

**SUBSIDIARY ARRANGEMENT
BETWEEN
THE GOVERNMENT OF THE REPUBLIC OF INDONESIA
AND
THE GOVERNMENT OF AUSTRALIA
RELATING TO
AUSTRALIA'S EDUCATION PARTNERSHIP WITH INDONESIA
CONTRIBUTION TO THE
EDUCATION SECTOR SUPPORT PROGRAM**

1. General

1.1 This Subsidiary Arrangement expresses the 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 between the Government of Australia and the Government of the Republic of Indonesia* that entered into force on 21 July 1999 (GADC). The terms of the GADC apply to this Subsidiary Arrangement.

1.2 Australia's Education Partnership with Indonesia ("Education Partnership"), which represents Australia's contribution to the GoI's Education Sector Support Program (ESSP), will be financed by up to AUD500 million in grant financing from annual appropriations, subject to approval by the Parliament of Australia, and consists of four components, with the following anticipated budgets and outcomes:

COMPONENT	BUDGET ¹	GOVERNED BY	OUTCOME
1. School Construction	AUD215.7million	Junior Secondary School Construction and Expansion Grant Agreement ²	Improved access to nine years of basic education for boys and girls, and physically challenged children, in unserved and underserved areas
2. School and District Management	AUD188.3million	Grant Agreements and Subsidiary Arrangement	Better managed schools and madrasah through BOS training and school-based management training for new schools constructed under Component 1.
2.1 TA Implementation Support	AUD15million ³	Subsidiary Arrangement	Indonesia has an effective nationwide accredited training system for school principals, supervisors and district officials that it is managing and financing.
2.2 Delivery of a nationwide accredited training to education personnel across Indonesia	AUD134million	Grant Agreement ⁴	
2.3 Interim school-based management training for schools constructed under Component 1, and support for District management of schools constructed under Component 1.	AUD13million	Subsidiary Arrangement	

□

¹ Indicative budget figures that are subject to GoA's annual budget process.

² This Grant Agreement will be finalised after the signing of this Subsidiary Arrangement

³ 2.1 TA Implementation Support will include TA to Component 1: School Construction.

⁴ It is intended that this sub-component will be covered by a Grant Agreement. However this needs to be confirmed after the signing of this Subsidiary Arrangement

COMPONENT	BUDGET ¹	GOVERNED BY	OUTCOME
2.4. BOS Training	AUD26.3million	School and District Management (BOS Training) Grant Agreement	
3. Islamic School Accreditation	AUD47million	Subsidiary Arrangement	Improved quality and governance of Islamic education service through 1500 private madrasah achieve government accreditation
3.1 TA Implementation Support	AUD12million	Subsidiary Arrangement	
3.2 Block Grants	AUD35million	Subsidiary Arrangement	
4. Analytical and Capacity Development Partnership (ACDP)	AUD25million	Co-financing Agreement on Education Sector ACDP	Policy makers utilize quality evidence generated by technical analysis to inform education policy, planning and budgeting
Other Advisory Services (including Performance Oversight Monitoring and Education Partnership Outreach Services)	AUD24million	Subsidiary Arrangement	Impact of Australia's contribution to the Education Partnership is effectively and independently measured. Australia-Indonesia Partnership's role in improving basic education service is strengthened among program beneficiaries.
TOTAL	AUD500million		

1.3 This Subsidiary Arrangement expresses the understandings of the GoI and the GoA with respect to the parts of the Education Partnership identified above as being governed by a Subsidiary Arrangement (the Activity). In addition, this Subsidiary Arrangement outlines the overarching governance arrangements for the entire ESSP, including those components which will be governed by separate grant agreements.

