

**CONFORMED COPY**Letter No. CD-228/FCPF/V/2011

May 27, 2011

Mr. Rahmat Waluyanto
Director General of Debt Management
Ministry of Finance
Jalan Lapangan Banteng Timur 2-4
Jakarta 10710

Dear Mr. Waluyanto:

***Re: Republic of Indonesia: FCPF Readiness Fund Grant:
REDD+ Readiness Preparation
Grant No. TF99721-ID***

I wish to refer to Resolution PC2008-2 of the Participants' Committee ("PC") of the Forest Carbon Partnership Facility ("FCPF") regarding Selection of REDD+ Country Participants ("Resolution PC2008-2"). "REDD+" refers, collectively, to a set of activities focused on reducing emissions from deforestation and forest degradation, and the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks.

Resolution PC2008-2 provides that, subject to the availability of funds, certain REDD+ Country Participants may receive grant funding of up to three million six hundred thousand United States Dollars (US\$3,600,000) for formulating and carrying out a Readiness Preparation Proposal (R-PP).

Republic of Indonesia ("Recipient" / "Indonesia") was selected as a REDD+ Country Participant. The PC has reviewed the R-PP submitted by the Recipient and acknowledged the great efforts made by the Recipient in formulating its R-PP. Accordingly, the PC, through its Resolution PC/3/2009/5, decided to allocate grant funding to the Recipient in the amount of up to US\$3,600,000, to enable it to move ahead with preparation for readiness, subject to the terms and conditions set out in said Resolution.

In response to the request for financial assistance made on behalf of the Recipient and the decision of the PC referred to above, I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as Trustee of the Readiness Fund for the FCPF ("Trustee"), agrees to extend to the Recipient a grant in an amount not to exceed three million one hundred ninety six thousand four hundred twenty eight United States Dollars (US\$3,196,428)¹ ("Grant") to assist in the financing of the carrying out of the R-PP. The Grant shall be subject to the terms and conditions set forth or

¹ Pursuant to a request dated November 4, 2010 from the Recipient, the balance of four hundred three thousand five hundred seventy two United States Dollars (US\$403,572) is being made available as a grant from the Readiness Fund for the FCPF to the World Bank, acting in its own capacity and not as Trustee, for purposes of World Bank execution, on behalf of the Recipient, of certain activities relating to the carrying out of the R-PP.

referred to in this letter agreement (“Agreement”), which includes the attached Annex setting out a description of the activities to be financed (“Readiness Preparation Activities”).

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

Please confirm the Recipient’s agreement with the foregoing by having an authorized official of the Recipient countersign and date one (1) of the two (2) originals of this Agreement, and returning it to the World Bank.

This Agreement shall enter into effect on the date of such countersignature by the Recipient.

Very truly yours,

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**
Acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility

/s/ Shubham Chaudhuri
Acting Country Director, Indonesia

AGREED:
REPUBLIC OF INDONESIA

By:/s/ Rahmat Waluyanto

Name: Rahmat Waluyanto

Title: General Director of Debt Management

Date: June 10, 2011

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank out of Various Funds, dated July 31, 2010.

(2) Disbursement Letter of even date herewith, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.

Cc: Mr. Widjanarko, Acting Director of Funds, Directorate of Funds, Directorate General
of Debt Management, Ministry of Finance

*Article I**Standard Conditions; Definitions*1.01. *Standard Conditions*

- (a) The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 31, 2010 (“Standard Conditions”), with the modifications set forth in paragraphs (b) and (c) below, constitute an integral part of this Agreement.
- (b) The following term shall be inserted as a new paragraph 5bis in the Appendix:

“5bis. “Charter” means the Charter Establishing the Forest Carbon Partnership Facility, as may be amended from time to time;”
- (c) The definition of the term “Project” in paragraph 18 of the Appendix is replaced by the following, and said term, wherever it appears in the Standard Conditions, shall be read as “Readiness Preparation Activities”:

“‘Readiness Preparation Activities’ means the proposed activities for which the World Bank, acting as Trustee of the Readiness Fund of the Forest Carbon Partnership Facility, has made the Grant, for the carrying out by the Recipient of its Readiness Preparation Proposal.”

