



Letter No. JA-225/USDRP/V/2010

May 7, 2010

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

Dear Mr. Waluyanto,

**Re: *Urban Sector Development Reform Project – Loan Number 7760-IND  
(formerly Loan Number 4786-IND) – Amendment to Loan Agreement***

We refer to the Loan Agreement dated October 20, 2005 between the Republic of Indonesia (the “Borrower”) and the International Bank for Reconstruction and Development (the “Bank”) for Urban Sector Development Reform Project, as previously amended through July 14, 2008 (the “Loan Agreement”). We also refer to the letter dated March 19, 2010 from the Ministry of Finance, on behalf of the Borrower, requesting amendment of the Loan Agreement to revise the Project Development Objective and Project indicators and to re-allocate the proceeds of the Loan. The loan was originally a variable spread loan with Loan No. 4786-IND. It was converted to a fixed spread loan effective July 6, 2009 and the number was changed to Loan No. 7760-IND.

We are pleased to inform you that, after due consideration, the Bank hereby concurs with the above request. Accordingly, the Loan Agreement is amended as set out in the attachment to this letter.

Except as specifically amended hereby, all other provisions of the Loan Agreement remain in full force and effect.



**ATTACHMENT**  
**Urban Sector Development Reform Project**  
**Amendment to Loan Agreement – Loan Number 7760-IND**  
**(formerly Loan Number 4786-IND)**

1. Section 1.02 (Definitions) of the Loan Agreement is amended as follows:

- (a) Paragraph (t) is amended to add new Urban Local Governments as follows: “(t) “Participating ULGs” means Kabupaten Parigi Moutong, Kabupaten Sidenreng Rappang, Kota Cimahi, Kota Parepare, Kota Palopo, Kota Palangka Raya, Kabupaten Barru, Kota Sawahlunto, Kabupaten Morowali and Kota Banda Aceh, and “Participating ULG” means any one of said Participating ULGs”.
- (b) Paragraph (x) is amended to replace the words “of the PPMU Province” with the words “of each PPMU Province”.
- (c) Paragraph (y) is amended to reflect the possibility that PPMUs may be established in provinces which have more than one Participating ULG and/or Additional Participating ULG as follows: “(y) “PPMU Province” means the Borrower’s provinces of South Sulawesi and Central Sulawesi and each other province in which more than one Participating ULG and/or Additional Participating ULG is located in which a PPMU is established in accordance with the provisions of paragraph 3 to Schedule 5 to this Agreement and pursuant to a decree of the Governor thereof.”
- (d) Paragraph (aa) is amended to refer to the changes made to the Project Management Manual to reflect the restructuring of the Project, as follows: “(aa) “Project Management Manual” means the manual setting forth the project management procedures to be followed in the implementation of the Project, adopted by the IMSC through the MPW pursuant to the provisions of Section 6.01(b) of, and paragraph 4 of Schedule 5 to, this Agreement, and amended through May 6, 2010, as such manual may be amended from time to time with the prior agreement of the Bank;”

2. Section 2.03 of the Loan Agreement (Closing Date). The Bank has established June 30, 2012 as the later date for the purposes of Section 2.03 of the Loan Agreement.

3. Schedule 1 (Withdrawal of the Proceeds of the Loan). Paragraph 1 of Section A of Schedule 1 to the Loan Agreement is amended as follows:

“1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1)Sub-project Loans	40,275,000	100% of Sub-project

*OK*

		amount disbursed
(2) Consultants' Services, training and workshops*	3,450,000	100%
(3) Front-end Fee	225,000	Amount due under Section 2.04 of the Loan Agreement
(4) Unallocated	1,050,000	
TOTAL	<u>45,000,000</u>	

\* For the purposes of this Table, "training and workshops" means Project-related training and workshops (with priority for, but not limited to, staff of Participating ULGs and Additional Participating ULGs) conducted in the territory of the Borrower or abroad, including purchase and publication of materials, rental of facilities, non-degree course fees and travel and subsistence of trainees.

