



**SUBSIDIARY ARRANGEMENT
BETWEEN
THE GOVERNMENT OF AUSTRALIA
AND
THE GOVERNMENT OF THE REPUBLIC OF INDONESIA
RELATING TO THE
AUSTRALIA INDONESIA PARTNERSHIP FOR ECONOMIC GOVERNANCE
(AIPEG)**

1. General

This Subsidiary Arrangement expresses understandings between the Government of the Republic of Indonesia (GOI) and the Government of Australia (GOA) and is made pursuant to the terms of Article IV of the General Agreement on Development Cooperation that came into force on 21 July 1999 (GADC). The terms of the GADC apply to this Subsidiary Arrangement.

2. Name of Activity

The name of the Activity is the **Australia Indonesia Partnership for Economic Governance** (hereinafter referred to as 'AIPEG').

3. Duration of the Activity

The Activity is projected to be implemented over six years to commence on signature of this Subsidiary Arrangement. This Subsidiary Arrangement covers the six years of the Activity. Continuation of the Activity thereafter will be subject to the result of a review that is covered by this Subsidiary Arrangement and the Australian parliamentary budget allocation process.

Either party may advise of their withdrawal of participation in or discontinuation of support for the activity as detailed in this Arrangement in accordance with Paragraph 16.

4. Activity Location(s)

The Activity will be located predominantly in Jakarta in government central agencies. It is possible that requests may be received by line agencies, provinces and districts, and may also include quasi-government agencies and non-government organisations such as academic and research institutions. The Facility office will be located in Jakarta.

5. Activity Description and Objectives

Background

The Governments of Australia and Indonesia have worked collaboratively in the area of economic governance since the major financial crisis of the late 1990s. The rationale for this focus is the clear link between sound macro-economic management and stability and poverty reduction. Over a decade of cooperation, a great deal has been learned and achieved and there is now a mutual commitment to continue this collaboration for another six years. Support is provided through the Technical Assistance Management Facility for Economic Governance Phase 3 (TAMF III) will cease on 31 December 2009 and a critical issue is the need for a smooth transition from management of TAMF III to the new Facility.

The AIPEG Facility will operate from 2009 to 2015 and will build on successful work undertaken through TAMF III. The work of the AIPEG Facility will respond to a clear direction from agencies in the Government of Indonesia (GoI) that wish to improve the capacity of their organisations to implement required economic governance policies and programs.

Activity Description

Facility Goal The goal of the Facility is to improve the quality of the Government of Indonesia's economic management and through this contribute to broad based growth and poverty reduction.

Facility Objective The objectives of the Facility are to strengthen governmental capability for policy formulation, coordination and implementation in areas affecting the national budget and macroeconomic performance.

The facility will operate through a series of sub-facilities providing support in selected areas of economic management. Each sub-facility will have its own goal and objective, and will contribute to the facility wide objective through the provision of high quality analytical and strategic advice that is useful to Government of Indonesia policy makers. Particular attention will be given to harmonize and work strategically with other sources of assistance and advice. The sub-facilities will be expected to engage with key agencies to impact positively on budget and macroeconomic policy settings, and, where appropriate deliver effective support to build domestic capacity for policy formulation, coordination and implementation in areas of strategic importance.

Facility Focus The AIPEG Facility will undertake collaborative activities in institutional strengthening and policy advice in several areas including the followings:

- tax administration reform;
- debt management;
- financial system stability;
- international trade policy;
- economic policy coordination (e.g. in climate change, food security, energy and agriculture); and

- public financial management (e.g. in budget, decentralisation/fiscal transfers and Public Private Partnerships).

6. Implementing Agencies

The Implementing Agencies for the Activity will be:

For the Government of Indonesia (GOI):

The Coordinating Ministry for Economic Affairs (CMEA)

For the Government of Australia (GOA):

The Australian Agency for International Development (AusAID) of the Department of Foreign Affairs and Trade.

AusAID may engage suitably qualified contractors to carry out any part of its commitments under this Subsidiary Arrangement.

In this Arrangement, including any annexures unless the context otherwise requires, reference to 'Party' means both GOA and GOI.

7. Implementation Arrangement

a. Delivery Modality

The Activity will be managed and implemented by AusAID in Jakarta in equal partnership with the Government of Indonesia. AusAID will appoint a Contractor to support AusAID's inputs to the Partnership through a Facility arrangement which includes the provision of an AIPEG Team Leader; Management Support Team (MST); and technical assistance to provide technical, operational, logistical and financial support.

