemental Manual and the requirements of this Annex to ensure that all requirements have been complied with, including, except as may be otherwise agreed in writing by the World Bank and the Recipient:
3. necessary funding to fully finance the proposed Sub-project has been obtained, including a Kecamatan Grant, any Local Government Participation and any additional contributions to be made by communities themselves or from other sources;
4. the provisions of the Environmental Management Framework have been complied with and, where applicable, an Environmental Management Plan fully consistent with this Agreement and the Environmental Management Framework has been prepared and agreed upon and adopted;
5. the provisions of the Land Acquisition and Resettlement Framework have been complied with and, where applicable, a Land Acquisition and Resettlement Action Plan fully consistent with this Agreement and the Land Acquisition and Resettlement Framework, and deemed satisfactory to the Displaced Persons, has been agreed upon and adopted;
6. the provisions of the Isolated and Vulnerable Peoples Framework, if applicable, has been complied with; and
7. a maintenance program, and the budget therefor, for works to be carried out under the Sub-project and related goods has been prepared.

The Recipient shall ensure that the Kabupaten Satker shall retain records of each such review.

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

1. Prior to the commencement of any Sub-project or the disbursement of any Kecamatan Grant:
2. a Sub-project Agreement shall be signed between the relevant PJOK, on behalf of the Local Government, and the Project Kecamatan, through the UPK, with respect to the transfer of funds from the central government account to the UPK, and
3. between the UPK and the Beneficiary, setting forth the respective obligations of the parties thereunder, including:
4. that the Beneficiary shall carry out the Sub-project in accordance with this Agreement, the Project Manual, any Supplemental Manual, the provisions of the Better Governance Action Plan, the Anti-Corruption Guidelines applicable to recipients of Grant proceeds other than the Recipient, the Environmental Management Framework, the Land Acquisition and Resettlement Framework and the Isolated and Vulnerable Peoples Framework;
5. the requirement that each Beneficiary procure the goods, works and services to be financed out of the Sub-project in accordance with provisions that are fully consistent with the provisions of Section III of Schedule 2 to this Agreement;
6. that the Beneficiary shall monitor and evaluate the progress of the Sub-project in accordance with the Project Manual and supplemental Disaster Management Manual;
7. that the Beneficiary shall maintain a financial management system in accordance with the Project Manual and prepare financial statements in accordance with consistently applied accounting standards acceptable to the World Bank and the Recipient; and at the World Bank’s or the Recipient’s request, have such financial statements audited by independent auditors acceptable to the World Bank and the Recipient in accordance with consistently applied auditing standards acceptable to the World Bank, and promptly furnish the statements as so audited to the Recipient and the World Bank;
8. that the Beneficiary 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
9. rights adequate to protect the interests of the Recipient and the World Bank, including the right of the PJOK to: (A) suspend or terminate the right of the UPK or the Beneficiary to use the proceeds of Kecamatan Grant; or (B) obtain a refund of the Kecamatan Grant upon the failure of the UPK or the Beneficiary to perform any of its obligations under the Sub-project Agreement.

**ANNEX 2 to SCHEDULE 2**

**National Competitive Bidding: Modifications to Procedures**

The procedures applicable to the procurement of goods, works, and non-consulting services under contracts awarded on the basis of National Competitive Bidding shall be those of the *Pelelangan Umum* (Public Tendering) and *Pemilihan Langsung / Pelelangan Sederhana* (Simplified Tendering) methods as set forth in the Recipient’s Presidential Regulation No. 54/2010, with the modifications set out below in order to ensure economy, efficiency, transparency, and broad consistency with the provisions of Section I of the Procurement Guidelines, pursuant to paragraph 3.3 of said Guidelines. The *Pemilihan Langsung / Pelelangan Sederhana* method shall apply to such procurement up to the financial thresholds specified in said Regulation. In the event of a conflict between the Recipient’s procedures and these modifications, the latter shall govern.

