



CONFORMED COPY

Letter No. CD-496/DSF II /XI/2010

November 19, 2010

Ms. Robin Bush
Country Representative
The Asia Foundation
Jl. Adityawarman No. 40
Kebayoran Baru
Jakarta 12160
Indonesia

Dear Ms. Bush:

***Re: Grant No. TF098169 Decentralization Support Facility II Sub-National Business
Climate Reform Program, Phase 2***

In response to the request for financial assistance made on behalf of the The Asia Foundation (the "Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development/International Development Association (the "World Bank"), acting as administrator of grant funds provided by donors ("Donors") under the multi-donor Second Phase of the Decentralization Support Facility Trust Fund (TF070582), proposes to extend to the Recipient for the benefit of the Republic of Indonesia ("Member Country"), a grant in an amount not to exceed seven hundred thousand United States Dollars (US\$700,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project"). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,
INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Chris Hoban
Acting Country Director, Indonesia

AGREED:
THE ASIA FOUNDATION

By: /s/ Robin Bush
Authorized Representative

Name Robin Bush

Title Country Representative

Date: November 24, 2010

Enclosures:

- (1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010
- (2) Disbursement Letter dated November 19, 2010, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006

**DSF Grant No. TF098169
ANNEX**

Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 31, 2010 (“Standard Conditions”) constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement. In addition, the following terms have the meanings given below.

(a) “Badan Diklat” means *Badan Pendidikan dan Pelatihan*, a training and education center of a Provincial Government.

(b) “BAPPENAS” means *Badan Perencanaan dan Pembangunan Nasional*, the National Development Planning Agency of the Member Country, and any successor thereto.

(c) “Central Government” means the central government of the Member Country.

(d) “Local Government” or “LG” means a government at the district level in the territory of the Member Country.

(e) “MOHA” means the Ministry of Home Affairs of the Member Country, and any successor thereto.

(f) “One-Stop Shop” or “OSS” means a single window, process or step required for business licensing.

(g) “Operations Manual” means the Operations Manual, for the Project, prepared by the Recipient and concurred by the Bank on November 11, 2011 and referred to in paragraph 2.03(b) of this Annex, as such Operations Manual may be amended from time to time with the prior written agreement of the Recipient and the World Bank.

(h) “Project Sub-Grant” means the sub-project for which the proceeds of the Grant to be made available to an eligible Project Sub-Grantee in accordance with this Agreement shall be used for the purposes of carrying out activities set out in Section 2.01 of this Annex, in each case fully consistent with the provisions of this Agreement and the Operations Manual.

(i) “Project Sub-Grant Agreement” means each agreement to be entered into by a Project Sub-Grantee and the Recipient, setting out the terms and conditions for the use of funds, acceptable to the World Bank, on which the Recipient may make a portion of the proceeds of the Grant available to a Project Sub-Grantee for the purposes of carrying out activities set out in Section 2.01 of this Annex fully consistent with the provisions of this Agreement and the Operations Manual.

(j) “Project Sub-Grantee” means a non-government entity or organization or an educational institution eligible to participate in the Project in accordance with the Operations Manual which has entered into a Project Sub-Grant Agreement with the Recipient.

(k) “Provincial Government” and “PG” means a government at the province level in the territory of the Member Country.

(l) “Sub-National” means a government level in the territory of the Member Country below the Central Government.

(m) “RIA” means regulatory impact assessment, a method for analyzing regulatory changes and implementation.

(n) “Targeted Provincial Government” means a Provincial Government which has been selected for the Project in accordance with Section 2.03(c) of this Annex.