2. Governance Arrangements for the ESSP

2.1 The GoI and the GoA will govern the ESSP (including the Education Partnership and the Activity) in accordance with the following governance arrangements:

- (a) **The Governance Oversight Group (GOG)**, co-chaired by senior representatives of Ministry of National Education (MoNE) and Ministry of Religious Affairs (MoRA), and comprising senior representatives of the GoI, the GoA and the European Union (EU), and responsible for policy and strategic oversight of all parts of the ESSP.
- (b) **Four Technical Oversight Groups (TOGs)**, co-chaired by designated MoNE and MoRA representatives, comprising technical staff from MoNE and MoRA, the GoA and the EU, and responsible for; (i) work plans and procurement plans, (ii) coordination and approval of ESSP reports, and (iii) ongoing management, monitoring and oversight of the delivery of ESSP.

2.2 These governance arrangements may be changed from time to time as agreed by the GoA, MoNE and MoRA, without amending this Subsidiary Arrangement.

3. The Activity

3.1 The Activity which is governed by this Subsidiary Arrangement is part of the Education Partnership. The goals of the Education Partnership are as follows: (i) equitable access to nine years of basic education, and (ii) improved quality of education in all schools including in private Madrasah.

4. Activity Description

4.1 This Subsidiary Arrangement governs only that portion of the GoA funding which will be disbursed through or to contractors engaged by AusAID, up to AUD99million (including AUD35 million in block grants) as shown in the table in paragraph 1.2. The Activity, as governed by this Subsidiary Arrangement, comprises: (i) Component 2 (sub-components 2.1 and 2.3) of up to AUD28 million; (ii) Component 3 (including sub-components 3.1 and 3.2) of up to AUD47 million; and (iii) other advisory services of up to AUD24 million.

4.2 The Activity will be implemented by GoA contractors and subcontractors, working closely with MoNE, MoRA and other involved ministries.

5. Other Parts of the Education Partnership

5.1 The Education Partnership also includes: (i) Component 1 of up to AUD215.7 million; and (ii) Component 2 (sub components 2.2 and 2.4) of up to AUD160.3 million, to be governed by a Grant Agreement between GoI and GoA; and (iii) Component 4 of up to AUD25 million, as governed by a Contribution Agreement with the Asian Development Bank.

6. Executing Agencies

For the GoI:

6.1 MoNE and MoRA.

For the GoA:

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

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

6.4 In this Arrangement, including the annexure unless the context otherwise requires, reference to 'Party' means both GoA and GoI.

7. Duration

7.1 The Activity will be implemented over the period from the date of execution of this Subsidiary Arrangement to 30 June 2016, or such later date as the GoI and GoA may agree. This Subsidiary Arrangement will take effect from the date of its signature and will be valid until the completion of the Activity.

8. Location

8.1 The Activity will be implemented throughout Indonesia.

9. GoA and GoI Contributions

For the GoA:

9.1 The GoA will contribute AUD99 million (including AUD35 million in block grants) to the Activity. AusAID will use these funds to engage contractors to provide management and advisory services for the Activity.

9.2 The budget breakdown presented in paragraph 1.2 is an indicative budget which is still subjected to the annual budget process.

9.3 Prior to completion of the Activity, the GoA and GoI will mutually determine a plan for the distribution of assets purchased for the Activity.

For the GoI:

9.3 The GoI's contributions to the effective implementation of the Activity include:

- (a) financing of general management, secretarial and administrative costs associated with implementation of the Activity;
- (b) provision of personnel for the GOG, four TOGs and five Secretariats in accordance with the agreed Terms of Reference for each entity;
- (c) provision of sufficient qualified personnel for ongoing day-to-day implementation, monitoring and management of the Activity, as required;
- (d) provision of sufficient office space and facilities within MoNE and MoRA and their appropriate departments/bureaux for the Activity, as required;
- (e) access to relevant data, reports, technical standards and other information and materials, as required;
- (f) permission for foreign personnel to open personal external bank accounts and for any foreign executing agencies to open Activity external bank accounts; and permission to repatriate revenues transferred from abroad free from foreign exchange restrictions;
- (g) assistance in getting access to appropriate telecommunications facilities, including telephone, email and internet; and
- (h) facilitate the issuance of all necessary documents for international personnel to enter and travel in Indonesia, for the implementation of the Activity.

