Annex 8(B): Anticorruption Plan

INDONESIA: Domestic Gas Market Development Project

This Anticorruption Action Plan is based on an examination of the overall project cycle, to identify where corruption is most likely to occur, and what mitigation measures are likely to be most effective. Because of the nature of the project, particular emphasis is given to procurement aspects. Potential risks of corruption are identified, and mitigation measures are identified below. Further details of specific control systems are outlined in Annex 7 (Financial Management and Disbursement Arrangements) and Annex 8 (Procurement Arrangements). The project manual will include more details concerning implementation of the elements of this plan, including relevant TORs.

Corruption Mapping

The corruption mapping matrix included below in this Action Plan identifies potential risks of corruption and specifies appropriate mitigation measures agreed by the PGN.

Action Plan

Specific mitigation actions are presented in the Corruption Mapping Matrix. The following provides a summary:

(a) Enhanced Disclosure Provisions and Transparency. PGN will establish a filing system to maintain all the project related documents, including procurement documents. Whilst securing any information that must be kept confidential, the project will ensure that a wide range of important documents and information will be made public in a timely fashion. The World Bank’s disclosure policy will be followed. In order to increase public awareness of the important measures, information concerning enhanced transparency and civil society oversight will be included in procurement advertisements. This will include, but not be limited to the following measures:

1. The PGN and the World Bank will each make publicly available, promptly after completion of a midterm review of a project carried out in accordance with this agreement, the midterm review report and the aide-memoire prepared for this purpose.

2. The PGN and the World Bank will each make publicly available promptly after receipt audit reports (financial or otherwise, and including qualified audit reports) prepared in accordance with this agreement, and all formal responses.

3. The PGN will (and the World Bank can)
   - make publicly available promptly after finalization all annual procurement plans and schedules, including all updates thereof;
   - make available to any member of the public promptly upon request all bidding documents and requests for proposals issued in accordance with the procurement provisions of this agreement, subject to payment of a reasonable fee to cover the cost of printing and delivery. In the case of requests for proposals, the relevant documents
will only be made available after notification of award to the successful firm. Each
such document will continue to be available until a year after completion of the
contract entered into for the goods, works or services in question.

- make available to any member of the public promptly upon request all short lists of
consultants and, in cases of prequalification, lists of prequalified contractors and
suppliers;

- disclose to all bidders and parties submitting proposals for specific contracts,
promptly after the notification of award to the successful bidder or consultant, the
summary of the evaluation of all bids and proposals for such proposed contracts.
Information in these summaries will be limited to a list of bidders or consultants, all
bid prices and financial proposals as read out at public openings for bids and financial
proposals, bids and proposals declared non responsive (together with reason for such
an assessment), the name of winning bidder or consultant and the contract price. In
the case of the lowest evaluated responsive bidder is not awarded the contract, a
concise explanation shall be given concerning the justification for the selection. Such
summaries will be made available to the public, promptly upon request;

- allow representatives of the end users of the goods or works being procured to attend
the public bid openings, information concerning the selection process and TORs will
be included in the project manual;

- make publicly available and publish widely contract award information for all
contracts for goods and works above USD100,000 equivalent and all contracts for
consultants above USD 50,000 equivalent, promptly after such award; and

- make available, promptly upon request by any person or company, a list of all
contracts awarded in the three months preceding the date of such request in respect of
a project, including the name of the contractor or consultant, the contract amount, the
number of bidders or makers of proposals, the procurement method followed and the
purpose of the contract.

It will be mandatory to widely disclose salient contract award information.

The PGN already makes annual audit reports public, and will continue to do so in relation to
this project.

b) General Stakeholder Oversight. With listing of roughly 40% of its shares on the Indonesia
stock market since December 2003, PGN is subject to broad monitoring and scrutiny by the
general public. PGN employs an external independent auditor. As outlined in the Corruption
Mapping Matrix, specific measures will be taken to encourage representatives of stakeholder
groups to oversee important aspects of the project. For example, invitations to observe the
procurement process (such as bid opening and evaluation) will be sent to carefully selected,
independent organizations related to the sector, such as university faculties and other
institutions. Though the primary role of these observers is to observe the procurement
process they may have a stronger technical capacity than the end-user representatives,
therefore the PGN procurement team may decide utilize them as a resource for technical
advice. Information concerning the selection process and TORs of these independent
observers will be included in the project manual.
All observers to the procurement process must agree to respect the confidentiality of the process and must be free from problems related to conflict of interests.

An Audit Committee will function at PGN, in line with GOI regulations. Review of the project progress will be included in the Audit Committee agenda.