1. Procuring entities shall use the appropriate standard bidding documents acceptable to the Recipient and the World Bank. The provisions of Section 1.16 (Fraud and Corruption) of the Procurement Guidelines shall apply, and each bidding document and contract financed out of the proceeds of the Loan shall include provisions on matters pertaining to fraud and corruption as defined in paragraph 1.16 (a) of said Guidelines and the contract provisions set out in paragraph 1.16 (e) of said Guidelines.
2. Foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign firm determined to be the lowest evaluated bidder shall be given reasonable time for registration. Foreign bidders shall not be required to form a joint venture or sub-contract part of the supply of goods, non-consulting services, and works as a condition for submitting bids or the award of the contract. Bidding documents shall be made available, by mail or in person, to all international bidders who are willing to pay the required fee.
3. No preference of any kind shall be given to any bidders.
4. Under the *Pelelangan Umum* method, bidders shall be allowed at least twenty-one (21) days from the date of the invitation to bid or the date of availability of bidding documents, whichever is later, to prepare and submit bids; this period shall be ten (10) days under the *Pemilihan Langsung / Pelelangan Sederhana* method.
5. Bids invited under the *Pelelangan Umum* method shall be submitted in one (1) envelope and evaluated using post-qualification.
6. 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 written concurrence.
7. Bid security, at the bidder’s option, shall be in the form of a letter of credit or guarantee from a reputable bank or other reputable financial institution and shall without exception follow the form provided for this purpose in the bidding documents.
8. All bids shall not be rejected and new bids solicited without the World Bank’s prior written concurrence.
9. Government-owned enterprises in Indonesia shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not dependent agencies of the Recipient or sub-borrower.

**APPENDIX**

**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 as revised in January 2011.
2. “BAPPENAS” means *Badan Perencanaan Pembangunan Nasional,* the Recipient’s National Development Planning Agency, or any successor thereto.
3. “Beneficiary” means a Village, represented by its PNPM implementation team (*tim pelaksanaan kegiatan*) or other entity meeting the requirements set out in the Project Manual which is the beneficiary of a Kecamatan Grant and party to a Sub-project Agreement, and “Beneficiaries” means more than one Beneficiary.
4. “Better Governance Action Plan” means a stand-alone chapter of the Project Manual designed to integrate the contents of the Anti-Corruption Guidelines and to give effect thereto, and giving details of a program of actions, measures and policies designed to reduce or eliminate fraud and corruption in all its forms under the Project, including enhanced information disclosure provisions, civil society oversight provisions, mitigation measures to deal with the risks associated with collusion, forgery and fraud, a complaint handling mechanism, and an appropriate regime of sanctions and remedies, and included as applicable in each Sub-project Agreement, as such chapter may be revised from time to time with the prior written agreement of the World Bank and the Recipient, and such term includes any annexes or schedules to such chapter.
5. “BPKP” means *Badan Pengawas Keuangan dan Pembangunan,* the Recipient’s Financial and Development Supervisory Agency, or any successor thereto.
6. “Bupati” means the head of a Kabupaten.
7. “Camat” means the Kabupaten official at the Kecamatan level.
8. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
9. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated January 2011.
10. “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.
11. “Eligibility Criteria” means the criteria for a Kecamatan Grant, as set out in this Agreement, the Project Manual and any Supplemental Manual.

