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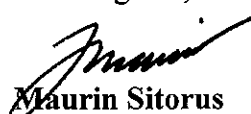
Mr. Ben Power
Counsellor
Infrastructure, Rural Productivity and Economic Governance
AusAID

**Re: Amendment of the Subsidiary Arrangement for Indonesia Infrastructure Initiative
(IndII)**

Dear Mr. Power

Referring to your letter dated 3 December 2009, please find attached the original copy of the Amendment to the Subsidiary Arrangement for Indonesia Infrastructure Initiative (IndII) that has been countersigned.

Thank you for your kind attention and cooperation.

Best Regards,

Maurin Sitorus
Director

Cc.:

1. Director of Bilateral Foreign Funding, Bappenas;
2. Director of Public and Private Cooperation Development, Bappenas.

Subsidiary Arrangement

between the

Government of Australia

and the

Government of the Republic of Indonesia

relating to the

Indonesia Infrastructure Initiative - Facility (IndII)

Amendment

to the Subsidiary Arrangement signed on 11 August 2008

1. General

This Subsidiary Arrangement for the Indonesia Infrastructure Initiative (IndII) embodies understandings between the Government of Australia (GOA) and the Government of the Republic of Indonesia (GOI) and is made pursuant to the terms of Article IV of the General Agreement on Development Cooperation (GADC) that came into force on 21 July 1999. IndII, including all its components elements and channeling mechanisms, is deemed to be an Activity for the purposes of the GADC and the terms of the GADC apply to the Subsidiary Arrangement. This Subsidiary Arrangement replaces the Subsidiary Arrangement for IndII signed on 11 August 2008.

The total contribution of the Government of Australia, consisting of the approved allocations from the Infrastructure for Growth Initiative (IFGI) and the Water and Sanitation Initiative (WSI) and the Economic Infrastructure Initiative (EII), will be up to A\$125.3 million over the period covered by the Subsidiary Arrangement. The disbursement of these allocations will be subject to the normal Australian annual parliamentary approval of expropriations.

This total contribution will be channeled through three mechanisms:

1. The IndII Facility, which will be managed in accordance with the arrangements set out in subsequent sections of this Subsidiary Arrangement;
2. Trust Funds to be established with other institutions (World Bank, ADB, National and sub national government agencies), whose operation will be managed in accordance with arrangements to be specified in separate management agreements; and
3. AusAID direct contracting of services, including in particular those of the IndII Facility Managing Contractor (IndII FMC).

AusAID will determine with Bappenas the purposes for which Trust Funds are to be established, the sums to be allocated to them, and the arrangements for their management.

2. Coordinating Authorities

The Coordinating Authorities for the Facility will be:

For GOA:

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

For GOI:

The National Development Planning Agency (Bappenas)

3. Name of Facility

The name of the Facility is the Indonesia Infrastructure Initiative Facility (IndII).

4. Duration of Facility

The Facility has been implemented from July 2008 and will be completed on June 30, 2011 unless extended by both Coordinating Authorities.

5. Facility Location(s)

The Facility Management Office will be located in Jakarta. Technical assistance services and investments to be financed under the Facility will be implemented in Jakarta and elsewhere in Indonesia. Training and capacity building may be provided in Indonesia, Australia, or a third country, as appropriate.

6. Facility Description

6.1 Facility Goal: To improve infrastructure provision by reducing policy, regulatory, capacity and financing constraints on infrastructure expenditures at the national and sub-national levels.

6.2 Facility Objectives: To support the efforts of the national and sub-national governments of Indonesia to:

- (a) implement efficient and effective management for government's infrastructure programs and projects at national and sub-national level, including those financed by loans and grants from the Multi-lateral Development Banks MDBs;
- (b) build a more conducive regulatory and policy environment for infrastructure investment; and
- (c) enhance the economic and social impact of priority infrastructure projects.
- (d) accelerate access to sustainable clean water supplies and improved sanitation facilities, especially for those on low incomes.

6.3 Facility Components:

The Facility comprises three components:

- (i) Component 1: Water & Sanitation
- (ii) Component 2: Roads and Transport
- (iii) Component 3: Other Sector and Cross-Sector

Services and investments funded under these components will be designed to address one or more of the following objectives:

- (i) Enable more efficient and effective infrastructure investment through better identification, coordination, planning and implementation of infrastructure projects that have potential to make a contribution to economic growth.
- (ii) Enable more efficient and effective infrastructure investment through reducing uncertainty in the policy, regulatory and financing environment.
- (iii) Enhance the economic and social impact of infrastructure investment through providing Infrastructure Enhancement Grants (IEG) to support priority infrastructure projects.

Infrastructure enhancement grants will be channeled using applicable government systems and procedures.

