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**President's report**

**Proposed loan**

**Republic of Indonesia**

**Horticulture Development in Dryland Areas Sector  
Project**

Project ID: 2000003855

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Document: EB 2023/139/R.2

Agenda: 3(a)(i)(a)(i)

Date: 24 August 2023

Distribution: Public

Original: English

**FOR: APPROVAL**

**Action:** The Executive Board is invited to approve the recommendation contained in paragraph 72.

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- I. Negotiated financing agreement
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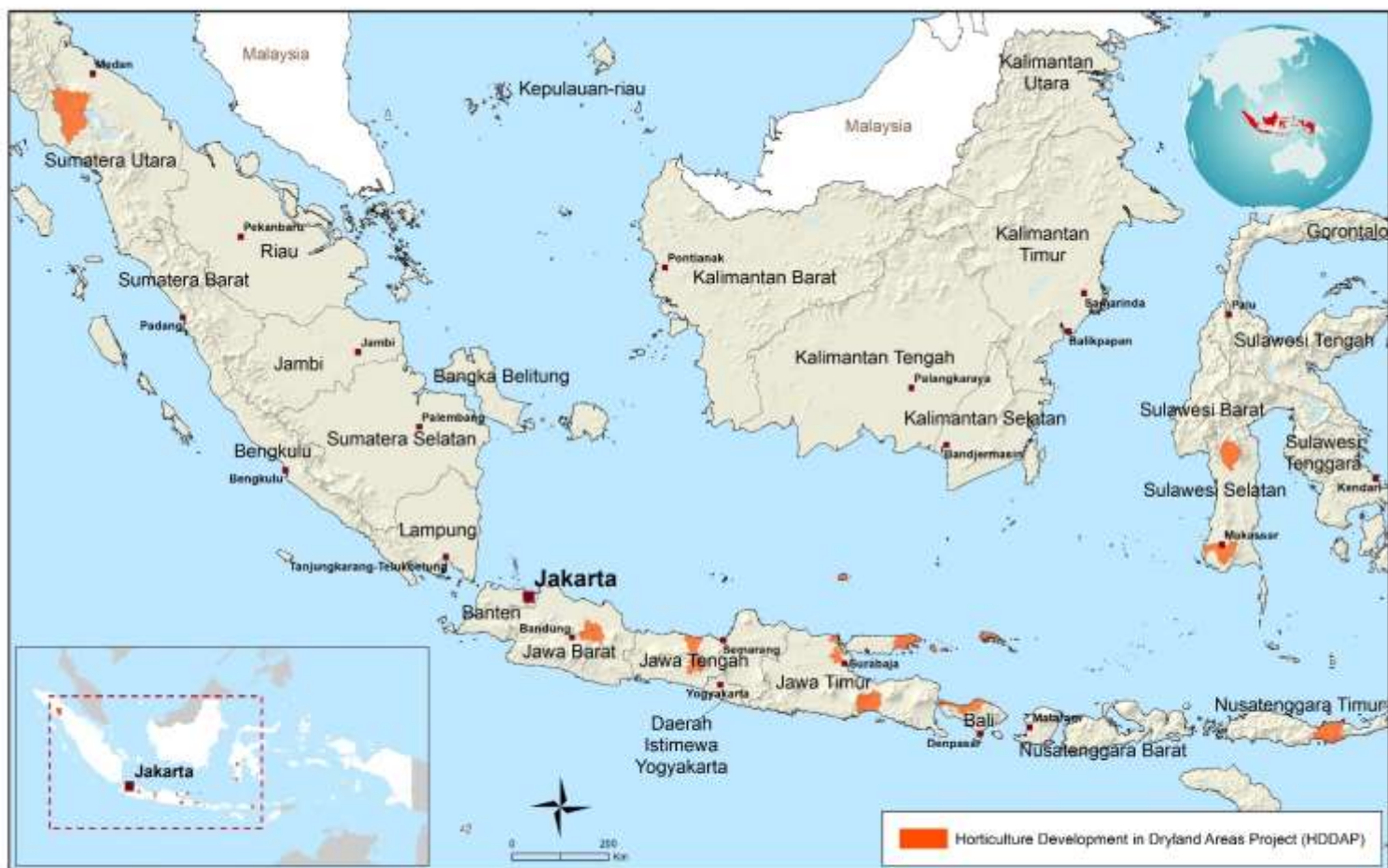
### Project delivery team

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## Map of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.  
 Map compiled by IFAD | 20-03-2023

## Financing summary

<b>Initiating institution:</b>	Asian Development Bank
<b>Borrower/recipient:</b>	Republic of Indonesia
<b>Executing agency:</b>	Directorate-General of Horticulture, Ministry of Agriculture
<b>Total project cost:</b>	EUR 129.04 million
<b>Amount of IFAD loan:</b>	EUR 36.93 million
<b>Terms of IFAD loan:</b>	Ordinary: 12.5 years, including a grace period of 7 years, subject to interest at a rate equal to the IFAD reference interest rate including a variable spread
<b>Cofinancier[s]:</b>	Asian Development Bank
<b>Amount of cofinancing:</b>	EUR 78.49 million
<b>Terms of cofinancing:</b>	Loan
<b>Contribution of borrower:</b>	EUR 13.62 million
<b>Amount of IFAD climate finance:</b>	EUR 12.67 million
<b>Cooperating institution:</b>	Asian Development Bank

## I. Context

### A. National context and rationale for IFAD involvement

#### National context

1. Indonesia is a fast-growing lower-middle-income country (MIC). It has the fourth largest population in the world, totalling 271 million people spread over a large archipelago comprising 17,508 islands. Indonesia is home to over 300 ethnic groups.
2. The Indonesian economy is recovering well from the impact of COVID-19, with GDP growth of 5.3 per cent in 2022 and an expected 6.0 per cent in 2023. Indonesia has a gross national income per capita of US\$4,783, meaning that it is close to achieving upper-middle-income country status.
3. More than 27.5 million Indonesians live below the poverty line. The COVID-19 pandemic pushed 1.1 million into poverty, mostly in rural areas. Another 57 million people remain vulnerable.
4. Regional disparities exist, with the highest poverty rates in eastern Indonesia. Java is the most densely populated island and hosts the largest number of poor people. Poverty is more pronounced in rural areas and farming households are 3.5 times more likely to be poor than non-farming households. Inequality is seen as the key threat to Indonesia's continued development.
5. The agriculture sector contributed 13.28 per cent of national GDP in 2021. Indonesia is a leading producer of palm oil, and a major global producer of cocoa, coffee, copra and rubber. In 2020, Indonesia's agriculture employed about 38.0 million people or 29 per cent of the workforce. Most farmers are smallholders working on less than one hectare (ha).
6. Data indicate that horticulture has very high potential to improve farmers' welfare. In 2020, the horticulture subsector employed about 3.8 million people, an increase of 17.4 per cent compared to 2019. Domestic demand for horticulture products has grown, with commercial sales increasing from US\$11.37 billion in 2014 to US\$15.48 billion in 2018. However, demand has outpaced supply, leading to increased imports. In 2020, US\$1.27 billion worth of fruits, and US\$845 million worth of vegetables were imported.

#### Special aspects relating to IFAD's corporate mainstreaming priorities

7. In line with IFAD's mainstreaming commitments, the Horticulture Development in Dryland Areas Sector Project (HDDAP) has been validated as:
  - Including climate finance
8. **Environment and climate.** Recent studies indicate that much of Indonesia is likely to warm by around 1.5° C by mid-century and annual precipitation is likely to increase modestly in most, but not all regions, of Indonesia. Where precipitation is projected to decline, the decreases are not catastrophic, most likely less than 5 per cent.
9. Of the EUR 129.04 million in financing from IFAD and the Asian Development Bank (ADB), EUR 39.60 million is considered climate finance for adaptation. These funds will support: (i) climate-smart agriculture interventions; (ii) infrastructure, including irrigation systems, water-harvesting and storage systems, which will take account of projected climate patterns; and (iii) capacity-building for farmers, extension officers and stakeholders on climate-resilient horticulture practices.
10. **Gender and youth.** Women and young people are identified as the main target subgroup and their participation may be constrained by economic and social barriers. Women and youth have less control over land, capital, agricultural extension and training, and information technologies. In 2018, women held an

estimated 24.04 per cent of agricultural land compared to men's share of 75.96 per cent. Only 23 per cent of the country's 14.2 million people aged between 15 and 24 worked in the agriculture, forestry and fishery sectors in 2019.

