

May 22, 2000

Drs. A. Anshari Ritonga
Director General of Budget
Directorate General of Budget
Ministry of Finance
Jakarta, Indonesia

Re: Grant for Strengthening Cooperatives through Participatory
Legislative and Training Policy Reform
IDF Grant No. 27332

Dear Sir:

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) to indicate the Bank's agreement to make to the Republic of Indonesia (the Recipient) a grant in an amount not exceeding two hundred thousand United States Dollars (US\$200,000) (the Grant).

The Grant is made in response to the Recipient's request for financial assistance and for the purposes and on the terms and conditions set forth in the Annex to this Letter-Agreement. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said purposes and on the said terms and conditions.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter-Agreement. Upon receipt by the Bank of the copy of this Letter-Agreement countersigned by you, this Letter-Agreement will become effective as of the date of countersignature.

Very truly yours,

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Mark Baird
Country Director, Indonesia
East Asia and Pacific Region

AGREED:

REPUBLIC OF INDONESIA

By /s/ A. Anshari Ritonga
Director

Date: May 30, 2000

ANNEX

Purposes, Terms, and Conditions of the Grant

1. The purpose of the Grant is to facilitate the participatory preparation by apex cooperative organizations of an agenda for the reform of the Recipient's legal framework governing cooperatives, and for the restructuring of the existing State run cooperative training capacity. The activities (the Activities) for which the Grant is given are as follows:

(a) review of the Recipient's current legal framework governing cooperatives, and subsequent development of an improved legal framework, through holding national and regional consultative workshops;

(b) review of the existing State cooperative training programs and formulation of a strategy for reform; and

(c) organization of national and regional workshops to receive inputs from

stakeholders on the reviews conducted under sub paragraphs (a) and (b) above, and the development of an information campaign to raise awareness on the pertinent issues and possible reform options.

2. Expenditures to be financed out of the proceeds of the Grant are as follows:

Category	Grant Allocated (in US Dollars)	Expenditures to be Financed
(1) Consultants' services	135,000	100%
(2) Workshops	58,000	100%
(3) Goods	7,000	100% of foreign expenditures 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
TOTAL	200,000	

For the purposes of this paragraph, the term:

(a) "foreign expenditures" means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient; and

(b) "local expenditures" means expenditures that are not foreign expenditures, provided, however, that if the currency of the Recipient is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be foreign expenditures.

3. The Recipient shall carry out the Activities with due diligence and efficiency through the State Ministry for Cooperatives, Small and Medium Enterprises, with the Institute for Indonesian Cooperative Development Studies as the Supporting Agency; promptly provide the funds, facilities, services, and other resources required for the purpose; furnish all information covering the Activities and the use of the proceeds of the Grant as the Bank shall reasonably request; and from time to time exchange views with the Bank's representatives on the progress and results of the Activities.

4. Except as the Bank shall otherwise agree, procurement of the consultants' services and goods required for the carrying out of the Activities and to be financed out of the proceeds of the Grant shall be governed by the provisions of Attachment I to this Annex.

5. The amount of the Grant shall be credited to an account opened by the Bank on its books in the name of the Recipient (the Grant Account), and the Bank shall disburse funds therefrom to or on the order of the Recipient to meet the expenditures specified in paragraph 2 above. The Recipient shall submit a written application for withdrawal of such funds in the form specified by the Bank. Withdrawal applications for the Grant shall be: (a) signed on behalf of the Recipient by the Minister of Finance or any other person authorized by him or her for such purpose; and (b) accompanied by evidence of the expenditures made, or, if the Bank shall so agree, to be made. Authenticated specimen signature(s) of the designated person(s) shall be provided with the first application. To facilitate the carrying out of the Activities, the Recipient may open a special deposit account (the Special Account) in United States Dollars in Bank Indonesia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Attachment II hereto.

6. The Bank may require that withdrawals from the Grant Account be made on the basis of statements of expenditure for expenditures for: (a) services of consulting firms costing less than the equivalent of US\$100,000; (b) services of individual consultants costing less than the equivalent of US\$50,000; (c) workshops; and (d) goods, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

7. The Grant shall be disbursed in US dollars. However, the Recipient may request any other currency required to meet an expenditure to be financed by the Grant, and the Bank will purchase that currency with US dollars.

8. Withdrawals from the Grant Account shall be made only for expenditures for goods

and services supplied from countries eligible under the Procurement Guidelines and Consultant Guidelines. No withdrawals shall be made on account of payments for any taxes levied by, or in the territory of, the Recipient.

9. No withdrawals from the Grant Account shall be made after a date two years from the date of signature by the Bank of this Letter-Agreement, or such later date that the Bank may establish by notice to the Recipient (the Closing Date), except that the Bank may disburse against withdrawal applications for expenditures incurred prior to the Closing Date, which are received by the Bank within four months after the Closing Date. Any amount of the Grant then remaining unwithdrawn shall be canceled.

10. (a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures related to the Activities.

(b) The Recipient shall: (i) have the records, accounts and financial statements referred to in subparagraph (a) above and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank; (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof, and concerning said auditors, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) maintain or cause to be maintained, in accordance with subparagraph (a) above, records and accounts reflecting such expenditures; (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (iii) enable the Bank's representatives to examine such records; and (iv) ensure that such records and accounts are included in the annual audit referred to in subparagraph (b) above and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

11. The Bank may at any time, by notice to the Recipient, suspend further withdrawals from the Grant Account if any of the following events has occurred: (a) funds withdrawn shall not have been used for the purpose agreed between the Recipient and the Bank; (b) the Activities shall not have been carried out in accordance with the standards or methods agreed between the Recipient and the Bank; (c) the Recipient shall not have complied with any of the obligations herein specified; or (d) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with the Bank or any development credit agreement with the International Development Association shall have been suspended.

12. The Bank may, by notice to the Recipient, cancel any amount of the Grant remaining unwithdrawn (a) at any time after withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 11 above; or (b) if the Recipient fails to take action, satisfactory to the Bank, regarding the implementation of the Activities within six months of the date of this Letter-Agreement.

Attachment I

Procurement

Section I. Consultants' Services

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of

Consultants by World Bank Borrowers", published by the Bank in January 1997 and revised in September 1997, and January 1999 (the Consultant Guidelines), and the following provisions of this Section I.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under paragraph 1 (a) of the Annex, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services under paragraph 1 (b) of the Annex shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services under paragraph 1 (c) of the Annex estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Activities shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be

awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Section II. Procurement of Goods

Goods shall be procured: (a) in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines. The review procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply to such contracts, provided that the word "bids", in such paragraph 4, shall be read as "quotations".

Attachment II

Special Account

1. For the purposes of this Attachment:

(a) the term "eligible categories" means the categories set forth in paragraph 2 of the Annex to this Letter-Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Activities to be financed out of the proceeds of the Grant allocated from time to time to the eligible categories in accordance with the provisions of paragraph 2 of the Annex to this Letter-Agreement; and

(c) the term "Authorized Allocation" means the amount of US\$80,000 to be withdrawn from the Grant Account and deposited in the Special Account pursuant to paragraph 3 (a) hereof.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Attachment.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

(b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Grant Account under the eligible categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Attachment, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account;

(b) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 11 of the Annex to this Letter-Agreement; or

(c) once the total unwithdrawn amount of the Grant allocated to the eligible categories shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible categories shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Attachment; or (ii) was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