(c) **Mitigating Collusion, Fraud and Nepotism.** Although opportunities for collusion and fraud may exist in any project, transparent and well-advertised procurement under the project with appropriate oversight will greatly reduce such risks. Additional safeguard measures will be in place, including procurement and project management assistance as well as training by an external consulting firm hired under the project.

External project management consultants will be hired to assist in contract management and provide training to PGN staff, and there will be third party inspection of goods and services delivered. Independent consultants will sign off and certify progress before progress payments are made.

To reduce the likelihood of abuse still further, audits of international standard will be held in accordance with current PGN practices.

(d) **Complaints Handling Mechanism.** The new Keppres 80/2003 provides comprehensive complaints handling procedures. These procedures will be strictly followed under the project. A complaints database will be set up by PGN to monitor the response to complaints and follow up actions. Details concerning the complaints handling mechanisms to be employed are given in Attachment A.

(e) **Sanctions and Remedies.** Clear sanctions and remedies are an important final step in the effort to fight corruption. This program will not tolerate corruption. When fraud and corruption in any aspect of project implementation is suspected, project management must immediately arrange an independent investigation. If the results of the investigation confirm the occurrence of fraud and corruption, administrative action will be taken against any PGN staff who are involved. Further, if the results of the investigation confirm third party involvement in fraud and corruption, then the parties involved, including consultants, contractors and vendors must be blacklisted by PGN. Cases must be reported to the Bank and also referred for criminal prosecution in accordance with government regulations. Substantiated allegation of a criminal offense must be reported to the police and other relevant authorities.
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<thead>
<tr>
<th>Correlation Mapping Area</th>
<th>Level of Risk</th>
<th>Opportunity for Corruption</th>
<th>Mitigation Action</th>
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<tbody>
<tr>
<td><strong>Procurement Stage</strong></td>
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<td><strong>Procurement Planning</strong></td>
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<tr>
<td>Packaging, cost estimates, procurement or consultant selection methods, scheduling</td>
<td>Low</td>
<td>Packaging in favor of local suppliers</td>
<td>• Mandatory review by the Bank of Procurement Plan; packaging and procurement methods to be based on economy and efficiency. As currently planned, majority of procurement will be done through ICB.</td>
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<td>• For the anticipated NCB packages (for installation services), the clarifications of NCE procedures following Keppres 80/2003 to be acceptable to the Bank will be included in the Legal Agreement.</td>
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<td>• Majority of procurement packages will be based on “supply and installation” arrangements with “prequalification.”</td>
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<td><strong>Advertising</strong></td>
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<td>General Procurement Notice (GPN), Special Procurement Notice (SPN), Request for Expression of Interest (EOI)</td>
<td>Low</td>
<td>Inadequate advertising would reduce transparency and limit competition</td>
<td>• The Bank advertising procedures will be strictly followed;</td>
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<td>• Advertisements will be published in two nationwide newspapers—one in English (Jakarta Post) and the other in Bahasa Indonesia.</td>
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<td><strong>Prequalification and Short listing Process</strong></td>
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<td>Prequalification</td>
<td>Medium:</td>
<td>Prequalification in favor of the “preferred” contractors.</td>
<td>• Prequalification document shall be prepared based on the Bank guidelines.</td>
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<td>• Clear and adequate qualification criteria defined in the prequalification documents and followed in evaluation. Bank prior review is required for all prequalification evaluation reports.</td>
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<td>Consultant short listing</td>
<td>Medium:</td>
<td>Short listing in favor of the “preferred” consultants.</td>
<td>• PGN will make available to public promptly upon request the list of prequalified contractors.</td>
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|                          |               |                             | • PGN to provide all the names who expressed interest, criteria and justifications for shortlisting, plus other supporting information. Bank review to
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<tr>
<th>Bidding Process</th>
<th>Medium</th>
<th>Delay in preparation or issuance of bidding documents or RFPs (which may indicate lack of capacity or poor institutional setup).</th>
<th>Bidding document or RFPs and evaluation criteria shall be prepared based on Bank guideline. Procurement Plan will include milestones for preparation and issuance of bidding documents, which will be monitored by both PGN PIU and the Bank; Project management consultant (including procurement engineer) will assist PGN in preparation of bidding documents; PGN to make available to the public upon request bidding documents and RFPs issued in accordance with the procurement provisions under the project, subject to payment of a reasonable fee to cover the cost of printing and delivery. In the case of RFPs, the relevant documents will only be made available after notification of the award to the successful firm. All the bidding documents will continue to be available until a year after completion of the contract entered into for the goods, works or services in question.</th>