11. Agriculture needs to give women an opportunity to engage in high-value agribusiness development. As such, the project commits to meeting the gender and social inclusion targets of the Government of Indonesia, ADB and IFAD. Women play an important role in the production and processing of horticulture, and are therefore set to benefit more from the support for horticulture than that for staple crop cultivation.
12. ADB gender classification for HDDAP is "effective gender mainstreaming" which means that at least 50 per cent of the outputs integrate gender targets. The main strategies to ensure youth participation are inclusion in value chains, economic empowerment, and creation of employment opportunities in the selected horticulture value chains, especially post-harvest activities.
13. **Nutrition.** HDDAP will support crop diversification through the development of horticulture, and will improve rural households' skills to make better use of diversified horticulture products in their daily diets.

#### **Rationale for IFAD involvement**

14. In November 2020, ADB approved the concept paper for the Dryland Agriculture Development Project. Subsequently, ADB, the Ministry of National Development Planning and the Ministry of Agriculture (MoA) agreed to shift the focus of the project towards a more integrated, horticulture value chain project. IFAD was requested to cofinance the project to leverage its expertise in the sector.
15. Using a value chain approach, HDDAP is designed to support horticulture dryland farmers in Indonesia who are unable to take advantage of favourable agroecological conditions and market demand, which offer potential for growth.
16. In this context, HDDAP contributes to the strategic objectives of the country strategic opportunities programme 2023–2027, which was approved in December 2022.
17. The cofinancing allows HDDAP to leverage ADB's expertise in irrigation infrastructure and IFAD's know-how in targeting, support to producers' and farmers' organizations, supply chain strengthening and access to finance.

#### **B. Lessons learned**

18. A risk of parallel cofinancing arrangements with different implementing agencies is to end up de facto with multiple projects under the same name. HDDAP will thus be cofinanced under a *pari passu* modality and with a single implementing agency.
19. IFAD's participation in project supervision and monitoring is key to ensuring that IFAD priorities are effectively embedded.
20. Value chain projects should focus not only on the demand side (off-takers), but also on the supply side (farmers), and ensure that farmers enjoy sufficient profit margins.
21. Economies of scale, farmers' technical and financial capacity, and farmers' needs must be considered to ensure that farmers can adopt new technologies and practices.
22. Field schools are a tried and tested means to educate farmers on innovations, providing them with evidence-based information; however, a business dimension is also needed.
23. Gender quotas alone cannot ensure the meaningful participation of women. Leadership training and other complementary measures are necessary.

## II. Project description

### A. Objectives, geographical area of intervention and target groups

24. HDDAP's goal is to increase the availability, accessibility and quality of nutritious foods. The development objective is to increase the climate resilience and profitability of dryland farming.
25. The project will be implemented in 13 districts across seven provinces,<sup>1</sup> and aims to equip at least 10,000 ha of dryland with irrigation infrastructure. The target districts and villages were chosen based on the potential for horticulture production, presence of private sector actors and socio-economic parameters. The target group selection is consistent with IFAD's targeting policy and mainstreaming objectives.
26. The main beneficiaries of the project will be 25,000 farmer households who will receive infrastructure and capacity-building support.<sup>2</sup> The project will make special provisions for targeting women and youth in project activities. It will benefit poor farmers by (i) developing underutilized drylands for horticultural production; and (ii) supporting them to access higher-end value chains and markets. The project will help farmers to act collectively by establishing groups that support members' interests. Partnership with private sector actors will ensure effective transfer of technical and market experience. The project will also help improve value chain services provided by micro, small and medium-sized enterprises (MSMEs) through skills upgrading. Special attention will be paid to the needs of vulnerable groups (especially those below the poverty line, the landless, the elderly, women and Indigenous Peoples).<sup>3</sup> Secondary target groups include MSMEs, agribusinesses, service enterprises and industry associations. These secondary target groups are not necessarily poor but can be market makers for smallholders and the poor, and are the driving force of the value chain.

### B. Components, outcomes and activities

27. The project will have four components (or outputs as per ADB nomenclature): (i) inputs, land, water, and connectivity infrastructure and services improved; (ii) climate adaptive on-farm practices increased; (iii) value chain systems in horticulture villages strengthened; and (iv) institutional capacity for horticulture development increased.

#### **Component 1: Inputs, land, water, and connectivity infrastructure and services improved**

28. This component aims to improve the production factors for horticulture in response to market demand. The availability of high-quality planting material for horticulture crops will be increased by: (i) investing in equipment and capacity-building for government facilities concerned with seed quality assurance and production; (ii) supporting farmers in establishing private seed production facilities; and (iii) providing training on seed production. The component will also introduce digital technology to register and trace seed production.
29. The project will upgrade government horticulture protection and pest management facilities and equipment, and train staff to develop integrated pest management solutions and pest monitoring services. This will increase the resilience of horticulture crops to pests and disease.
30. Finally, the project will enhance the productive potential of farms by developing climate-resilient irrigation infrastructure, improving soil fertility through

<sup>1</sup> North Sumatra Province (Pakpak Barat, Karo, Dairi districts), West Java Province (Sumedang district), Central Java Province (Batang, Wonosobo districts), East Java Province (Lumajang, Sumenep, Gresik districts), Bali Province (Buleleng district), East Nusa Tenggara Province (Ende district), South Sulawesi Province (Enrekang, Gowa districts).

<sup>2</sup> The beneficiaries are expected to exceed the target substantially because of the contributions from the private sector and higher revenues from the farms, including farm employment, which will to help them become self-sufficient.

<sup>3</sup> The 2022 poverty line is defined as Rp 505,469,00 per capita per month (by BPS).

conservation measures, and invest in the “last kilometre” of farm-to-market roads. The project will also strengthen the capacity of farmers’ organizations to maintain irrigation systems and monitor soil fertility.

### **Component 2: Climate-adaptive on-farm practices increased**

31. This component will build the capacity of horticulture villages in the production of high-value crops. A horticulture village is created by bringing together a number of smallholder horticulture farmers who have adjacent plots, in order to consolidate their plots into a plot of 5 ha to 10 ha and thus benefit from larger economies of scale. The groups of farmers that cultivate the individual plots effectively become a farmers’ organization (FO), which is referred to as a horticulture village (HV). In time, the HV could assimilate more than a single FO, and could grow beyond the village itself.
32. This component will support the development of HVs and the drafting of horticulture village development plans (HVDPs). The HVDPs will also help farmers to access credit and explore partnerships with the private sector. The project will establish and finance a revolving fund to support farmers in purchasing inputs and farm equipment such as drip irrigation equipment. This output will strengthen the capacity of farmers, including youth and women, in adopting environmentally sustainable and climate-adaptive farming practices, disease and integrated pest management, and on-farm water management practices for growing horticulture crops. The project will facilitate linkages with digital application providers to help farmers identify and treat pests, diseases and plant disorders.

### **Component 3: Value chain systems in horticulture villages strengthened**

33. This component will focus on downstream processes, access to market and the value chain, and strengthen MSMEs, including women-owned MSMEs and FOs, to practise business-oriented agriculture and establish partnerships with the private sector.
34. The component will (i) support the establishment and strengthening of MSMEs, including financial literacy education and business management training; (ii) invest in post-harvest facilities at the village level, to enable farmers’ groups to aggregate their produce and increase added value;<sup>4</sup> (iii) build farmers’ capacity in food safety, waste management, marketing, and certification for good agricultural practice; and (iv) facilitate development of business plans and collaboration agreements with the private sector, including e-commerce and fintech companies.
35. The project envisages the identification of potential partner financial institutions during the development of HVDPs to support access to finance. The financial literacy education trainers and business development trainers, who will be mobilized at field level, will be responsible for engaging with local financial institutions and “marketing” the HVDPs to them to obtain financing.
36. The project will also support the upgrading of selected district distribution and logistics centres to integrated agriculture hubs, including through provision of equipment. The project will help with the registration of HVs, and support traceability, certification and marketing of horticulture products through digital platforms. The project will assist MOA in developing regulations for digital agriculture.

### **Component 4: Institutional capacity for horticulture development increased**

37. This component will finance capacity-building activities for the implementation units as well as other key stakeholders involved in project implementation. Furthermore, it will finance all of the necessary management and operational costs for the project.

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<sup>4</sup> Includes processing, logistic and handling equipment.



38. The component will finance training on project management and in technical areas (e.g. plant protection, modern horticulture) for the central project management unit (CPMU) at national level, and for the subnational implementation units, including the extension services personnel and field facilitators. Adaptive research for adaptation to climate change will be mainstreamed into technical training and demonstrations for smallholder farmers. The component will also include capacity-building activities for FOs.

