

**SUBSIDIARY ARRANGEMENT BETWEEN
THE GOVERNMENT OF THE REPUBLIC OF INDONESIA
AND
THE GOVERNMENT OF AUSTRALIA
RELATING TO THE AUSTRALIA INDONESIA PARTNERSHIP
EASTERN INDONESIA NATIONAL ROAD IMPROVEMENT PROJECT
(EINRIP) – PROJECT PREPARATION AND MONITORING**

1. General

This Subsidiary Arrangement replaces, in its entirety, the Subsidiary Arrangement for EINRIP signed by GOI and GOA on 16 June 2006.

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 that entered into force on 21 July 1999 (GADC). The terms of the GADC apply to this Subsidiary Arrangement.

2. Name and Objectives of the Activity

The name of the Activity is the Australia Indonesia Partnership Eastern Indonesia National Road Improvement Project (EINRIP) – Project Preparation and Monitoring. The objectives of the Activity are to (i) support the preparation of EINRIP, including final engineering design (ii) monitor and evaluate EINRIP, and (iii) support EINRIP project management and delivery.

3. Executing Agencies

The executing agency for the GOI is the Directorate General of Highways (DGH) of the Ministry of Public Works. The executing agency for the GOA is the Australian Agency for International Development (AusAID) of the Department of Foreign Affairs and Trade.

4. Activity Description

The objective of EINRIP is to support regional economic and development in Eastern Indonesia by improving the condition of the national road network. The project was initially expected to comprise betterment about 2,000 km of national roads and 4,500 m of steel truss bridge. Significant reductions in these estimates are likely, because of increasing construction costs, and improvements in national road specifications and standards.

Betterment of roads under EINRIP will be implemented using funds loaned from the Government of Australia under the Australia Indonesia Partnership for Reconstruction and Development (AIPRD). The implementation of EINRIP betterment works will be governed by separate arrangements, subject to Australian law.

The scope of Activity governed by the Subsidiary Arrangement covers the preparation of EINRIP and the preparation and implementation of a program to monitor and evaluate the impact of EINRIP. This activity will be delivered using AIPRD grant funds. The major elements of the Activity include the following:

i. Project Preparation Consultant (PPC)

The PPC engaged by AusAID will identify and prepare the project to the standards required for project appraisal, loan negotiation and implementation. Under the direction of DGH, the PPC will assist with the selection of road links to be included in the project, undertake economic and environmental feasibility assessment of the project components, and prepare initial final engineering designs for tendering. The PPC will also assist with the preparation project management procedures to be used by DGH and AusAID during the implementation of EINRIP.

ii. Project Monitoring and Evaluation

AusAID and DGH will appoint a Project Monitoring and Evaluation Consultant to prepare a methodology and work plan to monitor and evaluate the impact of EINRIP.

- a. The methodology developed by the Project Monitoring and Evaluation Consultant will be implemented in accordance with the work plan by one or more Monitoring and Evaluation Contractors.
- b. It is anticipated that the work plan will span the duration of EINRIP and continue for at least 3 years after completion of the project.
- c. Other monitoring and evaluation activities will be also undertaken by DGH and AusAID, as required.

iii. Project Management and Delivery

AusAID and DGH will require, during project implementation, assistance to manage and support delivery of the project, including:

- a. Preparation of the Australian Indonesia Partnership for Reconstruction and Development Partnership Loan Agreement and the EINRIP Project Loan Agreement.
- b. Project Preparation and Implementation Advisory Services, including assistance with engineering review services, financial management and oversight matters and other project advisory services to DGH and AusAID, as required.
- c. Services to support DGH to undertake procurement of consultancy services for EINRIP.

5. Management Arrangements

AusAID will work with DGH to provide joint technical direction and management of all aspects of the Activity. For its part, DGH has established a Project Preparation Unit (PPU) in the Directorate of Planning to manage all aspects of project preparation. A Project Management Unit (PMU) has also been established within DGH to manage all aspects of project implementation.