1. “Environmental Management Framework” means the Environmental Management Framework, dated November 15, 2008 as updated by the Recipient on July 21, 2010 and disclosed on July 23, 2010, and the technical guidelines for implementation thereof, adopted by the Recipient, giving details of a program of actions, measures and policies designed to maximize the benefits of the Project, eliminate, offset or mitigate any adverse environmental impacts, or reduce such impacts to acceptable levels, as such Environmental Management Framework may be amended from time to time with the prior written agreement of the World Bank and the Recipient, and such term includes any annexes or schedules to such framework.
2. “Environmental Management Plan” or “EMP” means an Environmental Management Plan, acceptable to the World Bank and the Recipient and consistent with the Environmental Management Framework, adopted for the purposes of a Sub-project, and giving details of the agreed actions and policies designed to maximize the benefits of the Sub-project, eliminate or offset any adverse environmental impacts, or reduce such impacts to acceptable levels, along with the procedural and institutional measures needed to implement such actions and policies, as such Environmental Management Plan may be amended from time to time with the prior written agreement of the World Bank and the Recipient, and such term includes any annexes or schedules to such plan.
3. “Facilitator” means a technical or social specialist financed by the proceeds of the Grant and assigned to work with Villages to facilitate their participation in the Project, and “Facilitators” means more than one Facilitator.
4. “Fiscal Year” and “FY” mean the Recipient’s fiscal year commencing January 1 and ending December 31.
5. “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 affected by the Project or any part thereof.
6. “Isolated and Vulnerable Peoples Framework” means the Isolated Vulnerable Peoples Framework acceptable to the World Bank and the Recipient, dated November 15, 2008 as updated by the Recipient on July 21, 2010 and disclosed on July 23, 2010, and the technical guidelines for implementation thereof, adopted by the Recipient, and giving details of the rules, guidelines and procedures needed to: (a) involve Isolated Vulnerable Peoples, through a process of free, prior and 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 Sub-projects, as such Isolated Vulnerable Peoples Planning Framework may be amended from time to time with the prior written agreement of the World Bank and the Recipient, and such term includes any annexes or schedules to such framework.
7. “Kabupaten” means a district, an administrative sub-division of a Province.
8. “Kapubaten Poverty Alleviation Coordination Team” means the local government-level working group established under Perpres 15/2010 in each Project Kabupaten, Project Kecamatan or Project Village, or any successor thereto.
9. “Kabupaten Satker” means each project management unit established and operating at the Kabupaten level in accordance with Section 3 of Section I.A of Schedule 2 to this Agreement.
10. “Kecamatan” means a sub-district, an administrative sub-division of a Kabupaten.
11. “Kecamatan Grant” a grant made or to be made out of the proceeds of the Grant for the purposes of Part 1 of the Project and meeting the requirements set out in this Agreement, the Project Manual and the supplemental Disaster Management Manual, and “Kecamatan Grants” means more than one Kecamatan Grant.
12. “Land Acquisition and Resettlement Action Plan” means a resettlement and rehabilitation action plan, acceptable to the World Bank and the Recipient, and consistent with the Land Acquisition and Resettlement Framework, adopted for the purposes of a Sub-project, and giving details of the agreed provisions for compensation, rehabilitation and resettlement assistance to Displaced Persons under the Sub-project, along with the procedural and institutional measures needed to implement such agreed provisions, as such Plan may be amended from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such Plan.
13. “Land Acquisition and Resettlement Framework” means the Land Acquisition and Resettlement Policy Framework acceptable to the World Bank and the Recipient, dated November 15, 2008 as updated by the Recipient on July 21, 2010 and disclosed on July 23, 2010, and the technical guidelines for implementation thereof, adopted by the Recipient, and giving details of provisions for compensation, rehabilitation and resettlement assistance to Displaced Persons, as such Land Acquisition and Resettlement Policy Framework may be amended from time to time in agreement with the World Bank and the Recipient, and such term includes any annexes or schedules to such framework.
14. “Local Government” means the government of a Project Kabupaten or a Project Kecamatan, and “Local Governments” means more than one Local Government.
15. “Local Government Participation” means Local Government funding contributed to the total Sub-project cost for participating in the Project, to be made available by the government of the relevant Province or Project Kabupaten to a Project Kecamatan for a Sub-project in accordance with the formula set forth in the Project Manual.
16. “Menko Kesra” means the Recipient’s Coordinating Ministry for Peoples’ Welfare, or any successor thereto.
17. “Ministry of Finance” means the Recipient’s Ministry of Finance, or any successor thereto.
18. “MOHA” means the Recipient’s Ministry of Home Affairs, or any successor thereto.
19. “National Management Consultants” means the consultants, financed by the proceeds of the Grant, assigned at the central level to assist in Project implementation and monitoring.
20. “Oversight Consultants” means consultant, financed by the proceeds of the Grant, assigned at the Province level to assist in Project implementation and monitoring.
21. “P2SPP” means *Program Pengembangan Sistem Pembangunan Partisipatif*, the PMD’s program for development of a system for participatory development.
22. “Part” means a part of the Project described in Schedule 1 to this Agreement.
23. “Perpres” means a *Peraturan Presiden*, a presidential regulation.