### **C. Theory of change**

39. Dryland farmers in Indonesia are economically disadvantaged due to their remote location. The agroecological conditions in these locations offer potential for growth, but farmers' supply response to the rising demand for domestic produce has been weak. These farmers have no access to irrigation and are hampered by the diseconomies of small-scale production, weak local institutional capacity, and lack of access to inputs, technology and finance. Small-scale farmers and other value chain actors also face structural constraints in growing crops in dryland areas, and in marketing, transport, handling and processing. These are exacerbated by weak and mistrustful relationships among market players.
40. HDDAP will therefore address the core problems of low productivity and profitability of dryland agriculture by investing in agriculture inputs, production and post-harvest processes through infrastructure, capacity support, and value chain strengthening for horticulture. It will also foster direct partnerships with the private sector and increase access to finance.

### **D. Alignment, ownership and partnerships**

41. HDDAP is fully aligned with Sustainable Development Goal (SDG) 1 "no poverty", and partly aligned with SDG 2 "zero hunger", SDG 9 "industry, innovation and infrastructure" and SDG 12 "responsible consumption and production".
42. HDDAP is specifically aligned with the 2020–2024 National Medium-Term Development Plan, as well as the MoA National Strategic Plan 2020-2024 which aims at improving farmers' welfare. In addition, the project will support MoA-promoted HVs to enhance nutrition, increase the competitiveness of horticultural value chains, reduce imports and promote exports.
43. HDDAP is aligned with the three strategic objectives of the IFAD Strategic Framework 2016–2025. It also supports the four strategic priorities outlined in the United Nations Sustainable Development Cooperation Framework with Indonesia.

### **E. Costs, benefits and financing**

44. All project components are partially counted as climate finance. As per the multilateral development banks' methodologies for tracking climate change adaptation and mitigation finance, the total amount of climate finance for this project is estimated as EUR 39.60 million, of which EUR 12.67 million (32 per cent) will be financed by IFAD as per the *pari passu* arrangement.

#### **Project costs**

45. The overall project costs are estimated at EUR 129.04 million, including charges and interest to be paid by the Government. Investment and contingency costs amount to EUR 115.42 million over a 5-year period.
46. The cost estimate was prepared jointly by ADB, IFAD and the executing agency using 2022 prices. The cost estimate will be revised at the midterm review stage.
47. The following key assumptions underpin the cost estimates and financing plan: (i) exchange rate of Rp 15,000:US\$1.00 (August 2022); and (ii) price contingencies based on expected average foreign inflation of 1.8 per cent, and average domestic inflation of 3.1 per cent.

Table 1  
**Project costs by component and financier**  
(Millions of euros)

Component	ADB loan		IFAD loan		Government		Total cost	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>A. Base costs</b> <sup>a, b</sup>								
1. Inputs, land, water, and connectivity infrastructure and services improved	21.41	68.0	10.08	32.0	-	0.0	34.36	48.4
2. Climate-adaptive on-farm practices introduced	23.37	68.0	11.00	32.0	-	0.0	34.36	48.4
3. Development of value chain in horticulture villages	10.39	68.0	4.89	32.0	-	0.0	15.28	21.5
4. Institutional development and management	15.52	68.0	33.41	32.0	-	0.0	23.27	32.8
<b>Subtotal (A)</b>	<b>70.99</b>	<b>68.0</b>	<b>10.08</b>	<b>32.0</b>	<b>-</b>	<b>0.0</b>	<b>104.40</b>	<b>147.1</b>
<b>B. Contingencies</b> <sup>c</sup>								
Physical	0.70	68.0	0.33	32.0	-	0.0	1.03	1.5
Price	6.79	68.0	3.20	32.0	-	0.0	9.99	14.0
<b>Subtotal (B)</b>	<b>7.50</b>	<b>68.0</b>	<b>3.53</b>	<b>32.0</b>	<b>-</b>	<b>0.0</b>	<b>11.02</b>	<b>15.5</b>
<b>C. Financing charges during implementation</b> <sup>d</sup>								
Interest during implementation	-	0.0	-	0.0	13.20	100.0	13.20	96.9
Commitment charges	-	0.0	-	0.0	0.42	100.0	0.42	3.1
<b>Subtotal (C)</b>	<b>-</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>13.62</b>	<b>100.0</b>	<b>13.62</b>	<b>100.0</b>
<b>Total (A+B+C)</b>	<b>78.49</b>	<b>60.8</b>	<b>36.93</b>	<b>28.6</b>	<b>13.62</b>	<b>10.6</b>	<b>129.04</b>	<b>100.0</b>

Note: Figures may not sum due to rounding.

<sup>a</sup> Excludes taxes and duties of EUR 11.48 million to be financed by the Government through tax exemption.

<sup>b</sup> Base cost in fourth quarter (Q4) 2022 prices.

<sup>c</sup> Physical contingences computed at 3 per cent for civil works and 2 per cent for machinery and equipment.

<sup>d</sup> Interest during construction computed at 0.038 per annum; commitment charges computed at 0.0015 per annum.

Source: ADB estimates.

Table 2  
**Project costs by expenditure category and financier**  
(Millions of euros)

<i>Expenditure category</i>	<i>ADB loan</i>		<i>IFAD loan</i>		<i>Government excluding taxes and duties</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>Taxes and duties</i>
<b>A. Investment costs <sup>a,b</sup></b>								
Civil works	19.06	68.0	8.97	32.0	-	0.0	28.03	3.34
Consulting services	12.17	68.0	5.73	32.0	-	0.0	17.89	2.13
Goods, machinery and equipment	6.94	68.0	3.26	32.0	-	0.0	10.20	1.22
Project management cost	4.48	68.0	2.11	32.0	-	0.0	6.58	0.78
Study, survey, piloting	2.51	68.0	1.18	32.0	-	0.0	3.69	0.44
Trainings, seminars and workshops	6.69	68.0	3.15	32.0	-	0.0	9.84	1.17
Matching grant fund	19.16	68.0	9.01	32.0	-	0.0	28.17	3.36
<b>Subtotal (A)</b>	<b>70.99</b>	<b>68.0</b>	<b>33.41</b>	<b>32.0</b>	<b>-</b>	<b>0.0</b>	<b>104.40</b>	<b>12.44</b>
<b>B. Contingencies <sup>c</sup></b>								
Physical	0.70	68.0	0.33	32.0	-	0.0	1.03	
Price	6.79	68.0	3.20	32.0	-	0.0	9.99	
<b>Subtotal (B)</b>	<b>7.50</b>	<b>68.00</b>	<b>3.53</b>	<b>32.0</b>	<b>-</b>	<b>0.0</b>	<b>11.02</b>	
<b>Total project costs (A+B)</b>	<b>78.49</b>	<b>68.0</b>	<b>36.93</b>	<b>32.0</b>	<b>-</b>	<b>0.0</b>	<b>115.42</b>	<b>12.44</b>
<b>C. Financing charges during implementation <sup>d</sup></b>								
Interest during construction	-	0.0	-	0.0	13.20	100.0	13.20	
Commitment charges	-	0.0	-	0.0	0.42	100.0	0.42	
<b>Subtotal (C)</b>	<b>-</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>13.62</b>	<b>100.0</b>	<b>13.62</b>	
<b>Total project costs (A+B+C)</b>	<b>78.49</b>	<b>60.8</b>	<b>36.93</b>	<b>28.6</b>	<b>13.62</b>	<b>10.6</b>	<b>129.40</b>	<b>12.44</b>

Note: Figures may not sum due to rounding.

<sup>a</sup> Excludes taxes and duties of EUR 11.48 million to be financed by the Government through tax exemption.

<sup>b</sup> Base cost in Q4 2022 prices.

<sup>c</sup> Physical contingences computed at 3 per cent for civil works and 2 per cent for machinery and equipment.

<sup>d</sup> Interest during construction computed at 0.038 per annum; commitment charges computed at 0.0015 per annum.

Source: ADB estimates.