AusAID

Engagement and management oversight of the Contractor will rest with AusAID Jakarta. AusAID is responsible for the following:

- (a) co-chairing the AIPEG Facility Advisory Board and participating on the Executive Committee;
- (b) annual budgeting, financial planning, the provision of funds, monitoring of expenditure and review of annual audits of the Imprest account;
- (c) approval of the appointment of sub-facility Lead Advisers, as nominated by the Contractor;
- (d) chairing the Joint Appraisal Panel;

- (e) ensuring the Joint Appraisal Panel approves small proposals for grants (under AUD100,000) efficiently and quickly;
- (f) monitoring and managing program quality and coherence, and Contractor performance;
- (g) monitoring implementation progress;
- (h) reviewing Facility Evaluation Team's reports and engaging with the issues therein;
- (i) fostering a proactive approach to management;
- (j) consideration and approval of the Contractor reports and milestones;
- (k) coordination with other Australian Government Departments and Agencies;
- (l) commissioning and jointly conducting with the Facility Evaluation Team, the two periodic reviews at the end of Year 2 and Year 3;
- (m) commissioning and management of an Independent Completion Report; and
- (n) coordination with other donors.

GoI Partner Agencies

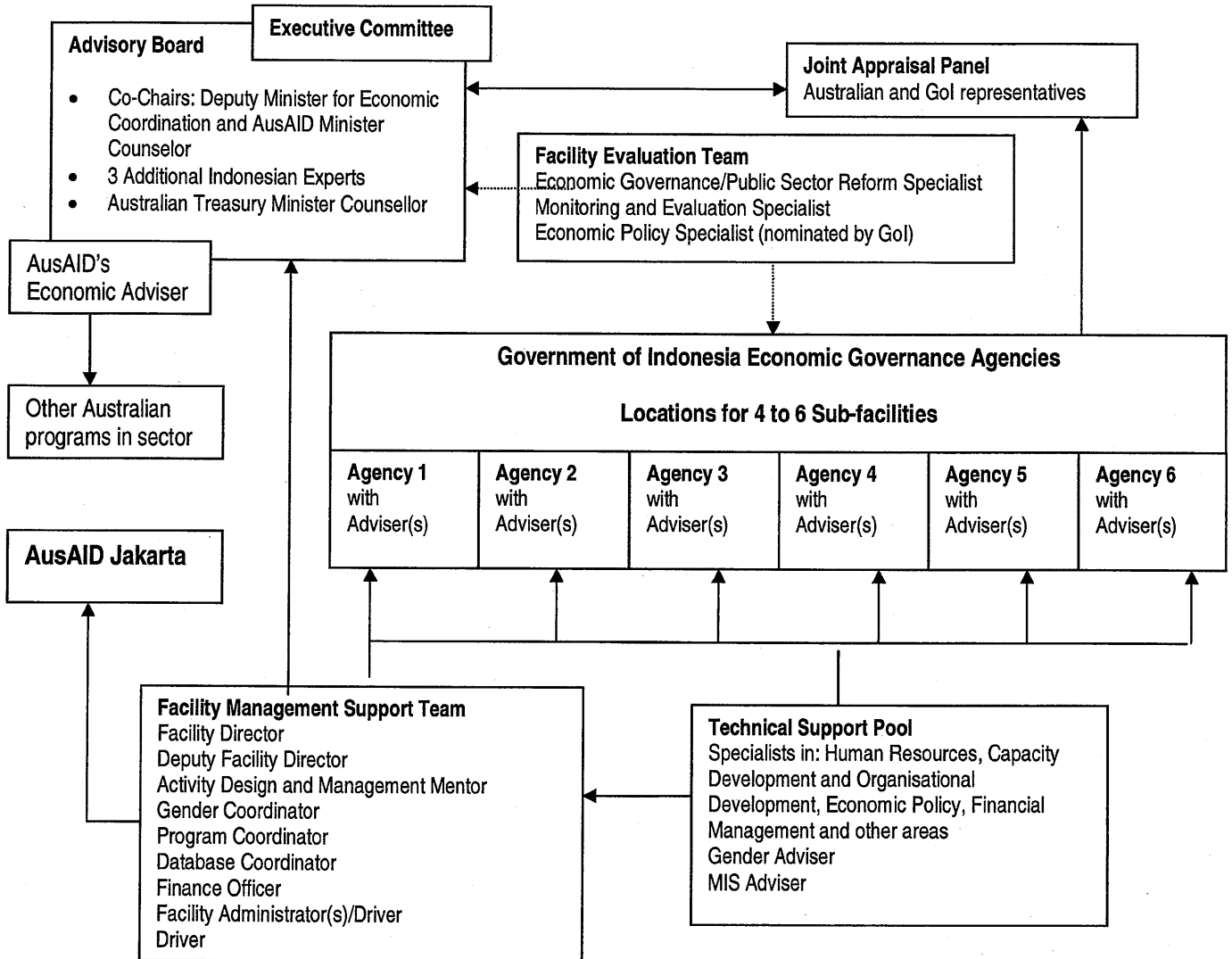
GoI Partner agencies will host sub-facilities and must have full ownership of activities.