6.4 Activities

The Facility Components will be implemented through Activities, which form the basic building blocks for the delivery of technical assistance, training services and investment grants by IndII.

Activities are coherent tasks which:

- have well defined objectives, outputs and inputs,
- are identified, screened, prepared, designed, procured, and conducted in accordance with priorities, work plans, procedures and criteria approved by the Facility Management Board, and
- are implemented through one or more contracts.

Fast-track procedures will be adopted and utilized to enable IndII to respond promptly to requests for diagnostic-scoping and other small preliminary tasks which have the potential to develop into longer-term and more strategic partnership engagements. Such strategic partnership engagements may involve the conduct of a group or sequence of two or more activities guided and overseen by a lead advisor

Activities will be funded from IndII Facility Special Purpose Account (SPA), and direct payment from AusAID.

Activities involving technical assistance and capacity building services will be implemented by sub-contractors appointed through a selection process to be managed by the IndII FMC.

7. Facility Management Structure and Mechanisms

The roles of the key actors in the Facility management structure and the core management mechanisms are outlined below and are summarized **Attachment A**.

7.1 Facility Management Board

The Facility Management Board (the Board) will guide and direct the implementation of the IndII Facility. The Board will be co-chaired by the Bappenas Deputy responsible for infrastructure development and by the AusAID Minister/Counsellor for Indonesia, and will include five other members:

- a) A representative of the Coordinating Ministry of Economic Affairs;
- b) A representative of the Ministry of Finance;
- c) A representative of Indonesian civil society with acknowledged infrastructure knowledge and expertise;
- d) AusAID's Country Office Infrastructure Representative.
- e) One other Australian Government representative.

The Board will meet formally at six-monthly intervals to:

- a) provide strategic direction and oversight, including on the desirable allocation of IFGI and CSI program resources;
- b) approve (or require revision of) the draft Facility Review and Planning Document (FRPD);
- c) consider and approve (or require revision of) proposals regarding activity selection criteria and management processes.

The Board may also hold supplementary meetings as appropriate for briefings or to consider urgent issues arising.

In considering materials tabled by the IndII FMC, the Board will take account of related inputs provided by the Technical Teams and AusAID staff. Decisions will be taken on the basis of consensus.

7.2 Bappenas

Bappenas as the GOI Coordinating Authority will co-chair the Board and help ensure smooth and effective Facility implementation, including through: providing inputs to the Board, AusAID and the Impact Assessment Team; providing feedback to the Managing Contractor on draft Facility Review and Plan Documents and on outline activity proposals and workplans; and facilitating access to government institutions and to information held by government agencies. Bappenas may also act as the GOI Client Agency for certain technical assistance services which address high level cross-sector or thematic policy and planning issues.

7.3 Technical Team

GOI will establish two Technical Teams to meet regularly with both AusAID and the IndII FMC to discuss progress, review proposed activities, and support the implementation of the Facility. Technical Team 1 (TT1) will deal with Component 1 (Water and Sanitation) and Technical Team 2 (TT2) will deal with Components 2 and 3 (Roads and Transport, Other Sectors, and Cross Sector).

TT1 will be chaired by the Bappenas Director responsible for water and sanitation matters, and comprise non-Bappenas members drawn from Central Government agencies having responsibilities directly related to water and sanitation policy formulation and program support. Bappenas will nominate the TT1 members after consultation with the agencies concerned.

TT2 will be chaired by the nominated representative of the Bappenas Co-Chair, and its other two members will comprise the nominated representatives of the other two GOI Board members.

7.4 AusAID

AusAID as the GOA Coordinating Authority will co-chair the Board and will designate representatives to work with the GOI Technical Teams. It will engage, manage, monitor and assess the performance of the IndII FMC; exercise financial oversight, including through the right of final approval of detailed activity designs, expenditure budgets and procurement decisions; and provide inputs to the Board and to the Impact Assessment Team.

AusAID will provide the Notice of Disbursement (NOD) quarterly to Bappenas.

7.5 Managing Contractor

Day-to-day responsibility for managing the implementation of the IndII Facility will be vested in the Facility Managing Contractor (IndII FMC), which will be selected and appointed by AusAID in consultation with Bappenas. The duties of the IndII FMC, will include developing and maintaining relationships with partner agencies; preparing the six-monthly Facility Review and Plan Documents; developing outline activity proposals, work plans and budgets and detailed activity designs and terms of reference in close consultation with Partner Agencies and other parties as appropriate; conducting procurement of services, goods and works in line with GOA policies and

guidelines; guiding, managing, and monitoring activity implementation; preparing financial and other reports; and organizing and hosting Board and Coordination Group meetings and providing related secretarial services.