Table 3  
**Project costs by component and project year (PY)**  
(Millions of euros)

<i>Component</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>	<i>2025</i>	<i>2026</i>	<i>2027</i>	<i>2028</i>	<i>Total</i>
<b>A. Base costs</b> <sup>a, b</sup>								
1. Inputs, land, water, and connectivity infrastructure and services improved	-	0.88	10.28	14.87	5.30	0.35	0.01	31.49
2. Climate-adaptive on-farm practices introduced	-	0.29	3.43	10.07	16.18	3.88	0.49	34.36
3. Development of value chain in horticulture villages	-	0.13	2.50	6.00	5.18	1.28	0.18	15.28
4. Institutional development and management	-	1.99	4.73	4.63	4.66	4.57	2.69	23.27
<b>Subtotal (A)</b>	-	<b>3.29</b>	<b>20.74</b>	<b>35.58</b>	<b>31.33</b>	<b>10.08</b>	<b>3.38</b>	<b>104.40</b>
<b>B. Contingencies</b> <sup>c</sup>								
Physical	-	0.02	0.24	0.51	0.25	0.02	-	1.03
Price	-	0.12	1.44	3.08	3.44	1.37	0.53	9.99
<b>Subtotal (B)</b>	-	<b>0.14</b>	<b>1.68</b>	<b>3.59</b>	<b>3.70</b>	<b>1.39</b>	<b>0.53</b>	<b>11.02</b>
<b>Total (A+B)</b>	-	<b>3.43</b>	<b>22.42</b>	<b>39.16</b>	<b>35.03</b>	<b>11.47</b>	<b>3.92</b>	<b>115.42</b>
<b>C. Financing charges during implementation</b> <sup>d</sup>								
Interest during construction	-	0.06	0.53	1.65	3.00	3.84	4.12	13.20
Commitment charges	-	0.13	0.11	0.08	0.05	0.03	0.02	0.42
<b>Subtotal (D)</b>	-	<b>0.19</b>	<b>0.65</b>	<b>1.73</b>	<b>3.05</b>	<b>3.87</b>	<b>4.14</b>	<b>13.62</b>
<b>Total (A+B+C)</b>	-	<b>3.62</b>	<b>23.06</b>	<b>40.90</b>	<b>38.07</b>	<b>15.34</b>	<b>8.06</b>	<b>129.04</b>

Note: Figures may not sum due to rounding.

<sup>a</sup> Excludes taxes and duties of EUR 11.48 million to be financed by the Government through tax exemption.

<sup>b</sup> Base cost in Q4 2022 prices.

<sup>c</sup> Physical contingences computed at 3 per cent for civil works and 2 per cent for machinery and equipment.

<sup>d</sup> Interest during construction computed at 0.038 per annum; commitment charges computed at 0.0015 per annum.

Source: ADB estimates.

### **Financing and cofinancing strategy and plan**

48. The Government has requested a loan of EUR 78.49 million from ADB and a EUR 36.93 million loan from IFAD. The IFAD loan is provided under the Borrowed Resource Access Mechanism on ordinary terms. The cofinancing arrangements will follow the *pari passu* modality (ADB's contribution will finance 68 per cent of all costs and IFAD's contribution accounts for 32 per cent). The Government will contribute an additional EUR 13.62 million through financing charges.

### **Disbursement**

49. Two advance accounts will be established at Bank Indonesia (the central bank), one for the ADB loan and one for the IFAD loan, and will be administered by the Ministry of Finance. ADB will review withdrawal applications and pay its share of financing. For IFAD financing, the CPMU will submit one original withdrawal application and copies of supporting documents to ADB and IFAD, who will review each withdrawal application and advise IFAD to make any necessary payment. IFAD will promptly inform ADB once payment is made. Should IFAD reject the withdrawal request, it should promptly notify ADB and the borrower in writing of its decision and why it was taken.

### **Summary of benefits and economic analysis**

50. The economic analysis indicated that the horticulture subprojects are viable, with an economic internal rate of return of 12.8 per cent. Sensitivity analysis considered the impacts of an increase in investment costs and operating costs, and reduction in output prices, crop yields and cultivation areas. The findings indicate that the subprojects are robust against downside risks. The financial analysis confirms financial viability of the proposed horticulture crops.

### **Exit strategy and sustainability**

51. The sustainability of HDDAP interventions relies on the development and implementation of profitable business plans for the MSMEs and the creation of viable markets for farmers. Strengthening FOs will also ensure the sustainability of the services provided to farmers. Finally, it is expected that local governments will

continue to allocate budget to ensure proper operation and maintenance of the seed production and protection facilities, laboratories and agribusiness hubs.

### III. Risk management

#### A. Risks and mitigation measures

52. The integrated project risk matrix details the risks that need to be considered. The risk assessment was performed by the ADB team during design and IFAD finds the assessment to be acceptable. The main risks are as follows:
- (i) **Elite capture.** The risk that only better-off farmers and households benefit from project activities is concrete. The risk will be mitigated by the implementation of strict eligibility criteria and quotas for youth, women and vulnerable households.
  - (ii) **Limited or restricted access to finance.** Many horticulture farmers in the project sites do not operate bank accounts and have limited interactions with the banking system. This severely limits their capacity to access formal credit and financial products. The project will mitigate this risk by strengthening FOs, improving farmers' financial literacy and working with partner financial institutions to support the provision of credit and financial services to farmers.

Table 4  
Overall risk summary

<i>Risk areas</i>	<i>Inherent risk rating</i>	<i>Residual risk rating</i>
Country context	Moderate	Moderate
Sector strategies and policies	High	Substantial
Environment and climate context	Substantial	Substantial
Project scope	Substantial	Moderate
Institutional capacity for implementation and sustainability	Substantial	Moderate
Financial management	Substantial	Moderate
Project procurement	Substantial	Moderate
Environment, social and climate impact	Moderate	Moderate
Stakeholders	Moderate	Low
<b>Overall</b>	<b>Substantial</b>	<b>Moderate</b>

#### B. Environment and social category

53. **Environment (category B).** The environmental impacts were assessed as moderate for the core subprojects, which represent the main types of impactful project activities. Environmental management plans were formulated to address these impacts. An environmental assessment and review framework has been developed to guide screening, assessment and management of future subprojects to be identified under the project.
54. **Involuntary resettlement (category C).** The project is not expected to have involuntary resettlement impacts. Involuntary land acquisition will be avoided by applying eligibility criteria in selecting the farmers' groups for the project. The project will finance and recruit external monitoring agencies to monitor implementation of the community development framework.
55. **Indigenous Peoples (category B).** The project will benefit Indigenous Peoples' groups (*Masyarakat Hukum Adat*) who live in several project locations. The Indigenous Peoples' planning framework will guide the preparation and implementation of *Masyarakat Hukum Adat* development plans.

#### C. Climate risk classification

56. **The climate risk classification for the project is high.** A detailed climate risk and adaptation assessment has been prepared. It includes a list of climate change mitigation and adaptation investments, which will be implemented as part of the

project. The choice of adaptation measures to be applied will be guided by the analysis of each subproject and the climate risks that are most relevant to local conditions.

#### **D. Debt sustainability**

57. According to the March 2022 Joint World Bank-International Monetary Fund Debt Sustainability Analysis, Indonesia remains at low risk of external debt distress and low overall risk of debt distress. GDP is projected to grow as a result of favourable global commodity prices, the easing of restrictions related to the pandemic, continued policy support, and rising mobility as vaccination programmes expand into remoter areas. Inflation remains lower than in other emerging and advanced economies, allowing Bank Indonesia to support the recovery through accommodative policies.

### **IV. Implementation**

#### **A. Organizational framework**

##### **Project management and coordination**

58. The Directorate-General of Horticulture of the Ministry of Agriculture will be the executing agency. It will establish the CPMU to oversee the daily implementation of the project at the central level. Provincial and district implementing units (PPIUs and DPIUs), which will be housed respectively by the provincial and district agricultural agencies, will be responsible for implementing activities in the field. The CPMU will coordinate with PPIUs and DPIUs to ensure consistency in implementation. The implementing units will be supported by teams of consultants to ensure that the required technical expertise is available.

##### **Financial management, procurement and governance**

59. The project's financial management arrangements will be based on country financial management systems, policies and procedures. Supplementary financial management arrangements have been included in the project's administration manual to: (i) facilitate the efficient flow of funds under the ADB and IFAD loans; (ii) ensure that the project complies with ADB's financial reporting, audit requirement and disbursement procedures; and (iii) make certain that the ADB and IFAD loan accounts are closed in a timely manner.
60. Procurement will be in accordance with the ADB procurement policy and the procurement regulations for ADB borrowers. Value for money will be achieved by targeting local contractors and combining packages according to geographical locations to encourage competition and market response.
61. The audited consolidated financial statements with the auditor's opinion and Management's letter will be presented in English within six months of the end of the fiscal year, i.e. by 30 June of each year, to both ADB and IFAD.

##### **Project target group engagement and feedback and grievance redress mechanism (GRM)**

62. The CPMU will establish a project GRM during implementation to address potential grievances from beneficiaries and stakeholders. This mechanism will serve to receive and facilitate resolution of concerns, complaints and grievances about the project's environment and social safeguards. It will involve GRM focal points from the village to the national levels. Received grievances will be processed by a grievance redress committee.