Partner agencies will have the following responsibilities in the implementation of facility and sub-facility activities:

- (a) with support from the Contractor, contribute to the design and implementation of activities and be responsible for the activity outcomes;
- (b) provide timely counterpart support as committed in the activity design, such as staff, facilities, and local costs;
- (c) for any training activity (courses, work attachments, study tours) undertake selection of participants in line with the mutually determined selection criteria in the activity design, ensuring equitable participation of men and women;
- (d) at the end of the activity participate in an activity evaluation process, expressing the level of satisfaction with the activity and assessing the activity achievements against the stated outputs/outcomes;
- (e) where appropriate according to the approved design, together with the sub-contractor arrange workshops/roundtables to disseminate outcomes of the activity; and
- (f) cooperate with the Contractor and/or the Facility Evaluation Team (FET) in providing feedback for Monitoring&Evaluation (M&E).

b. Coordination and Management Arrangements

The management structure of AIPEG is outlined below:



8. Financial Contributions

a. GOA contributions

The contributions of the GOA to the Partnership are estimated to be up to AUD66 million. GOA funding contributions will cover implementation, management and monitoring of the Activity and related activities. The disbursement of the GOA contributions will be subject to the normal Australian annual parliamentary approval of appropriations.

b. GOI counterpart contributions

No attempt has been made to cost the GOI contribution, which will be supplied in-kind. All honoraria expenses of the personnel from GOI incurred in relation with the activities under the Activity will be financed by the GOI from its own budget.

9. Materials, Services and Equipment to be supplied

a. Government of Australia

Technical Assistance

Technical assistance will be provided in accordance with the Project Design Document dated January 2009. It is anticipated that AIPEG will provide longer-term support for target institutions and activities, but will also maintain an ability to respond to immediate and emerging issues. The two main Facility initiatives of AIPEG are:

- Core Program Activities – support for medium to long term core program activities (of at least 12 months duration); and
- Immediate and Emerging Issues – this support will be flexible and responsive. It will deliver short-term, targeted program activities (of less than 12 months duration)

Mechanisms for Assistance

Delivery mechanisms to be provided under AIPEG may include mentoring, advising, training, workshops, short courses, internships, study tours or any other technical assistance that is considered best suited to achieving the objective of the activity/core program area. Funding for procurement of minor equipment or materials may also be supported where it complements proposed technical assistance, is necessary for the achievement of a core program or activity objective and is not fundable by the Facility partner within a suitable timeframe.

Procurement, Maintenance and Project Management

The GOA will provide funding to the Contractor for all vehicles, maintenance, equipment and materials to be allocated and used. At Facility completion the Facility Coordinating Committee will jointly determine a detailed asset distribution plan. Final asset distribution will follow the GOA approval.

The GOA will also fund the costs of program management.

b. Government of Indonesia

Management and Coordination

The GOI will provide the following management and coordination functions to assist with the implementation, progress and monitoring of the Activity:

- (a) overall coordination of GOI participation in the AIPEG;
- (b) nominating the Chairperson and GOI representatives on the Executive Committee and Advisory Board;
- (c) disseminating relevant information about technical assistance opportunities under the Activity to all participating line agencies;
- (d) support to the contractor in ensuring participating line agencies are aware of their responsibilities in relation to provision of counterparts and training costs;
- (e) facilitating engagement with other national and local GOI agencies that shows interest to be involved in the Activity; and
- (f) assistance and facilitation of the efficient and effective approval, implementation, monitoring and evaluation of activities.

In-Indonesia Training: The GOI will provide the following in-kind contributions in full for the duration of the Facility:

- (a) appropriately located and furnished training facilities, free of rent and other charges;
- (b) training participants for the delivery of courses and other Facility related training activities;
- (c) Facility training-related utility charges; and
- (d) incidental costs associated with in-Australia training, including passport formalities, provision of exit permits and provision of FISKAL exemptions for all participants.

In-Indonesia Technical Assistance: The GOI will provide personnel and facilities necessary to enable AIPEG personnel to efficiently and economically carry out Technical Assistance activities in full for the duration of AIPEG Facility. Such in-kind contributions will include, but are not limited to:

- (a) preparation of proposals for assistance / terms of reference;
- (b) access to line agency personnel, facilities and documentation;
- (c) provision of appropriate offices and work facilities for the implementation of each activity;
- (d) performance monitoring of each activity and consultants providing the technical assistance;
- (e) all necessary approvals and authorities relating to each activity.