The IndII FMC will communicate with AusAID Jakarta on facility management, contractual, and implementation issues and will submit financial reports and invoices to AusAID Jakarta. Its operation will be subject to audit by an independent auditor.

7.6 Impact Assessment Team

The Impact Assessment Team (IAT) will be established in Year 2 for the purposes of preparing an initial independent assessment of the M&E framework and the adopted implementation arrangements. Later in Year 2 IAT will review performance of IndII and develop recommendations for continuation of IndI. Based on these assessments it will also make recommendations to AusAID concerning possible future GOA support for Indonesia's infrastructure development. The IAT will conduct a final assessment in Year 3 for the purpose of review performance of M&E framework and final recommendations for Project Completion Report.

The team will be headed by an independent external expert to be selected by AusAID and will seek inputs from partner agencies as well as from AusAID, Bappenas, the Board, and IndII FMC's personnel.

7.7 Activities, Strategic Partnerships and Workplans

Activities are the basic building blocks for the delivery of technical assistance and training services by IndII. Activities are coherent tasks, with well defined objectives, outputs and inputs, and are implemented through one or more contracts. IEIs are normally implemented as a single activity while Strategic Partnerships will generally involve a group or sequence of two or more activities guided and overseen by a Lead Advisor. The overall Facility work plan will at any time comprise sub-work plans for planned or ongoing strategic partnerships plus individual IEI activities.

Activities will be implemented by sub-contractors appointed through a tender process to be managed by IndII FMC and funded from the Facility Special Purpose Account (SPA).

7.8 Facility Review and Planning Document

The Facility Review and Planning Document (the FRPD) is the key high-level decision document for the Facility. Its contents will include:

- a) A succinct review of progress and achievements during the preceding six-month period based on the IndII FMC's ongoing monitoring and evaluation, together with information on any important issues arising and related remedial actions taken or needing to be taken;
- b) The IndII FMC's proposed overall strategy, workplan and budget for the Facility for the coming 12-months. The proposals for the initial six months of the rolling 12-month period will be expected to be reasonably firm while those for the outer six months may be more indicative in character

7.9 Coordination Group

The Coordination Group will provide a mechanism for promoting coordination and cooperation between the different areas of IndII and other AusAID programs. The group will be chaired by the AusAID Country Office Infrastructure Advisor and will include AusAID staff, key IndII FMC personnel (including Technical Directors and lead advisors), and personnel of contractors involved in other AusAID infrastructure-related programs. GOI officials, including members of the Technical Teams, and personnel of other donors may be invited to participate in sessions considered relevant to them. The Coordination Group is expected to meet quarterly. The IndII FMC will organize the Coordination Group meetings and provide secretarial and administrative support services.

8. Financial Contributions

The total contribution of up to A\$125.3 million of the Government of Australia, as per the approved allocations, comprises of up to A\$64.8 million from the Infrastructure for Growth Initiative and of up to A\$60.5 million from the Water and Sanitation Initiative over period covered by the Subsidiary Arrangement. The disbursement of these allocations will be subject to the normal Australian annual parliamentary approval of expropriations.

From the IFGI allocation, up to A\$10 million will be channeled to Trust Funds to be managed by the World Bank and ADB, and up to A\$40 million will be channeled to the IndII Facility for disbursement on Components 1, 2 and 3. The balance of the allocation will be managed by AusAID and used to finance the services of the Facility Managing Contractor and certain other services to be contracted directly by AusAID.

From the WSI allocation, up to A\$20 million will be channeled to support the implementation of a pilot program for accelerating expansion of urban water connections by municipal water utilities (PDAMs) using an output-based grants mechanism to be managed by the Ministry of Finance in conjunction with the Ministry of Public Work (the 'pilot hibah scheme'); up to A\$22.5 million will be channeled to support the implementation of the Government's Water Supply and Sanitation for Low Income Communities Project (PAMSIMAS); up to A\$10 million will be channeled to support the implementation of the urban sanitation component; up to A\$5 million will be channeled to civil society component and some program management up to A\$3 million.

The above amounts are subject to review and amendment by AusAID in consultation with Bappenas and other concerned agencies having regard to evolving information of the absorptive capacities and performance of the respective mechanisms and projects.

Separate Special Purpose Accounts will be established and administered on AusAID's behalf by the IndII FMC for IFGI and WSI funds channeled through the IndII Facility.

Separate financial accounts and reporting will be maintained by the IndII FMC for the disbursement of funds sourced from the IFGI and WSI programs.

The GOI contributions will include, but not be limited to, the provision of:

- a) office space, furniture and telephone access for long and short term advisors working in the agencies;

- b) where client agencies cannot provide office space, furniture and telephone access for long term advisors working in the agencies IndII management will determine alternative arrangements;
- c) staff to work with advisors as specified in the design of activities or strategies; and
- d) a principal contact who will be responsible for ensuring the agency meets its oversight obligations.