24. “Pilot and Special Program” means each Sub-project under Part 1(b) of the Project, which will provide planning, training and investment related to defined activities of particular local interest agreed in writing between the Recipient and the World Bank, which may include: crisis response including responding to natural disasters; activities related to millennium development goal indicators for poverty, reduction, education and health (“*PNPM Generasi*”); support for community investments in environmental and natural resource management; and support local government community development projects run in tandem with the Project (“PNPM Integrasi/P2SPP”); and supporting community activities in national border areas, in each case subject to the terms and conditions set out in the Project Manual and any applicable Supplemental Manual.
25. “PJOK” means a Project operations officer at the Province, Kabupaten or Kecamatan level established in accordance with paragraphs 2(b) and 3(b) of Section I.A of Schedule 2 to this Agreement, and “PJOKs” means more than one PJOK.
26. “PMD” means *Pemberdayaan Masyarakat dan Desa*, the Directorate General for Community Empowerment of MOHA, or any successor thereto.
27. “PMD Secretariat” means the PMD Secretariat referred to in paragraph 1(c)(i) of Section I.A of Schedule 2 to this Agreement.
28. “PNPM” means *Program Nasional Pemberdayaan Masyarakat Mandiri*, the Recipient’s National Program for Community Empowerment, as described in Perpres 15/2010, as the same may be amended or updated from time to time.
29. “PNPM Rural” means the Rural section of PNPM, or *Program Nasional Pemberdayaan Masyarakat Mandiri*  *Perdesaan*.
30. “PNPM Rural 3 Loan Agreement” means the Third , which is the subject of a Loan Agreement, between the Republic of Indonesia and the International Bank for Reconstruction and Development dated April 9, 2010 (Loan No. 7867-ID), as amended August 16, 2010, and as the same may be amended from time to time in accordance with its terms.
31. “PNPM Website” means the Project website maintained by PMD.
32. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
33. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 29, 2011 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
34. “Project Kabupaten” means a Kabupaten which is selected by the Recipient for participation in the Project in accordance with the provisions of the Project Manual.
35. “Project Kecamatan” means a Kecamatan located in a Project Kabupaten which is selected by the Recipient for participation in the Project in accordance with the provisions of the Project Manual.
36. “Project Manager” means a suitably qualified person appointed by the PMD Secretariat to be responsible for the management and monitoring of the Project in accordance with paragraph 1(c)(ii) of Section I.A of Schedule 2 to this Agreement.
37. “Project Manual” means the Project Manual meeting the requirements of paragraph 1 of Section I.B of Schedule 2 to this Agreement, as such Project Manual may be amended or updated from time to time with the prior written agreement of the World Bank and the Recipient, and includes, where applicable for a particular Sub-project, any Supplemental Manual, as well as any annexes or schedules to such Manual.
38. “Project Village” means a Village selected by the Recipient for participation in the Project in accordance with the provisions of the Project Manual.
39. “Province” means an administrative sub-division of the Recipient’s territory at the first level below the national level.
40. “Provincial Poverty Alleviation Coordination Team” means the province-level working group established under Perpres 13/2009 in each Province, or any successor thereto.
41. “Provincial Satker” means each Province level project management unit established and operating in accordance with paragraph 2 of Section I.A of Schedule 2 to this Agreement.
42. “PSF” means the Support Facility for the National Program for Community Empowerment Multi-Donor Trust Fund (TF070967 and TF071562).
43. “Revolving Funds” means funds made available under Part 1(a)(iv) of the Project subject to the conditions for revolving funds set out in Annex 1 to Schedule 2 to this Agreement and the Project Manual.
44. “Rupiah” and “Rp” mean the currency of the Recipient.
45. “Satker” means *satuan kerja*, a Project management unit, whether at central level or at the level of the Province or Kabupaten.
46. “Standard Conditions” means the Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010 (“Standard Conditions”).
47. “State Ministry for Development of Disadvantaged Regions” means the Recipient’s State Ministry for Development of Disadvantaged Regions, or any successor thereto.
48. “Sub-project“ means an activity qualifying for financing by a Kecamatan Grant in accordance with the terms of this Agreement, the Project Manual and the supplemental Disaster Management Manual, and “Sub-projects” means more than one Sub-project.
49. “Sub-project Agreement” means an agreement between a PJOK and a UPK or between a UPK and a Beneficiary for purposes of a Sub-project, and referred to in Section C of Annex 1 to Schedule 2 to this Agreement, and “Sub-project Agreements” means more than one Sub-project Agreement.
50. “Supplemental Manual” means each Supplemental Manual for a Pilot and Special Program and each natural disaster, emergency or catastrophic event under Part 1(a)(v) of the Project meeting the requirements of Section I.B.1 of Schedule 2 to this Agreement, as each such Supplemental Manual may be amended from time to time with the prior written agreement of the Recipient Bank and includes any annexes or schedules to such Manual.
51. “Tim Pengendali PNPM” means the national-level oversight body of PNPM, chaired by Menko Kesra (Tim Pengendali PNPM), with representatives of relevant ministries, including BAPPENAS, MOHA, Ministry of Finance, Ministry of Public Works, and State Ministry for Development of Disadvantaged Regions, or any successor thereto.
52. “UPK” means a Kecamatan management unit established and operating in a Kecamatan, and “UPKs” means more than one UPK.
53. “Village” means an administrative subdivision of a Kecamatan.