#### **B. Planning, monitoring and evaluation, learning, knowledge management and communications**

63. The monitoring and evaluation (M&E) for HDDAP will have a management and an accountability function. Three types of M&E will be carried out under the project:

(i) monitoring of implementation and financial progress; (ii) social and environmental safeguard monitoring; and (iii) evaluation of outcomes and impact.

64. M&E guidelines describe the mechanisms for implementing the different M&E activities, while the results management framework and logical framework include a comprehensive list of indicators, selected from the 2020–2024 National Medium-Term Development Plan and mandatory indicators from both IFAD and ADB.

#### **Innovation and scaling up**

65. HDDAP will introduce innovative precision agriculture technologies, and will pilot new, localized, climate-smart agriculture practices. In addition, the private sector partnership approach is an innovative approach for Indonesia.

### **C. Implementation plans**

#### **Implementation readiness and start-up plans**

66. Readiness plans have been prepared to facilitate quick start-up after the project becomes effective. Detailed procurement plans are included in the project manual, which also contains detailed terms of reference for all service providers to be recruited as well as a clear schedule and step-by-step programming process.

#### **Supervision, midterm review and completion plans**

67. IFAD and ADB will jointly supervise the project along with the Government. For supervision missions, IFAD will provide expertise on agriculture, targeting, FOs, financial inclusion and M&E. At least one supervision mission will be fielded every year, and a midterm review will be undertaken in year 3.
68. Regular quarterly meetings will be organized between financial management experts from ADB and IFAD to ensure correct coordination and information-sharing. ADB will promptly provide IFAD with copies of the financial progress reports prepared by the project on a quarterly basis. Finally, IFAD will seek to ensure that an IFAD financial management expert participates in the annual supervision missions.

### **V. Legal instruments and authority**

69. A financing agreement between the Republic of Indonesia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as appendix I.
70. The Republic of Indonesia is empowered under its laws to receive financing from IFAD.
71. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

### **VI. Recommendation**

72. I recommend that the Executive Board approves the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan to the Republic of Indonesia in an amount of thirty six million nine hundred and thirty four thousand four hundred and forty euros (EUR 36,934,440) on ordinary terms and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario  
President

## **Negotiated financing agreement**

### **Horticulture Development in Dryland Areas Sector Project**

(Negotiations concluded on 26 June 2023)

Loan No:

Project name: Horticulture Development in Dryland Areas Sector Project ("HDDAP"/"the Project")

The Republic of Indonesia (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

**WHEREAS**, the Borrower has requested a loan from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement;

**WHEREAS**, the Project shall be co-financed by the Asian Development Bank (ADB) through a loan amounting to Seventy-Eight Million Four Hundred and Eighty-Six Thousand Euros (EUR 78 486 000) ("ADB Loan");

**NOW THEREFORE**, the Parties hereby agree as follows:

#### **Section A**

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2022, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement, with the exception of certain identified provisions amended under Section E paragraph 4 below, solely for the purposes of this Project. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein, unless the Parties shall otherwise agree in this Agreement.
3. The Fund shall provide a Loan (the "Financing") to the Borrower, which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

#### **Section B**

1. The amount of the loan is Thirty-Six Million Nine Hundred and Thirty-Four Thousand and Four Hundred and Forty Euros (EUR 36 934 440).



2. The Loan is granted on ordinary terms and shall be subject to interest on the principal amount outstanding of the Loan at a rate equal to the IFAD Reference Interest Rate including a variable spread, payable semi-annually in the Loan Service Payment Currency, and have a maturity period of twelve point five (12.5) years, including a grace period of seven (7) years, starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled.
3. The Loan Service Payment Currency shall be in Euros.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and interest shall be payable on each 15<sup>th</sup> of January and 15<sup>th</sup> of July.
6. There shall be a Designated Account in EUR opened with the Bank Indonesia (BI) for the exclusive use of the IFAD Loan dedicated to the Project. The Borrower shall inform the Fund of the officials authorized to operate the Designated Account.
7. The Borrower shall provide counterpart financing to the Project in the form of taxes and duties in the estimated amount of Three Million Seven Hundred and Nine Thousand Euros (EUR 3 709 000).

### **Section C**

1. The Lead Project Agency shall be the Ministry of Agriculture ("MoA") through the Directorate General of Horticulture ("DGH").
2. The entities described in Part II of Schedule 1 to this Agreement shall be designated as additional Project Parties.
3. A Mid-Term Review will be conducted as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project.
4. The Project Completion Date shall be the sixth (6<sup>th</sup>) anniversary of the date of entry into force of this Agreement and the Financing Closing Date shall be 6 months later, or such other date as the Fund may designate by notice to the Borrower.

### **Section D**

1. The Financing shall be administered by ADB as Cooperating Institution and the Project shall be jointly supervised with the Fund.

### **Section E**

1. The following are designated as additional grounds for suspension of this Agreement:
  - (a) the Project Administration Manual ("PAM") and/or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of the Fund and the Fund, after consultation with the Borrower, has determined that it has had, or is likely to have, a material adverse effect on the Project.

- (b) the right of the Borrower to withdraw the proceeds of the ADB Loan has been suspended, cancelled or terminated, in whole or in part, or the ADB Loan has become due and payable prior to the agreed maturity thereof; or any event has occurred which, with notice or the passage of time, could result in any of the foregoing.
2. The following is designated as an additional ground for cancellation of this Agreement:
- (a) the financing agreement between ADB and the Borrower has failed to enter into full force and effect within one hundred and eighty (180) days of the date of this Agreement and substitute funds are not available to the Borrower on terms and conditions acceptable to the Fund.
3. The following are designated as additional (general/specific) conditions precedent to withdrawal:
- a) IFAD no objection to the PAM shall have been obtained;
- b) the Project Management Unit has been established and Key Project staff have been appointed as per Section II paragraph 8 of Schedule 1 of this Agreement;
- c) the authorized signatories shall have been submitted to IFAD;
- d) the first AWPB shall have been submitted and received no-objection from IFAD; and
- e) the Designated Account shall have been duly opened and communicated to IFAD.
4. The following provisions of the General Conditions shall be amended to read as follows:
- Section 7.05 (Procurement)
- (a) The procurement of goods, works and services to be financed out of the proceeds of the financing shall be subject to and governed by: (i) ADB's *Procurement Regulations for ADB borrowers – Goods, Works, Nonconsulting and Consulting Services* (2017, as amended from time to time); (ii) ADB's *Procurement Policy – Goods, Works, Nonconsulting and Consulting Services* (2017, as amended from time to time).
- Section 9.03 (Audit of Accounts)
- (b) Section 9.03 (Audit of Accounts); Project Accounts, financial statements and statements of expenditure shall be audited by independent auditors acceptable to the Fund and the ADB, in accordance with auditing standards acceptable to the ADB.
5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Attn: Directorate General of Budget Financing and Risk Management

Ministry of Finance,

Frans Seda Building  
JI. DR. Wahidin Raya No. 1  
Jakarta 10710, Indonesia

For Correspondence:

Attn: Directorate of Loans and Grants

Facsimile Number: +62-21 381-2859  
Email Address: [direktoratPH@kemenkeu.go.id](mailto:direktoratPH@kemenkeu.go.id)

For Disbursements and Payments:

Attn: Directorate of Evaluation, Accounting and Settlement

Facsimile Number: +62 21 384-3712  
Email Address: [deas@kemenkeu.go.id](mailto:deas@kemenkeu.go.id)

For the Fund:

The President

International Fund for Agricultural Development  
Via Paolo di Dono 44  
00142 Rome, Italy

Copy to:

This Agreement, [dated \_\_\_\_\_], has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

REPUBLIC OF INDONESIA

\_\_\_\_\_  
"[Authorised Representative Name]"  
"[Authorised Representative title]"

Date: \_\_\_\_\_

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Alvaro Lario  
President

Date: \_\_\_\_\_

## Schedule 1

### *Project Description and Implementation Arrangements*

#### **I. Project Description**

1. *Target Population.* The Project shall benefit smallholder farmers in dryland areas, farmer groups including men and women, microenterprises, and agriculture cooperatives.
2. *Project area.* The Project will operate within 7 provinces; namely North Sumatra, West Java, Central Java, East Java, Bali, East Nusa Tenggara, South Sulawesi (*the "Project Area"*).
3. *Objectives.* The objective of the Project is to increase the climate change resilience and profitability of dryland farming.
4. *Components.* The Project shall consist of the following four components:

#### **Component 1: Farm inputs, land, water, and connectivity infrastructure and services improved.**

- (i) Upgrade equipment and capacity building of MoA's seed quality assurance and production facilities and horticulture protection and pest management facilities;
- (ii) Provide farmers with access to high quality and certified planting material for horticulture crops, which are suited for agroclimatic conditions of target locations;
- (iii) Introduce digital technology for MOA to register and trace seed production; and
- (iv) At the village level, strengthen capacity of male and female farmers and help them establishing their seed production facilities, organic fertilizer and compost production facilities, and in developing climate-resilient irrigation headwork infrastructure, introducing land conservation measures, and investing in the last kilometer of farm roads.