9. Materials, Services and Equipment to be Supplied

Technical Assistance: Technical assistance service will be provided in line with Paragraph 6 above. Delivery mechanisms may include mentoring, advising, training, workshops, short courses, studies, reviews, development of plans, internships, study tours, participation in conferences or seminars, or other forms of technical assistance considered best suited to achieving the objective of the partnership or activity.

Infrastructure Enhancement Grants: Infrastructure Enhancements Grants will be used to finance the purchase of goods, works and services associated with the supply or construction of approved small investments.

The procurement arrangements adopted for the Facility will comply with the Government of Australia's policies and guidelines.

10. Project Personnel

10.1 Government of Australia

The Government of Australia will be responsible for the costs of remuneration, travel and accommodation for all international and national personnel engaged by the Facility or engaged and assigned by AusAID to guide, monitor or assess it. Such personnel will include:

- **Facility Managing Contractor Personnel**, including:
 - a) Contractor Representative
 - b) Facility Director / Team Leader
 - c) Facility Deputy Director / Deputy Team Leader
 - d) Facility Technical Directors (3)
 - e) Office Manager
 - f) Financial and Administration personnel
- **Sub-contracted lead advisors / advisors / consultants / trainers**
- **Infrastructure specialists contracted for or directly by AusAID Jakarta** to assist with Facility guidance and oversight and to staff the Impact Assessment Team

The Government of Australia will also bear costs of engaging the independent auditor.

10.2 Government of Indonesia

The Government of Indonesia will assign representatives to the Facility Management Board and the Technical Teams as specified in Section 7 above.

11. Annual Budgets

Indicative annual contributions by GOI and by GOA to the IndII Facility are as follows:

Source	2008/09	2009/10	2010/11
GOI	In-kind	In-kind	In-kind
GOA: IndII	A\$ 10 million	A\$ 20 million	A\$ 24.8 million
Water Hibah		A\$ 8 million	A\$ 12 million
PAMSIMAS		A\$ 9.2 million	A\$ 13.3 million
Urban Sanitation Component		A\$ 7 million	A\$ 3 million
Civil Society		A\$ 2 million	A\$ 3 million
Program Management		A\$ 1.35 million	A\$ 1.65 million

12. Monitoring and Evaluation

Very high importance is attached to effective monitoring and evaluation (M&E) of IndII. The M&E framework will have three focus areas:

- a) On-going M&E: This will be conducted by the IndII FMC, in consultation with Partner Agencies, to inform the Board and to feed into the continuous improvement of strategies, work plans, activity designs, and activity delivery as well as to meet requirements for development effectiveness reporting;
- b) External impact assessment: This will be conducted by the IAT to inform AusAID of the effectiveness of the Facility in meeting AusAID's objectives, and to confirm the internal development effectiveness reports.
- c) IndII FMC performance assessment: This will be conducted by AusAID to provide incentives for IndII FMC to deliver the IndII in an efficient, effective and accountable manner.

The ongoing monitoring and evaluation by the IndII FMC will be designed to meet the reporting needs of GOA and GOI. It will include reporting on activity outputs and outcomes and use defined performance indicators and measures (sector and / or thematic). The IndII FMC will be required to develop a monitoring and evaluation plan and to be responsible for the collection of needed baseline and output and outcome data and information. The results of the IndII FMC's ongoing monitoring and evaluation will be incorporated in Facility Review and Plan Documents.

The IAT will independently assess the contribution IndII is making to the achievement of its stated goal and objectives, and the effectiveness of the adopted facility model. Its approach will be guided by AusAID's Office of Development Effectiveness. The IAT will provide summaries of its assessments to the Board.

13. Intellectual Property

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

14. Lack of Treaty Status

This Subsidiary Arrangement serves only as a record of the intentions of the GOA and the GOI 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



Subsidiary 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.

15. Amendments to the Subsidiary Arrangement

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

ANNEXURES to this Subsidiary Arrangement form an integral part of it.

IN WITNESS THEREOF, the undersigned parties have signed this Subsidiary Arrangement on this 21 day of December 2009 in two (2) originals in the English language, both of the texts being equally authentic (identical).

FOR THE GOVERNMENT OF AUSTRALIA	FOR THE GOVERNMENT OF THE REPUBLIC OF INDONESIA
<p>Mr. Benjamin Power Counsellor Infrastructure</p>  <p>AusAID, Jakarta</p>	<p>Dr. Rahmat Waluyanto Director – General</p>  <p>Ministry of Finance</p>

Attachment A: Structure

IndII Management