10. Taxation

10.1 In accordance with the prevailing laws and regulations in Indonesia, as well the procedures and policy of the GoI concerning international technical cooperation, the GoI will facilitate the issuance of

stay permits, exit and re-entry permits, work permits and other necessary permits for approved experts and international staff and their respective dependents.

10.2 Tax exemption and relief will be in accordance with the relevant provisions contained in the GADC.

11. Undertaking to prevent financing of terrorism

11.1 Both the GoI and the GoA 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 Resolutions 1373 (2001), 1267 (1999) and related resolutions.

11.2 Both the GoI and the GoA reaffirm their commitment to the principles of the International Convention for the Suppression of the Financing of Terrorism (New York, 9 December 1999).

11.3 The GoI and the GoA will cooperate to ensure that no amount of the Activity financing is used, directly or indirectly, to provide support to individuals or entities associated with terrorism.

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

12. Procedures Manuals

12.1 The GoI and GoA will implement the Activity in accordance with provisions set out in a series of Procedures Manuals developed to guide the delivery of Education Partnership components and/or sub-components. Except as the GoA may otherwise approve in writing, the GoI will not amend, suspend, abrogate or waive the Procedures Manuals or any part thereof. The GoA will ensure that contractors and subcontractors implement program activities in accordance with provisions set out in the Procedures Manuals.

13. Program Monitoring and Evaluation

13.1 Monitoring and evaluation of the Activity will be carried out jointly by the GOG and TOGs, with technical support provided from the GoA (or its nominated representative).

13.2 Independent performance oversight monitoring of the Activity will be conducted by a GoA nominated contractor. This contractor will be responsible for tracking Activity outputs and outcomes against GoI education priorities, and for assessing the impact of the Activity components. GoI will facilitate, as required, the independent performance oversight monitoring work of this contractor.

14. Reporting Arrangements

14.1 GoA will report to the GOG and TOGs on proposed work planning and implementation progress of the Activity. GoA will share annual work plans, budgets and mid year and annual progress reports related to the Activity through the GOG and TOGs.

15. Intellectual Property

15.1 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 of the GADC.

16. Settlement of Disputes

16.1 This Subsidiary Arrangement is neither a treaty nor an instrument of treaty status.

16.2 Consequently, differences which may arise concerning the interpretation or application of this Subsidiary Arrangement will not be subject to adjudication or arbitration by any national or international court or tribunal but will instead be dealt with in an amicable way as the appropriate method of achieving the peaceful settlement of those differences.

16.3 At the same time the GoA wants to confirm not only its clear intent to participate in the Activity but also its desire to implement the provisions of this Subsidiary Arrangement in good faith.

17. Amendments to/Termination of the Subsidiary Arrangement

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

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

18. Anti-Corruption

18.1 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.

19. Use of Appropriate Building Materials

19.1 Both parties will ensure:

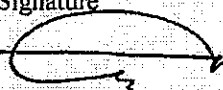
- (a) building materials for the Activity do not contain any form of asbestos; and
- (b) use of timber or other building materials for the Activity have been sustainably harvested, or sourced from recycled building materials, where possible.

20. Entry into Effect

20.1 This Subsidiary Arrangement will take effect from the date it has been signed (by both parties) and will be valid until 30 June 2016.

20.2 Signed in duplicate, at Jakarta, on this 14 day of June 2011, in three (3) originals in the English language.

For the Government of the Republic of Indonesia (Ministry of National Education):


Signature

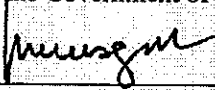
FABLI JACAL
Name

VICE MINISTER
Title


Signature of witness

AVANTO K. SETA
Name of witness

For the Government of the Republic of Indonesia (Ministry for Religious Affairs):


Signature

Bahrul Hayat
Name

Sekretaris jenderal
Title


Signature of witness

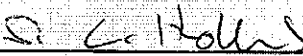
A. SARUDDIN
Name of witness

For the Government of Australia (Australian Agency for International Development):


Signature

Peter Baxter
Name

Director General
Title


Signature of witness

SUSAN C. HOLLINS
Name of witness