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, the Charter, or this Agreement. For the purpose of this Agreement, the following terms have the meanings given to them as follows:

- (a) “Center for Climate Change and Policy” means the Recipient’s entity, under the Directorate General for Research and Development (as hereinafter defined), responsible for the management of climate change and policy, or any successor thereto;
- (b) “Center for International Cooperation” means the Recipient’s entity, under the Ministry of Forestry (as hereinafter defined), responsible for the management of international cooperation, or any successor thereto;
- (c) “Center for Standardization and Environment” means the Recipient’s entity, under the Office of the Secretary General (as hereinafter defined), responsible for the management of standardization and the environment, or any successor thereto;
- (d) “Directorate General for Research and Development” means the department of the Forest Research and Development Agency (as hereinafter defined) responsible for the management of research and development, or any successor thereto;

- (e) “Forest Research and Development Agency” means the Recipient’s entity, under the Ministry of Forestry, responsible for the management of forest research and development, or any successor thereto;
- (f) “Inspectorate General” means the department of the Ministry of Forestry responsible for governance and anti-corruption, or any successor thereto;
- (g) “Ministry of Forestry” means the Recipient’s ministry responsible for the management of forestry, or any successor thereto;
- (h) “National Forestry Council” means the quasi-autonomous non-governmental organization, established and operating pursuant to the decision of September 15, 2006 of the Fourth Indonesian Forestry Congress, the Articles of Association of said Council dated November 11, 2006, and Deed No. 31 of said Council dated December 17, 2007, whose objective is to encourage the realization of effective forestry policies, or any successor thereto;
- (i) “Office of the Secretary General” means the department of the Ministry of Forestry responsible for the overall coordination of the activities of said Ministry, or any successor thereto;
- (j) “Operating Costs” means the incremental operating costs under the Readiness Preparation Activities, incurred by the Recipient for non-consulting services for purposes of the implementation, management, and monitoring and evaluation of the Readiness Preparation Activities, on account of office supplies and consumables, utilities, bank charges, communications, mass media and printing services, vehicle rental, operation, maintenance, and insurance, office space rental, building and equipment maintenance, domestic travel, lodging, and subsistence allowances, and salaries of contractual and temporary staff, but excluding salaries, fees, honoraria, and bonuses of members of the Recipient’s civil service;
- (k) “Readiness Preparation Activities Management Manual” means the Recipient’s manual, referred to in Section 2.04 (a) (i) (A) of this Annex, as the same may be modified from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such manual;
- (l) “Readiness Preparation Activities Secretariat” means the Recipient’s entity, referred to in Section 2.03 (b) of this Annex, to be established under the Center for Climate Change and Policy, or any successor thereto; and
- (m) “Training” means the costs of non-consulting services for purposes of training under the Readiness Preparation Activities, attributable to seminars, workshops, and study tours, and including domestic and international travel costs and subsistence allowances for training participants, costs associated with securing the services of trainers and speakers, rental of training facilities, preparation and reproduction of training materials, refreshments, and other costs directly related to training preparation and implementation.

Article II

Execution of Readiness Preparation Activities

2.01. ***Objective and Description.*** The objective of the Readiness Preparation Activities is to contribute to the development of the Recipient's capacity to design a sound national REDD+ strategy, develop national and sub-national reference scenarios, and establish a forest monitoring and carbon accounting system, all consistent with local, regional, and national conditions and circumstances.