#### **Component 2: Climate adaptive on-farm practices introduced.**

- (i) Assist farmers to HVDPs;
- (ii) Provide grants to farmers to purchase inputs and farm equipment based on the HVDPs; and
- (iii) Build capacity building of farmers, including youth and women, in adopting environmentally sustainable and climate adaptive farming practices.

#### **Component 3: Value chain systems in horticulture villages strengthened.**

- (i) Establish and strengthen micro small medium enterprises (MSME), including women-owned MSMEs and farmer organizations, through financial literacy education and business management training, among others;
- (ii) Promote partnerships with the private sector through the HVDPs and collaboration agreements with the private sector, including e-commerce and fintech companies;
- (iii) Invest in post-harvest facilities at the village level;

- (iv) Provide capacity building to farmers in food safety, waste management, marketing, and certification for good agriculture practices;
- (v) Support registration of horticulture villages, traceability, certification, and marketing of horticulture products through digital platforms;
- (vi) Assist MoA in developing regulations for digital agriculture; and
- (vii) Upgrade selected district government distribution and logistics centers into integrated agriculture hubs including provision of equipment.

**Component 4: Institutional capacity for horticulture development increased.**

- (i) Strengthen the capacity of the executing and implementing agencies, including extension services personnel and field facilitators; and
- (ii) Conduct gender-responsive monitoring and evaluation, and provide regular monitoring.

## **II. Implementation Arrangements**

5. *Lead Project Agency.* The MoA through the Directorate General of Horticulture (DGH) will be the Project's Executing Agency (EA). DGH will establish the National Project Management Unit (NPMU) to oversee the daily implementation of the Project at the central level.

6. *Project Oversight Committee.* A National Steering Committee will be formed and chaired by BAPPENAS with MOA, MOF, MOT, MCSME, and MOV as members.

7. *National Project Management Unit.* The National Project Management Unit (NPMU) will be based at national level and will be formed by members of the Directorate General of Horticulture. The NPMU will have essential staff who will carry out the compulsory task.

8. *Implementing partners.* Provincial and District Agricultural Agencies will be responsible for implementing activities at local level. The NPMU will coordinate with them to ensure consistency in implementation. The implementing units will be supported by teams of consultants to ensure the required technical expertise is available.

9. *Monitoring and Evaluation.* The monitoring and evaluation (M&E) for HDDAP will have a management and an accountability function. Three different types of M&E will be carried out under the project: (i) monitoring of implementation and financial progress; (ii) social and environment safeguard monitoring; and (iii) evaluation of outcome and impact. M&E guidelines describe the mechanisms for implementation of the different M&E activities.

## Schedule 2

### *Allocation Table*

1. *Allocation of Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts to each category of the Financing and the percentages of expenditures for items to be financed in each Category:

<b>Category</b>	<b>Loan Amount Allocated (expressed in EUR)</b>	<b>Percentage<sup>5</sup> (net of Government and other contributions)</b>
Civil Works, Goods, Mechanical and Equipment, Matching Grant Fund	23,594,000	32% of total expenditure claimed
Consulting Services, Project Management Cost, Study, Survey, Piloting	13,340,440	32% of total expenditure claimed
Trainings, Seminars and Workshops		
<b>Total</b>	<b>36,934,440</b>	

(b) The terms used in the Table above are defined as follows:

- (i) The IFAD Loan will be provided in *pari passu* conditions and every expenditure incurred by the Project will include 68% of ADB's and 32% of IFAD's Loan. Hence, the category wise for this loan is proportioned accordingly.

2. Disbursement arrangements

- (a) Except as IFAD may otherwise agree, the Loan proceeds shall be disbursed in accordance with ADB's Loan Disbursement Handbook.
- (b) The audit arrangements for this Project will be in accordance with ADB requirements.

<sup>5</sup> Excludes taxes and duties imposed in the territory of the Borrower

### Schedule 3

#### *Special Covenants*

#### **I. General Provisions**

In accordance with Section 12.01(a) (xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. Within 6 months of entry into force of the Financing Agreement, the Project will procure and install a customized accounting software as and if it is required by ADB, to satisfy International Accounting Standards, ADB's and IFAD's requirements.
2. Within six (6) months of entry into force of the Financing Agreement, the Project will enter into Memorandum of Understandings (MoU) with implementing partners that will structure the collaboration, define roles, responsibilities and duties with regards to implementation, financial management, accounting and reporting.
3. *Planning, Monitoring and Evaluation.* All Planning, Monitoring and Evaluation of Project activities will be administered through ADB, with the Fund being kept informed throughout.
4. *Gender.* The Borrower shall ensure that the Gender Equality and Social Inclusion Action Plan is implemented and regularly monitored by specialized consultants.
5. *Land tenure security.* The Borrower shall ensure that the land acquisition process has already been completed and that compensation processes were consistent with international best practice and free prior and informed consent principles.
6. *Anticorruption Measures.* The Borrower shall comply with IFAD and ADB's Policies on Preventing Fraud and Corruption in its Activities and Operations.
7. *Sexual Harassment, Sexual Exploitation and Abuse.* The Borrower and the Project Parties shall ensure that the Project is carried out in accordance with the provisions of the IFAD Policy on Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, as may be amended from time to time.
8. **Use of Project Vehicles and Other Equipment.** The Borrower shall ensure that:
  - (a) All vehicles and other equipment procured under the Project are allocated to the NPMU, district governments for Project implementation;
  - (b) The types of vehicles and other equipment procured under the Project are appropriate to the needs of the Project; and
  - (c) All vehicles and other equipment transferred to or procured under the Project are dedicated solely to Project use.
9. *Ifad Client Portal (ICP) Contract Monitoring Tool.* The Borrower shall ensure that a request is sent to IFAD to access the project procurement Contract Monitoring Tool in the IFAD Client Portal (ICP). The Borrower shall ensure that all contracts, memoranda of understanding, purchase orders and related payments are registered in the Project Procurement Contract Monitoring Tool in the IFAD Client Portal (ICP) in relation to the procurement of goods, works, services, consultancy, non-consulting services, community

contracts, grants and financing contracts. The Borrower shall ensure that the contract data is updated on a quarterly basis during the implementation of the Project.

The Borrower shall also register in ICP financial execution module for submission of financial reports to IFAD.

10. *The Key Project Personnel* are: Project Director/Manager, Financial Specialist, Officer for Monitoring and Evaluation and Knowledge Management, Procurement Officer, Social Inclusion and Gender Specialist, and Environment and Climate Assessment Specialist. In order to assist in the implementation of the Project, the PMU, unless otherwise agreed with ADB and IFAD, shall employ or cause to be employed, as required, key staff whose qualifications, experience and terms of reference are satisfactory to ADB and IFAD. Key Project Personnel shall be seconded to the PMU in the case of government officials or recruited under a consulting contract following the individual consultant selection method in the ADB Procurement guidelines and ADB guidelines on the use of consultants. The recruitment of Key Project Personnel is subject to ADB and IFAD's prior review as is the dismissal of Key Project Personnel. Key Project Personnel are subject to annual evaluation and the continuation of their contract is subject to satisfactory performance. Repeated short-term contracts must be avoided, unless appropriately justified under the Project's circumstances. The DGH will recruit Project Management Consultant, and project technical consultancy firms and external monitoring agencies.

## **II. SECAP Provisions**

1. The Borrower shall carry out the preparation, design, construction, implementation, and operation of the Project in accordance with the ADB's safeguards policy, which was assessed as equivalent to the nine standards and other measures and requirements set forth in the Updated Social, Environmental Climate Assessment Procedures of IFAD ("SECAP 2021 Edition"), as well as with all applicable laws and regulations to the Borrower and/or the sub-national entities relating to social, environmental and climate change issues in a manner and substance satisfactory to IFAD. The Borrower shall not amend, vary or waive any provision of the ADB's safeguards policy, unless agreed in writing by ADB and the Fund in the Financing Agreement and/or in the Management Plans.