Article II **Project Execution**

2.01. ***Project Objectives and Description.*** The objective of the Project is to develop an improved sub-national business climate of the Member Country that is conducive to increased investment by institutionalizing capacity within Local Governments to implement effective, efficient and accountable regulations and processes for business licensing, with an emphasis on small and medium enterprise. The Project consists of the following parts:

(a) **Part 1. Capacity Building for Central Government to Monitor Performance of OSS Services.** Providing support for: (i) workshop to disseminate MOHA’s OSS monitoring survey to Provincial Governments; (ii) development and implementation of a database to analyze data collected from Local Governments and Provincial Governments in MOHA’s OSS monitoring survey; and (iii) dissemination of the results of MOHA’s OSS monitoring survey.

(b) **Part 2. Capacity Building for Targeted Provincial Governments to Facilitate and Monitor Implementation of OSS by Local Governments.** Providing support for: (i) training of trainers for MOHA’s and Provincial Governments’ Badan Diklat, OSS Support Centers and representatives of other organizational bureaus of Provincial Governments involved in OSS implementation; (ii) strengthening the role of Provincial Governments in OSS development including the conduct of OSS forums to disseminate guidelines and discuss results of monitoring survey; and (iii) facilitating training and technical assistance to Local Governments to establish new district-level OSS and improve the performance of existing district-level OSS.

(c) **Part 3. Improving National-level Policy on Sub-National Business Regulations.** Providing support for: (i) workshops to increase awareness of RIA methods; (ii) workshops to introduce RIA in three Targeted Provincial Governments; and (iii) training and technical assistance to build capacity of targeted Provincial Governments to implement and disseminate results of RIA.

2.02. ***Project Execution Generally.*** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”), with the modifications set forth in the Appendix to this Agreement; and (c) this Article II.

2.03. ***Institutional and Other Arrangements.***

(a) The Recipient shall be responsible for the implementation of the Project and shall establish and thereafter maintain, appropriately qualified staff in such numbers as are necessary to accomplish the objectives of the Project until the completion of the Project.

(b) The Recipient shall undertake the Project in accordance with the Operations Manual, acceptable to the Recipient and the World Bank, setting out the details of guidelines and procedures for the implementation, supervision, and monitoring and evaluation for the Project, including (i) implementation arrangements; (ii) the procurement arrangements meeting the requirements set forth in Section 2.07 of this Annex; (iii) the financial management, audit procedures and reporting requirements set forth in Section 2.06 of this Annex; (iv) performance indicators; and (v) criteria for the selection of Project Sub-Grantees, including the terms and conditions of Project Sub-Grant Agreements; and obligations for implementation by, and supervision of, Project activities carried out by Project Sub-Grantees. The Recipient shall not amend the Operations Manual except with the written agreement of the World Bank.

(c) The Recipient shall undertake the Project with three Provincial Governments (each a Targeted Provincial Government) selected by agreement among the Recipient, MoHA and BAPPENAS.

(d) Procedures, Terms and Conditions for Project Sub-Grants

(i) The Recipient shall make available the proceeds of the Grant allocated to Category (4) of the table in paragraph 3.01 of this Annex to one or more Project Sub-Grantee(s), in each case under a Project Sub-Grant Agreement to be entered into between the Project Sub-Grantee and the Recipient, on terms and conditions acceptable to the Recipient and the World Bank, for the purposes of carrying out activities in accordance with the Operations Manual.

(ii) To be eligible for a Project Sub-Grant, a Project Sub-Grantee must furnish a proposal to the Recipient that fully satisfies the criteria specified in the Operations Manual.

(iii) Project Sub-Grants shall be provided exclusively to Project Sub-Grantees for the purpose of the Project. No Project Sub-Grant may be made available to a Project Sub-Grantee unless the Recipient and the Project Sub-Grantee have entered into a Project Sub-Grant Agreement that fully satisfies the criteria specified in the Operations Manual and in sub-paragraph (iv) below.