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<tr>
<td>Bidding documents and Request for Proposals (RFPs)</td>
<td>Medium</td>
<td>Delay in evaluation process that would benefit exclusive bidders or consultants; Bid or proposal rejected for reasons unrelated to the capacity of bidders in carrying out the contract or services; False information provided by bidders or consultants.</td>
<td>Procurement Plan will include specific milestones for bid evaluation, which will be monitored by both PGN PIU and the Bank; External project management consultant will assist in bid evaluation; Bank would declare misprocurement for unjustified extension to bid validity; Bank will not issue no-object to unjustified contract awards; Bank or GOI disclosure procedures to be enforced. These include, inter alia: - make publicly available promptly after finalization all annual procurement plans and schedules, including all updates thereof; - make available to any member of the public promptly upon request all bidding documents and requests for</td>
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<tr>
<td>Bid or proposal evaluation and contract award recommendation</td>
<td>Medium</td>
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proposals issued in accordance with the procurement provisions of this agreement, subject to payment of a reasonable fee to cover the cost of printing and delivery. In the case of requests for proposals, the relevant documents will only be made available after notification of award to the successful firm. Each such document will continue to be available until a year after completion of the contract entered into for the goods, works or services in question;
- make available to any member of the public promptly upon request all short lists of consultants and, in cases of prequalification, lists of prequalified contractors and suppliers;
- disclose to all bidders and parties submitting proposals for specific contracts, promptly after the notification of award to the successful bidder or consultant, the summary of the evaluation of all bids and proposals for such proposed contracts. Information in these summaries will be limited to a list of bidders or consultants, all bid prices and financial proposals as read out at public openings for bids and financial proposals, bids and proposals declared non responsive (together with reason for such an assessment), the name of winning bidder or consultant and the contract price. In the case of the lowest evaluated responsive bidder is not awarded the contract, a concise explanation shall be given concerning the justification for the selection. Such summaries will be made available to the public, promptly upon request;
- allow representatives of the end users of the goods or works being procured to attend the public bid openings;
- make publicly available and publish widely contract award information for all contracts for goods and works above USD100,000 equivalent and all contracts for consultants above USD 50,000 equivalent, promptly after such award; and
- make available, promptly upon request by any person or company, a list of all contracts awarded in the
| Contract negotiations and finalization | Medium | - Contract "price" negotiations;  
- Collusion and nepotism in awarding contract | - Bank will require detailed explanations and justifications if final contract price differs from that proposed at the evaluation report;  
- Mandatory disclosure of contract award information. |
| Overall procurement | Medium | Risk of kickbacks;  
- Collusive practices in contract awards; lower quality of goods/services. | - Enhanced disclosure, complaints handling and sanctions or remedies as defined in Keppes 80/2003;  
- Independent, external observers acceptable to the Bank will be invited by PGN to attend all important steps of the bidding process, including bid opening and evaluation. Though the primary role of these observers is to observe the procurement process they may have a stronger technical capacity than the end-user representatives, therefore the PGN procurement team may decide to utilize them as a resource for technical advice. Information concerning the selection process and TORs of these independent observers will be included in the project manual. All observers to the procurement process must agree to respect the confidentiality of the process and must be free from problems related to conflict of interest;  
- Enhanced capacity for procurement and contract management (assistance by external consultants, training);  
- Enhanced control system (internal and external): as a publicly listed company, PGN is now subject to more scrutiny by stakeholders;  
- Project management system includes cross-support and cross-checking mechanisms to reduce and minimize
**Project Implementation**

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<th>Contract execution, supervision and audit</th>
<th>Medium</th>
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- Goods and services delivered at lower than specified quality or quantity; construction delays; cost overruns; kickbacks from contractors-suppliers-consultants to project staff.

- External project management consultants to be hired to assist in contract management and provide training to PGN staff;
- Clear testing and acceptance procedures to be specified in the contracts and to be followed;
- Third party inspection of goods and services delivered;
- Internal and external auditors are in place;
- The project is an integrated part of PGN’s ongoing priority investment which has a firm completion date; delays will cause “take or pay” penalties; PGN will be accountable to shareholders, including BPH Migas, for adhering to the Master Plan, including timely project completion at the expected quality and cost.
- The PGN and the World Bank will each make publicly available, promptly after completion of a midterm review of a project carried out in accordance with this agreement, the midterm review report and the side-memoire prepared for this purpose.
- The PGN and the World Bank will each make publicly available promptly after receipt audit reports (financial or otherwise, and including qualified audit reports) prepared in accordance with this agreement, and all formal responses.