The PPC engaged by AusAID is jointly managed by the PPU and AusAID. Joint management meetings are held at least monthly and chaired by the head of the PPU.

The Project Monitoring and Evaluation Consultant and the Monitoring and Evaluation Contractors will work under the joint direction of DGH and AusAID to implement the work plan.

6. Duration

The PPC mobilized in March 2006 and is expected to complete its services not later than June 2009. The Project Monitoring and Evaluation Program commenced in October 2006 and will conclude on a date to be mutually arranged between the GOA and GOI not less than 3 years after the date of completion of EINRIP. It is anticipated that all other activities will be concluded by no later than the end of 2010.

7. Location

The services to be provided by the PPC in relation to the Project Monitoring and Evaluation Program will be based in Jakarta, but will require field travel through all provinces in Eastern Indonesia.

8. GOA and GOI Contributions

The GOA will finance the cost of activities noted in Section 4, above, from Australia Indonesia Partnership for Reconstruction and Development (AIPRD) grant funds. The total cost of these activities is estimated to be A\$28 million, being:

- i. support the preparation of EINRIP, including final engineering design (A\$21.6 million)
- ii. monitoring and evaluation of EINRIP (A\$3 million)
- iii. EINRIP project management and delivery (A\$3.4 million).

The GOA will also provide a range of in-kind support for the Activity including for the:

- i. Preparation and design of the project concept and structure
- ii. Procurement of Consultants

- iii. Contract Management and Administration
- iv. The conduct of supervision missions during project preparation, appraisal and implementation.

The GOI will provide staff as required for the delivery of the Activity, including but not limited to:

- i. Staffing of the PPU until the signing of the Project Loan Agreement for EINRIP, and of the PMU until the completion of implementation
- ii. Advisory support for the preparation and implementation of the Project Monitoring and Evaluation Program
- iii. Project preparation and field support by provincial DGH.

The GOI will also:

- i. Provide access to all available data, reports, technical standards and other information and materials needed to support the services, including but not limited to the Indonesian Road Management System (IRMS) and Bridge Management System (BMS), and all associated databases
- ii. Facilitate liaison with BAPPENAS, the Ministry of Finance and other GOI agencies
- iii. Facilitate liaison and cooperation with other relevant externally financed projects such as the National Road Improvement Project (NRIP), the first and second phases of the Eastern Indonesian Region Transport Project (EIRTP), and the Strategic Road Improvement Project (SRIP)
- iv. Provide appropriate facilities for the PPU and the PMU
- v. Provide assistance with obtaining visas and other necessary for all foreign staff members working under the auspices of this Subsidiary Arrangement.

9. Monitoring, Review, Evaluation and Reporting Arrangements

The performance of the PPC will be managed jointly by DGH and AusAID. The PPC will report monthly to DGH and AusAID on its progress. The reports will provide the basis for monthly management meetings between DGH and Aus AID.

The Project Monitoring and Evaluation Consultant and the Monitoring and Evaluation Contractors engaged under the Project Monitoring and Evaluation Program will report to and be managed by DGH and AusAID.

10. 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 Partnership will be dealt with in accordance with Annex C of the GADC.

11. Handover

Upon completion of the PPC Services, all office furniture and equipment; computers and computer equipment; software, licenses and documentation; survey equipment; and other materials purchased by the PPC under their Contract, are to be handed over to a representative nominated by the Government of Indonesia.

12. Amendments to the Subsidiary Arrangement

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

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

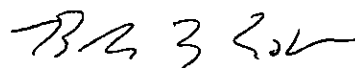
Signed in duplicate, in Jakarta, on this ...^{June}... day of in the year of two thousand and eight, in two (2) originals, both of which are in the English language and equally authentic.

FOR THE GOVERNMENT OF THE
REPUBLIC OF INDONESIA

FOR THE GOVERNMENT OF THE
AUSTRALIA



↓ TAUFIK WIDJOYONO
DIRECTOR OF PLANNING



BLAIR EXELL
MINISTER OF COUNSELLOR