The Readiness Preparation Activities are as follows:

- (a) Analytical Activities
 - (i) Carrying out of an analysis of drivers of deforestation.
 - (ii) Carrying out of a screening of options for priority investments to reduce deforestation and forest degradation.
 - (iii) Identification of activities resulting in reduction of green house gas (GHG) emissions and increase in removals and stabilization of forest carbon stocks.
 - (iv) Carrying out of a rapid situational analysis of REDD+ policies in Indonesia.
- (b) Support to Readiness Process
 - (i) Carrying out of a rapid assessment of the institutional and legal framework for REDD+ implementation.
 - (ii) Capacity building of institutions and stakeholders involved in the implementation of REDD+ activities, including training of trainers in relation to carbon accounting and monitoring at national and sub-national levels.
 - (iii) Carrying out of a rapid assessment of the REDD+ revenue-sharing process.
 - (iv) Consultation and outreach.
 - (v) Management of data, lessons, and funding partner coordination, including periodic review of REDD+ demonstration or pilot activities.
 - (vi) Carrying out of an assessment of potential strategic environmental and social impacts that may ensue from future REDD+ activities or projects, including policy reforms ("Strategic Environmental and Social Assessment"), and including development of a framework for managing and mitigating the environmental and social risks related to investments

and carbon finance transactions in the context of the future implementation of REDD+, including (A) guidelines and procedures for the carrying out of consultations with potentially affected indigenous peoples and forest-dependent communities, the conservation of natural habitats, and the carrying out of environmental and social assessments, (B) a resettlement policy framework, (C) an indigenous peoples' planning framework, (D) a pest management framework, (E) a physical cultural resources management framework, and (F) guidelines and procedures for the development of environmental and social management plans, resettlement action plans, indigenous peoples' development plans, pest management plans, and physical cultural resources management plans ("Environment and Social Management Framework").

(c) Reference Emissions Levels and Measurement, Reporting, and Verification

- (i) Carrying out of an analysis and possible mapping of the nature and effect of land use on terrestrial carbon cycles.
- (ii) Development of a time-series analysis of the primary economic, social, and policy aspects of land use change.
- (iii) Establishment of permanent sample plots for ground-based forest carbon monitoring.

(d) Regional Data Collection and Capacity Building

Provision of support to REDD+ readiness preparation at sub-national level, including capacity building in selected areas and development of socioeconomic and biophysical studies to support baseline work.

2.02. ***Execution Generally.*** The Recipient declares its commitment to the objective of the Readiness Preparation Activities. To this end, the Recipient shall carry out the Readiness Preparation Activities through the Forest Research and Development Agency, in particular the Center for Climate Change and Policy, in collaboration with the Center for Standardization and Environment and the Center for International Cooperation, and acting with the support of the National Forestry Council with respect to the activities set forth in Sections 2.01 (b) (iv) and (vi) of this Annex pursuant to the Recipient's Regulation No. P.39/Menhut-II/2007 dated September 13, 2007, all 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 and revised in January 2011 ("Anti-Corruption Guidelines"), and (c) this Article II.

2.03. ***Implementation Arrangements***

The Recipient shall be responsible for the:

(a) policy and strategic orientation of the Readiness Preparation Activities through a steering committee, and, to this end, shall establish, no later than two (2) months after the date of countersignature of this Agreement by the Recipient, and thereafter maintain throughout implementation of the Readiness Preparation Activities, such a committee, comprising a representative of the Ministry of Forestry as chair and representatives of other ministries and agencies involved in REDD+ activities in Indonesia, and with an institutional framework,

functions, and resources satisfactory to the Recipient and the World Bank as shall be required for implementation of the Readiness Preparation Activities; and

(b) overall coordination, implementation, including administrative and financial management, disbursement, and procurement, and monitoring and evaluation of the Readiness Preparation Activities through the Readiness Preparation Activities Secretariat, and, to this end, shall: (i) establish, no later than one (1) month after the date of countersignature of this Agreement by the Recipient, and thereafter maintain throughout implementation of the Readiness Preparation Activities, said Secretariat, with an adequate institutional framework, functions, and resources, including competent personnel in adequate numbers, satisfactory to the Recipient and the World Bank as shall be required for purposes of implementation of the Readiness Preparation Activities; and (ii) communicate to the World Bank, no later than one (1) week after such establishment, the composition and allocation of responsibilities of the personnel of said Secretariat.