(iv) Each Project Sub-Grant Agreement shall provide for rights of the Recipient adequate to protect the interests of the World Bank and the Recipient, including the right of the Recipient to:

- (A) require the Project Sub-Grantee to carry out activities specified in the relevant Project Sub-Grant Agreement with due diligence and efficiency and in accordance with sound administrative, financial, technical and managerial standards satisfactory to the World Bank, including, in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of grant proceeds;
- (B) require the Project Sub-Grantee to procure all goods and services required for the Project Sub-Grant in accordance with the provisions of paragraph 2.07 of this Annex;
- (C) require that all goods and services shall be used exclusively in the carrying out of the Project Sub-Grant activities;
- (D) require the Project Sub-Grantee to maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with the indicators set out in the Operations Manual, the progress of the Sub-project and the achievement of its objectives;
- (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards meeting the requirements set out in the Operations Manual, both in a manner adequate to reflect the operations, resources and expenditures related to the Project Sub-Grant; and (2) at the Recipient's or the World Bank's request, have such financial statements audited by independent auditors acceptable to the Recipient and the World Bank, in accordance with consistently applied auditing standards acceptable to the Recipient and the World Bank, and promptly furnish the statements as so audited to the Recipient and the World Bank;
- (F) enable the Recipient and the World Bank to inspect the Project Sub-Grant, its operation and any relevant records and documents;
- (G) prepare and furnish to the Recipient and the World Bank all such information as they shall reasonably request relating to the Project Sub-Grant; and
- (H) suspend or terminate the right of the project Sub-Grantee to the use of the proceeds of the Project Sub-Grant upon the failure by the Project Sub-Grantee to perform any of its obligations under the Project Sub-Grant Agreement.

2.04. ***Donor Visibility and Visit.*** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Decentralization Support Facility's support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank's request take all measures required on its part to enable the representatives of the Donor(s) to visit any part of the Member Country's territory for purposes related to the Project.

2.05. ***Project Monitoring, Reporting and Evaluation.*** (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 set forth in the Operations Manual. Each Project Report shall cover the period of one 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) 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.

2.06. ***Financial Management.*** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

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

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07. ***Procurement***

(a) **General.** All goods and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods and services other than consultants’ services; and

(ii) Sections I 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

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods and Services other than Consultants' Services

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and services other than consultants' services shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods and services other than consultants' services for those contracts specified in the Procurement Plan: (A) Shopping; and (B) Direct Contracting.

(d) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the 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.

(e) 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. All other contracts shall be subject to Post Review by the World Bank.

Article III Withdrawal of Grant Proceeds

3.01. ***Eligible Expenditures.*** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed inclusive of Taxes)
(1) Goods	1,243	100%
(2) Consultants' Services	16,802	100%
(3) Training and Workshops*	31,526	100%
(4) Project Sub-grants	477,548	100%
(5) Direct Operational Costs*	67,775	100%
(6) Indirect Operational Costs*	105,106	100%
TOTAL AMOUNT	700,000	

*For the purposes of this paragraph:

(i) the term “training and workshops” means related training and workshops conducted in the territory of the Member Country, including purchase and publication of materials, rental of facilities, course fees, and travel and subsistence of trainees;

(ii) the term “direct operational costs” means operating costs incurred by the Recipient and required for the Project including: technical and professional staff costs that have been demonstrated as being directly attributable to the Project, new office cost, designated vehicle rental, operation and maintenance, document production and travel costs (other than for training and workshops); and

(iii) the term “indirect operational costs” means operating costs incurred by the Recipient as part of its ongoing operations, the designated portion of which have been agreed may be charged to the Project, including existing office space, existing vehicle operation and maintenance, operating costs for existing office space, headquarters overhead costs, support staff costs, and management staff costs.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is September 30, 2011.

Article IV
Recipient's Representative; Addresses

4.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Recipient's Country Representative.

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

The Asia Foundation
Jl. Adityawarman No. 40
Kebayoran Baru
Jakarta 12160Indonesia

Telephone: +62-21 72788424
Facsimile: +62-21 7203123

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

International Bank for Reconstruction and Development/International Development Association
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)	

APPENDIX

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.”

Ms. Robin Bush
19, 2010
The Asia Foundation

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