10. Project Personnel

a. Government of Australia

The GOA will provide accommodation, travel costs and remuneration for all internationally and locally engaged staff assigned to the Facility.

b. Counterpart Staff of GOI

The GOI will nominate a representative to the Executive Committee, who will also co-chair the Advisory Board and nominate Indonesian members of the Facility Evaluation Team.

11. Monitoring, Review, Evaluation and Reporting Arrangements

The GOA and GOI will undertake program monitoring & evaluation. The Government of Indonesia, through the Coordinating Ministry for Economic Affairs will be involved in supervising the review and monitoring of this Facility.

The performance of AIPEG will be monitored at three levels (Facility, sub-facility and activity). The sub-facility and activity level performance indicators will be specified at the time of the relevant Facility Review and Implementation Plan (FRIP) submission or in individual activity plans. AIPEG will be monitored at the Facility level against performance indicators outlined in the Project Design Document.

The Facility Evaluation Team will take lead role in reviews sub facility selected by AusAID or the Executive Committee and prepare the sixth-monthly Performance Assessment and Evaluation (PA&E) report for consideration by the Advisory Board and the approval of the Executive Committee. The Executive Committee will provide top level guidance and to resolve any major issues that arise. FET visit will be scheduled to be conducted six-monthly in a regular cycle timed to precede FRIP development and Advisory Board meetings.

12. Intellectual Property

Pursuant to Paragraph 1 of Article VII of the GADC, the parties have decided that any Intellectual Property issues that might arise during the carrying out of the Activity will be addressed in an Implementing Arrangement in accordance with Article VII.

13. Settlement of Disputes

The parties will work together in a spirit of openness, transparency and consultation to implement the Activity. Effective information flows and communication are crucial to building and sustaining confidence and trust between Parties. GOI and GOA will endeavour jointly in a spirit of co-operation and mutual trust to resolve any difficulties or misunderstandings which may arise.

This Arrangement (as it exists from time to time) serves only as a record of its Parties' intentions and does not constitute or create (and is not intended to create) rights or obligations under domestic or international law and will not give rise to any legal process and will not be deemed to constitute or create any legally binding or enforceable rights or obligations (expressed or implied). Consequently, any dispute, controversy, or claim, which arises out of the interpretation or application of this Arrangement, will not be subject to adjudication or arbitration; but will instead be dealt with through amicable consultations and negotiations as the only method of achieving the peaceful settlement of that dispute, controversy, or claim.'

14. Amendments to/Termination of the Subsidiary Arrangement

This Subsidiary Arrangement may be amended at any time by an Exchange of Letters between the parties.

Termination of this Arrangement may be effected by one Party on giving 90 days written notice and reasons for the termination to the other Party.

15. Anti-Corruption

Consistent with both Parties commitment to good governance, accountability, and transparency, each Party reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Activity.

16. Undertaking to Prevent Financing of Terrorism

Both parties are firmly committed to the international fight against terrorism and, in particular, the financing of terrorism consistent with United Nations Security Council (UNSC) regulations relating to terrorism, including UNSC Resolution 1373 (2001), 1267 (1999) and related resolutions.

Both Parties reaffirm their commitment to the principles of the International Convention for the Suppression of the Financing of Terrorism (New York, 9 December 1999)

The Parties will cooperate to ensure that no Activity funds are used, directly or indirectly, to provide support to individuals or entities associated with terrorism.

If, during the term of the Subsidiary Arrangement, either Party discovers a link between any organisation or individual associated with terrorism it will inform the other party.

17. Entry into Effect

This Subsidiary Arrangement will take effect from the date it has been signed (by both parties) and will be valid until the completion of all activities under AIPEG.

IN WITNESS THEREOF, the undersigned have signed this Subsidiary Arrangement.

Signed in duplicate, at Jakarta, on this 31st day of August in the year of two thousand and nine, in two (2) originals in the English language, both of the texts being equally authentic.

FOR THE GOVERNMENT OF
AUSTRALIA



Catherine Walker

~~PETER BAXTER~~

A/g DIRECTOR GENERAL
AUSTRALIAN AGENCY FOR
INTERNATIONAL DEVELOPMENT

FOR THE GOVERNMENT OF THE REPUBLIC
OF INDONESIA (COORDINATING
MINISTRY FOR ECONOMIC AFFAIR)



MAHENDRA SIREGAR

DEPUTY MINISTER

FOR INTERNATIONAL ECONOMIC AND
FINANCIAL COOPERATION