2.04. ***Readiness Preparation Activities Management Manual***

(a) The Recipient shall:

- (i) (A) adopt, no later than two (2) months after the countersignature of this Agreement by the Recipient, a Readiness Preparation Activities Management Manual, agreed with the World Bank and setting out implementation, organizational, administrative, monitoring and evaluation, financial management, disbursement, and procurement arrangements for purposes of implementation of the Readiness Preparation Activities; and (B) thereafter ensure that the Readiness Preparation Activities are carried out in accordance with the provisions of said Manual; and
- (ii) not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the aforementioned, or any provision thereof.

(b) In the event of a conflict between the provisions of the Readiness Preparation Activities Management Manual and those of this Agreement, the latter shall govern.

2.05. ***Mid-term Progress Report and Completion Report.*** The Recipient shall prepare a mid-term progress report in accordance with Section 6.3 (b) of the Charter and the PC's Resolution PC/7/2010/3. The Recipient shall also prepare a Completion Report in accordance with the provisions of Section 2.06 (b) (ii) of the Standard Conditions. The mid-term progress report shall be furnished to the World Bank no later than twenty two (22) months after the date of countersignature of this Agreement by the Recipient. The Completion Report shall be furnished to the World Bank not later than six (6) 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 appoint to the Readiness Preparation Activities Secretariat, no later than six (6) months after the countersignature of this Agreement by the Recipient, and

maintain throughout implementation of the Readiness Preparation Activities, a financial management specialist, with qualifications, experience, and terms of reference satisfactory to the Recipient and the World Bank as shall be required for purposes of implementation of the Readiness Preparation Activities.

(c) The Recipient shall ensure that its Financial Statements are included in the regular audits of the Inspectorate General, and, to this end, shall, no later than one (1) month after the countersignature of this Agreement by the Recipient, reach agreement with the Inspectorate General on such audits.

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

(e) 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.

2.07. *Procurement*

(a) General. All goods and services required for the Readiness Preparation Activities 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 of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the World Bank in January 2011 (“Procurement Guidelines”), in the case of goods and non-consulting services;
- (ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the World Bank in January 2011 (“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 Readiness Preparation Activities 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 Non-Consulting Services

- (i) Except as otherwise provided in sub-paragraph (ii) below, goods and non-consulting 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 non-consulting services for those contracts specified in the Procurement Plan: (A) Shopping; (B) Direct Contracting; and (C) National Competitive Bidding, subject to the modifications to the procedures set out in the Attachment to this Annex.
- (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.

Article III Withdrawal of Proceeds

3.01. ***Eligible Expenditures.*** 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 one hundred percent (100%) of Eligible Expenditures, consisting of goods, consultants' services (including for audits), Training, and Operating 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 December 31, 2014.

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 Minister of Finance.

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

Directorate General of Debt Management
Ministry of Finance
Jalan Lapangan Banteng Timur 2-4
P. O. Box 1139
Jakarta 10710
Indonesia

Cable address:

Telex:

Facsimile:

FINMINISTRY
Jakarta

45799 DJMLN-IA
44319 DEPKEU-IA

62-21-381-2859

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

Cable:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

1-202-477-6391

ATTACHMENT TO ANNEX

National Competitive Bidding: Modifications to the 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 Bank. The provisions of Section 1.14 (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 1.14 (a) of said Guidelines and the contract provisions set out in paragraph 1.14 (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 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 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.

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Cleared by and bcc: Kornexl (ENVCF); Khoury (CTRFC); Chandran (TACT / CTRTN);
Suprayitno (EAPFM); Saleh (EAPPR)

Bcc: O'Leary (CTRFC); Thamrin (CTRDM); WBDocs

Prepared by: Berhanu / Dost (LEGES)