2. For projects presenting substantial social, environmental and climate risks, the Borrower shall carry out the implementation of the Project in accordance with the measures and requirements set forth in the Environmental Assessment and Review Framework (EARF), Initial Environmental Examinations (IEE), Environmental Management Plans (EMP), Indigenous Peoples Planning Framework (IPPF), Indigenous Peoples Plans (IPPs), Free, Prior and Informed Consent (FPIC), Plans and Community Development Framework (CDF) (the "Management Plans"), as applicable taken in accordance with the standard requirements and updated from time to time by ADB and the Fund.

The Borrower shall not amend, vary or waive any provision of the Management Plans, unless agreed in writing by ADB and the Fund and if the Borrower has complied with the same requirements as applicable to the original adoption of the Management Plans.

3. The Borrower shall not, and shall cause the Executing Agency, all its contractors, its sub-contractors and suppliers not to commence implementation of any works, unless all Project affected persons have been compensated and/or resettled in accordance with the specific FPIC and/ or the agreed works and compensation schedule.

4. The Borrower shall cause the Lead Project Agency to comply at all times while carrying out the Project with the standards, measures and requirements set forth in the Management Plans.



5. The Borrower shall disclose the draft and final ESIA reports and all other relevant Management Plans with Project stakeholders and interested parties in an accessible place in the Project-affected area, in a form and language understandable to Project -affected persons and other stakeholders. The disclosure will take into account any specific information needs of the community (e.g. culture, disability, literacy, mobility or gender).

6. The Borrower shall ensure or cause the Executing Agency and Implementing Agency to ensure that all bidding documents and contracts for goods, works and services contain provisions that require contractors, sub-contractors and suppliers to comply at all times in carrying out the Project with the standards, measures and requirements set forth in the Management Plans.

7. The Borrower will ensure that a Project -level grievance mechanism is established that is easily accessible, culturally appropriate, available in local languages, and scaled to the nature of the Project activity and its potential impacts to promptly receive and resolve concerns and complaints (e.g. compensation, relocation or livelihood restoration) related to the environmental and social performance of the Project for people who may be unduly and adversely affected or potentially harmed if the Project fails to meet the environmental and social standards and related policies. The Project -level grievance mechanism needs to take into account indigenous peoples, customary laws and dispute resolution processes. Traditional or informal dispute mechanisms of affected indigenous peoples should be used to the greatest extent possible.

8. This section applies to any event which occurs in relation to serious environmental, social, health & safety (ESHS) incidents (as this term is defined below); labor issues or to adjacent populations during Project implementation that, with respect to the relevant IFAD Project:

- (i) has direct or potential material adverse effect;
- (ii) has substantially attracted material adverse attention of outside parties or create material adverse national press/media reports; or
- (iii) gives rise to material potential liabilities.

In the occurrence of such event, the Borrower shall:

- Notify IFAD promptly;
- Provide information on such risks, impacts and accidents;
- Consult with Project-affected parties on how to mitigate the risks and impacts;
- Carry out, as appropriate, additional assessments and stakeholders' engagements in accordance with the applicable safeguards requirements; and
- Adjust, as appropriate, the Project -level grievance mechanism according to the applicable requirements; and
- Propose changes, including corrective measures to the Management Plans, in accordance with the findings of such assessment and consultations, for approval by IFAD.

**Serious ESHS incident** means serious incident, accident, complaint with respect to environmental, social (including labor and community), health and safety (ESHS) issues that occur in loan or within the Borrower's activities. Serious ESHS incidents can comprise incidents of (i) environmental; (ii) occupational; or (iii) public health and safety; or (iv) social nature as well as material complaints and grievances addressed to the Borrower (e.g. any explosion, spill or workplace accident which results in death, serious or multiple injuries or material environmental contamination, accidents of members of the public/local communities, resulting in death or serious or multiple injuries, sexual harassment and -violence involving Project workforce or in relation to severe threats to

public health and safety, inadequate resettlement compensation, disturbances of natural ecosystems, discriminatory practices in stakeholder consultation and engagement (including the right of indigenous peoples to free, prior and informed consent), any allegation that require intervention by the police/other law enforcement authorities, such as loss of life, sexual violence or child abuse, which (i) have, or are likely to have a material adverse effect; or (ii) have attracted or are likely to arouse substantial adverse attention of outside parties or (iii) to create substantial adverse media/press reports; or (iv) give, or are likely to give rise to material potential liabilities).

9. The Borrower shall ensure or cause the Executing Agency, Implementing Agency, contractors, sub-contractors and suppliers to ensure that the relevant processes set out in the Management Plans are respected.

10. Without limitation on its other reporting obligations under this Agreement, the Borrower shall provide the Fund with:

- Reports on the status of compliance with the standards, measures and requirements set forth in the management plans on a semi-annual basis - or such other frequency as may be agreed with ADB and the Fund;
- Reports of any social, environmental, health and safety incidents and/accidents occurring during the design stage, the implementation of the Project and propose remedial measures. The Borrower will disclose relevant information from such reports to affected persons promptly upon submission of the said reports; and
- Reports of any breach of compliance with the standards, measures and requirements set forth in the Management Plans promptly after becoming aware of such a breach.

11. The Borrower shall fully cooperate with the Fund concerning supervision missions, midterm reviews, field visits, audits and follow-up visits to be undertaken in accordance with the requirements of the Management Plans as ADB and the Fund considers appropriate depending on the scale, nature and risks of the Project.

12. In the event of a contradiction/conflict between the Management Plans and the Financing Agreement, the Financing Agreement shall prevail.

## Logical framework

Results Hierarchy	Indicators			
	Name	Baseline	Mid-Term	End Target
<b>Outreach</b> Number of Farmers reached	<b>1 Persons receiving services promoted or supported by the project</b>			
	Males - Males		10,000	20,000
	Females - Females		2,500	5,000
	Young - Young people		2,500	5,000
	Total number of persons receiving services - Number of people		12,500	25,000
	Male - Percentage (%)			80
	Female - Percentage (%)			20
	Young - Percentage (%)			20
	<b>1.b Estimated corresponding total number of households members</b>			
	Household members - Number of people		62,500	125,000
	<b>1.a Corresponding number of households reached</b>			
	Women-headed households - Households			
	Non-women-headed households - Households			
	Households - Households		12,500	25,000
<b>Project Goal</b> Increasing national production of horticulture crops	<b>Contribution of HDDAP to the national increase in production volumes of fruits and vegetables (% from total increase in production) - fruits</b>			
	Percentage from total increase in production - Percentage (%)	0	0.01	0.02
	<b>Contribution of HDDAP to the national increase in production volumes of fruits and vegetables (% from total increase in production) - vegetables</b>			
	Percentage from total increase in production - Percentage (%)	0	0.2	0.5
<b>Development Objective</b> Climate resilience and profitability of dryland farming increased	<b>Average HH yearly income from sale of horticulture crops (Rp)</b>			
	HH income increase from baseline - income - Money (USD' 000)	2.8	3.08	3.36
	<b>Total area of dryland equipped with climate resilient farming systems</b>			
	Hectares of land - Area (ha)		5,000	10,000
<b>Outcome 1</b> Inputs, land, water, and connectivity infrastructure and services improved	<b>Percentage of farmers using certified varieties with increased resilience to drought or pest</b>			
	Percentage of farmers - Percentage (%)		30	50
	<b>Total horticulture area served by pest observers</b>			
	Area served by pest observers – Area (ha)		5,000	10,000
	<b>Hectares of dryland with applied soil fertility and conservation measures</b>			
	Hectares of land - Area (ha)		5,000	10,000
	<b>Number of farmers (20% are women) report having basic competence for climate resilient and sustainable land, soil, and water management and pest and disease management.</b>			