4. Schedule 2 (Project Description). The Project development objective is amended as follows: "The Project development objective is to assist the Borrower to strengthen local governance and improve the provision of selected urban services by Participating ULGs and Additional Participating ULGs."
5. Schedule 2 (Project Description). The final sentence of Schedule 2 is amended to read as follows: "The Project is expected to be completed by December 31, 2011."
6. Schedule 4 (Procurement). Section I.A and Section I.B of Schedule 4 are amended to refer to the guidelines current as of the date of this amendment for procurement exercises that commence on or after the date of this amendment, as follows:
  - A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004, and revised in October 2006 (the Guidelines), the provisions of Annex A to this Schedule 4 and the provisions of this Schedule.
  - B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, and revised in October 2006 (the Consultant Guidelines), the provisions of Annex A to this Schedule 4 and with the provisions of this Schedule. If the Borrower employs any procurement and inspection agents, it shall ensure that the requirements of Section 3.17 and 3.18 of the Consultant Guidelines are met."
7. Schedule 5 (Implementation Program). Paragraph 3(b) is amended by deleting the words ", by no later than January 31, 2006".
8. Schedule 5 (Implementation Program). A new sentence is added at the end of paragraph 4 as follows: "The Borrower shall cause each Participating ULG and each Additional Participating ULG to adopt revisions to the Project Management Manual to reflect changes to the Project from time to time satisfactory to the Borrower and the Bank."

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9. Schedule 5 (Implementation Program). Paragraph 7(d) is amended as follows: "taking all such measures and actions set out in said Safeguards Framework for the elimination or offsetting of adverse environmental impacts under a proposed Sub-project or Additional Sub-project, or the reduction of such impacts to acceptable levels, including, where a proposed Sub-project or Additional Sub-project is assessed as requiring a full environmental assessment (Analisa Mengenai Dampak Lingkungan or "AMDAL"), or an environmental monitoring and management plan (Dokumen Pengelolaan dan Pemantauan Lingkungan or "DPPL") or (Upaya Pengelolaan Lingkungan or "UKL"/ Upaya Pemantauan Lingkungan or "UPL") pursuant to the provisions of the Safeguards Framework, preparing such assessment in accordance with the Safeguards Framework and furnishing such plan to the Bank for approval".
10. Schedule 5 (Implementation Program). Paragraph 9(b) is amended to replace the date "March 31, 2006" with the "date July 31, 2009".
11. Schedule 5 (Implementation Program). Paragraph 9(c) is amended to replace the date "March 15, 2006" with the date "March 15, 2007".
12. Schedule 5 (Implementation Program). Paragraph 9(d) is amended to replace the date "April 15, 2006" with the date "April 15, 2007".
13. Schedule 5 (Implementation Program). A new paragraph 10 is added as follows: "The Borrower shall ensure that the Project is carried out in accordance with the provisions of the 'Guidelines on Preventing Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants', dated October 15, 2006."
14. Part C of the Annex to Schedule 5 (Implementation Program – Safeguard Plans) is amended by adding the following at the end of the table in such Part C:

<b>Participating LGU</b>	<b>Environmental Plan</b>	<b>Land Acquisition and Resettlement Action Plan / Action Plan for Traders</b>
Kota Banda Aceh	DPPL (Dokumen Pengelolaan dan Pemantauan Lingkungan) was issued by the Mayoral Decree No. 320/2009 dated on December 30, 2009	The LARAP (relocation of traders to the new market) is being prepared
Kabupaten Morowali	UKL/UPL No. 660.1/224.A/KLH/I/2010 dated on January 08, 2010	LARAP is not required

15. Paragraph 2(b)(iv)(B) of Part B of the Annex to Schedule 5 to the Loan Agreement is amended as follows: "where said proposed Additional Sub-project is assessed as requiring a full environmental assessment (Analisa Mengenai Dampak Lingkungan or "AMDAL"), or an environmental monitoring and management plan (Dokumen Pengelolaan dan Pemantauan Lingkungan or "DPPL") or (Upaya Pengelolaan Lingkungan or "UKL"/ Upaya Pemantauan Lingkungan or "UPL") pursuant to the

provisions of the Safeguards Framework, such assessment in accordance with the Safeguards Framework has been carried out”.

16. Schedule 6 (Performance Indicators). Schedule 6 is amended by replacing the table in such Schedule 6 with the following table:

<b>Outcome Indicators</b>	
<b>Indicator</b>	<b>Target at Closing Date</b>
<ul style="list-style-type: none"> <li>(i) Increase in ULG revenues from urban services financed by the project</li> <li>(ii) Increase in expenditures for O &amp; M of infrastructure financed by the project</li> <li>(iii) Increase satisfaction of the users for doing business</li> <li>(iv) Increase satisfaction of consumers in using the facilities built through project investments</li> </ul>	<p>At least 70 % of Participating ULGs that have completed the subproject:</p> <ul style="list-style-type: none"> <li>(i) increase their local revenue by at least 10% that due to the investment</li> <li>(ii) increase their O&amp;M expenditure by at least 10%</li> <li>(iii) at least 50% users express increased satisfaction of doing business</li> <li>(iv) at least 50% consumers express increased satisfaction of using the facilities</li> </ul>
<b>Results Indicators for Each Part of the Project</b>	
<b>Part A of the Project:</b>	<b>Target at Closing Date</b>
<p><b>Transparency, Participation and Accountability</b></p> <p>Percent of ULGs that post semi-annual updates on websites or in printed media providing information on:</p> <ul style="list-style-type: none"> <li>(i) Local development activities/programs</li> <li>(ii) Mid-term Development Plan (<i>RPJMD</i>)</li> <li>(iii) Summary of Local Budget (<i>APBD</i>)</li> <li>(iv) Audited Annual Financial Report</li> <li>(v) Procurement plan for the on-going fiscal year and contracts awarded in the past six months</li> </ul>	<p>At least 80% of Participating ULGs post the specified information at six month intervals</p>
<p>Participating ULGs have public feedback mechanisms in place including:</p> <ul style="list-style-type: none"> <li>(i) The use of at least one type of media(s) for public complaints which is managed by complaint handling unit</li> <li>(ii) Availability of Standard Operating Procedures (SOP) for public complaints handling</li> </ul>	<p>At least 80% of Participating ULGs have in place (i), and (ii)</p>

<ul style="list-style-type: none"> <li>(i) Allocation of block grants to <i>kecamatan</i> and/or <i>kelurahan</i> from the ULG and/or from at least one agency with Standard Operating Procedure for the use of block grants through participatory planning, <b>OR</b></li> <li>(ii) Indicative budget for financing development activities proposed through participatory development planning process or <i>musrenbang</i></li> </ul>	<p>At least 50% of Participating ULGs achieve (i) <b>OR</b> (ii)</p>
<p><b>Participating ULGs practicing sound Financial Management</b></p> <ul style="list-style-type: none"> <li>(i) Issuance of local regulation (PERDA or Decree or <i>Perbup/Perwal</i>) on Principle of Regional Financial Management</li> <li>(ii) Issuance of local regulation (PERDA or Decree or <i>Perbup/Perwal</i>) on Policies, Systems, and Procedures for the Preparation and Execution of <i>APBD</i></li> </ul>	<p>At least 80% of Participating ULGs achieve (i) and (ii)</p>
<p><b>Participating ULGs practicing sound Procurement</b></p> <ul style="list-style-type: none"> <li>(i) Min. 75% of the bids be awarded within the bid validity period, and publicized in the public domain, e.g. website, local bulletin</li> <li>(ii) Min 50% of tendering committee members have national procurement certification</li> <li>(iii) Announce in public domain and award the contractors/suppliers with best performance at least once a year in at least one local agency using the agreed criteria</li> </ul>	<p>At least 60 % of Participating ULGs achieve (i), (ii) and (iii)</p>
<p><b>Center of Excellence</b></p> <ul style="list-style-type: none"> <li>(i) “<i>Unit Informasi Pembangunan Permukiman dan Bangunan</i>” or <i>UIP2B</i> functioned as a Provincial Center of Excellence to support reforms in the ULGs in the province</li> <li>(ii) Work Plan for the Provincial Center of Excellence or- <i>UIP2B</i></li> </ul>	<p>At least 1 Province has (i) and (ii)</p>
<p><b>Local Economic Development and City Development Strategy</b></p> <ul style="list-style-type: none"> <li>(i) Local Economic Development (LED)-City</li> </ul>	<p>At least 60% of Participating ULGs have (i) and at least 50% of Participating ULGs having the LED-focused City Development Strategy</p>

Development Strategy developed by Participating ULGs  (ii) ULGs implemented 10% of activities specified in the City Development Strategy of ULGs	achieve (ii)
<b>Part B of the Project</b>	<b>Target at Closing Date</b>
<b>Participating ULGs implemented subprojects:</b>  (i) Participating ULGs sign Sub- project Loan Agreements (SLAs) with Ministry of Finance for urban investment subprojects; (ii) Participating ULGs complete construction of urban investment subprojects	(i) 100% of Participating ULGs signed SLAs (ii) At least 80% of Participating ULGs completed construction of urban investment subproject

\*For the purposes of this table, the term "Participating ULGs" includes any Additional Participating ULGs.