Results Hierarchy	Indicators			
	Name	Baseline	Mid-Term	End Target
	Males - Number		8,000	20,000
	Females - Number		2,000	5,000
	<b>Number of staffs (20% women) reporting having improved competence to operate laboratories</b>			
	Males - Number		12	12
	Females - Number		3	3
	<b>Percentage of farmers able to address pests and diseases on target horticulture crops</b>			
	Farmers - Percentage (%)		30	60
<b>Output 1</b> Inputs, land, water, and connectivity infrastructure and services improved	<b>Number of New integrated pest management farmer facilities established and climate proofed (vs. extreme events, temperature, precipitation, strong winds)</b>			
	Facilities - Number		30	60
	<b>Number of laboratories And BTPPHs Upgraded with modern equipment</b>			
	Facilities (BTPPH, pesticide laboratories and field laboratories) - Number		22	22
	<b>1.1.2 Farmland under water-related infrastructure constructed/rehabilitated</b>			
	Hectares - Number		4,000	10,000
	<b>Farmer based seed production climate proofed (vs. extreme events, temperature, precipitation, strong winds) established</b>			
	Seed production facilities - Number		30	60
	<b>Composting facilities (UPPO) established</b>			
	Facilities established - Number		40	116
	<b>2.1.5 Roads constructed, rehabilitated or upgraded</b>			
	Length of roads - Km		40	80
<b>Outcome 2</b> Climate adaptive on-farm production increased	<b>3.2.2 Households reporting adoption of environmentally sustainable and climate-resilient technologies and practices</b>			
	Total number of household members - Number of people		37,500	75,000
	Households - Percentage (%)		30	60
	Households - Households		7,500	15,000
	<b>1.2.4 Households reporting an increase in production</b>			
	Total number of household members - Number of people		37,500	75,000
	Households - Percentage (%)		30	60
	Households - Households		7,500	15,000
	<b>1.2.2 Households reporting adoption of new/improved inputs, technologies or practices</b>			
	Total number of household members - Number of people		20,000	40,000
	Households - Percentage (%)		16 above baseline	32 above baseline
	Households - Households		4,000	8,000
<b>Output 2</b> Climate adaptive on-farm production increased	<b>Number of horticulture village development plans including climate resilience and gender and social inclusion dimensions developed</b>			
	Number of HVDP - Number		400	1,000

Results Hierarchy	Indicators			
	Name	Baseline	Mid-Term	End Target
	<b>Number of demonstration farms equipped with modern climate smart on farm systems</b>			
	Number of demonstration farms - Number		0	2
<b>Outcome 3</b> Value-chains in horticulture villages strengthened	<b>2.2.1 Persons with new jobs/employment opportunities</b>			
	Males - Males		100	250
	Females - Females		100	250
	Young - Young people		60	150
	Total number of persons with new jobs/employment opportunities - Number of people		200	500
	<b>Percentage of farmers who did record keeping on their horticulture crops in the last 12 months</b>			
	Farmers - Percentage		15%	30%
	<b>2.2.6 Households reporting improved physical access to markets, processing and storage facilities</b>			
	Households reporting improved physical access to markets	6,250	12,500	25,000
	<b>2.2.3 Rural producers' organizations engaged in formal partnerships/agreements or contracts with public or private entities</b>			
	Number of POs - Organizations			
	Percentage of POs - Percentage (%)		25	50
	<b>Percentage of HVs in formal partnership with exporters</b>			
	Horticulture Villages - Percentage		0%	5%
	<b>Number of farmers (20% are women) report having basic competence in good agriculture practices</b>			
	Number of farmers - Number of people		10,000	25,000
	<b>2.2.5 Rural producers' organizations reporting an increase in sales</b>			
	Percentage of rural POs - Percentage (%)		20	50
<b>Output 3</b> Value-chains in horticulture villages strengthened	<b>% women's participation on boards of value-chain linked farmer enterprises</b>			
	Women's participation on boards of value-chain - Percentage		5	10
	<b>Regulations for partnership with e-commerce and fintech platforms developed</b>			
	Regulations for partnership - Number		1	2
	<b>1.1.4 Persons trained in production practices and/or technologies</b>			
	Total number of persons trained by the project - Number of people		12,500	25,000
	Men trained - Males		10,000	20,000
	Women trained - Females		2,500	5,000
	Young people trained - Young people		2,500	5,000
	Total persons trained in crop - Number of people		12,500	15,000
	Total persons trained in forestry - Number of people			
	Males trained at least once by the project - Males			
	Females trained at least once by the project - Females			
	<b>Number of persons trained in business management</b>			
	Number of persons trained - Number of people		300	1,200

Results Hierarchy	Indicators			
	Name	Baseline	Mid-Term	End Target
	<b>Number of integrated post-harvest, processing, packaging, and logistic facilities established including equipment</b>			
	Number of integrated post-harvest, processing, packaging, and logistic facilities - Facilities		25	100
	<b>Number of value-chain linked farmer enterprises established and strengthened (MSMEs legalized)</b>			
	Number of value-chain linked farmer enterprises - Number		15	100
	<b>Number of agriculture hub established and climate proofed including equipment</b>			
	Number of agriculture hub - Number		5	13
	<b>Digital platforms for land and farm registration operationalized including sex-disaggregated information</b>			
	Digital platforms - Number		1	1
	<b>1.1.7 Persons in rural areas trained in financial literacy and/or use of financial products and services</b>			
	Males - Males		10,000	80,000
	Females - Females		2,500	5,000
	Young - Young people		2,500	5,000
	Indigenous people - Indigenous people			
	Persons in rural areas trained in FL and/or use of FProd and Services (total) - Number of people		12,500	85,000
<b>Outcome 4</b> Institutional capacity for horticulture development increased				
<b>Output 4</b> Institutional capacity for horticulture development increased	<b>2.1.3 Rural producers' organizations supported</b>			
	Rural POs supported - Organizations		80	80
	Males - Males		160	160
	Females - Females		80	80
	Young - Young people		80	80
	<b>Percentage of existing and new Farmer Organizations with 1 youth or more in management committees</b>			
	Percentage of existing and new Farmer Organisations - Percentage (%)		80	80
	<b>Number of Government Extension Workers (Pemandu Lapang) trained in horticulture.</b>			
	Number of Government Extension workers - Number of people		100	200
	<b>Number of staffs (20% are women) reporting having improved competence in climate smart agriculture and horticulture value chain</b>			
	Number of staffs - Number		150	150
	<b>Knowledge products on climate change adaptation for horticulture development produced and disseminated</b>			
	Knowledge products on climate change adaptation - Number		1	2

## Integrated project risk matrix

### I Overall Summary

Risk Category / Subcategory	Inherent risk	Residual risk
<b>Country Context</b>	<b>Moderate</b>	<b>Moderate</b>
Political Commitment	Low	Low
Governance	High	Substantial
Macroeconomic	Moderate	Moderate
Fragility and Security		No risk envisaged - not applicable
<b>Sector Strategies and Policies</b>	<b>High</b>	<b>Substantial</b>
Policy alignment		No risk envisaged - not applicable
Policy Development and Implementation	High	Substantial
<b>Environment and Climate Context</b>	<b>Substantial</b>	<b>Substantial</b>
Project vulnerability to environmental conditions	Substantial	Moderate
Project vulnerability to climate change impacts	Substantial	Substantial
<b>Project Scope</b>	<b>Substantial</b>	<b>Moderate</b>
Project Relevance	Moderate	Low
Technical Soundness	Substantial	Substantial
<b>Institutional Capacity for Implementation and Sustainability</b>	<b>Substantial</b>	<b>Moderate</b>
Implementation Arrangements	Substantial	Moderate
Monitoring and Evaluation Arrangements	Moderate	Moderate
<b>Project Financial Management</b>	<b>Substantial</b>	<b>Moderate</b>
Project Organization and Staffing	Substantial	Moderate
Project Budgeting	Substantial	Moderate
Project Funds Flow/Disbursement Arrangements	Substantial	Moderate
Project Internal Controls	Substantial	Moderate
Project Accounting and Financial Reporting	Moderate	Low
Project External Audit	Moderate	Low
<b>Project Procurement</b>	<b>Substantial</b>	<b>Moderate</b>
Legal and Regulatory Framework	Substantial	Moderate
Accountability and Transparency	Substantial	Moderate
Capability in Public Procurement	Substantial	Moderate
Public Procurement Processes	Substantial	Moderate
<b>Environment, Social and Climate Impact</b>	<b>Moderate</b>	<b>Moderate</b>
Biodiversity Conservation	Moderate	Low
Resource Efficiency and Pollution Prevention	Substantial	Moderate
Cultural Heritage	Moderate	Low
Indigenous People	Substantial	Moderate
Labour and Working Conditions	Moderate	Moderate
Community Health and Safety	Moderate	Moderate

<b>Risk Category / Subcategory</b>	<b>Inherent risk</b>	<b>Residual risk</b>
Physical and Economic Resettlement	Moderate	Low
Greenhouse Gas Emissions	Moderate	Moderate
Vulnerability of target populations and ecosystems to climate variability and hazards	Substantial	Substantial
<b>Stakeholders</b>	<b>Moderate</b>	<b>Low</b>
Stakeholder Engagement/Coordination	Moderate	Low
Stakeholder Grievances	Moderate	Low
<b>Overall</b>	<b>Substantial</b>	<b>Moderate</b>