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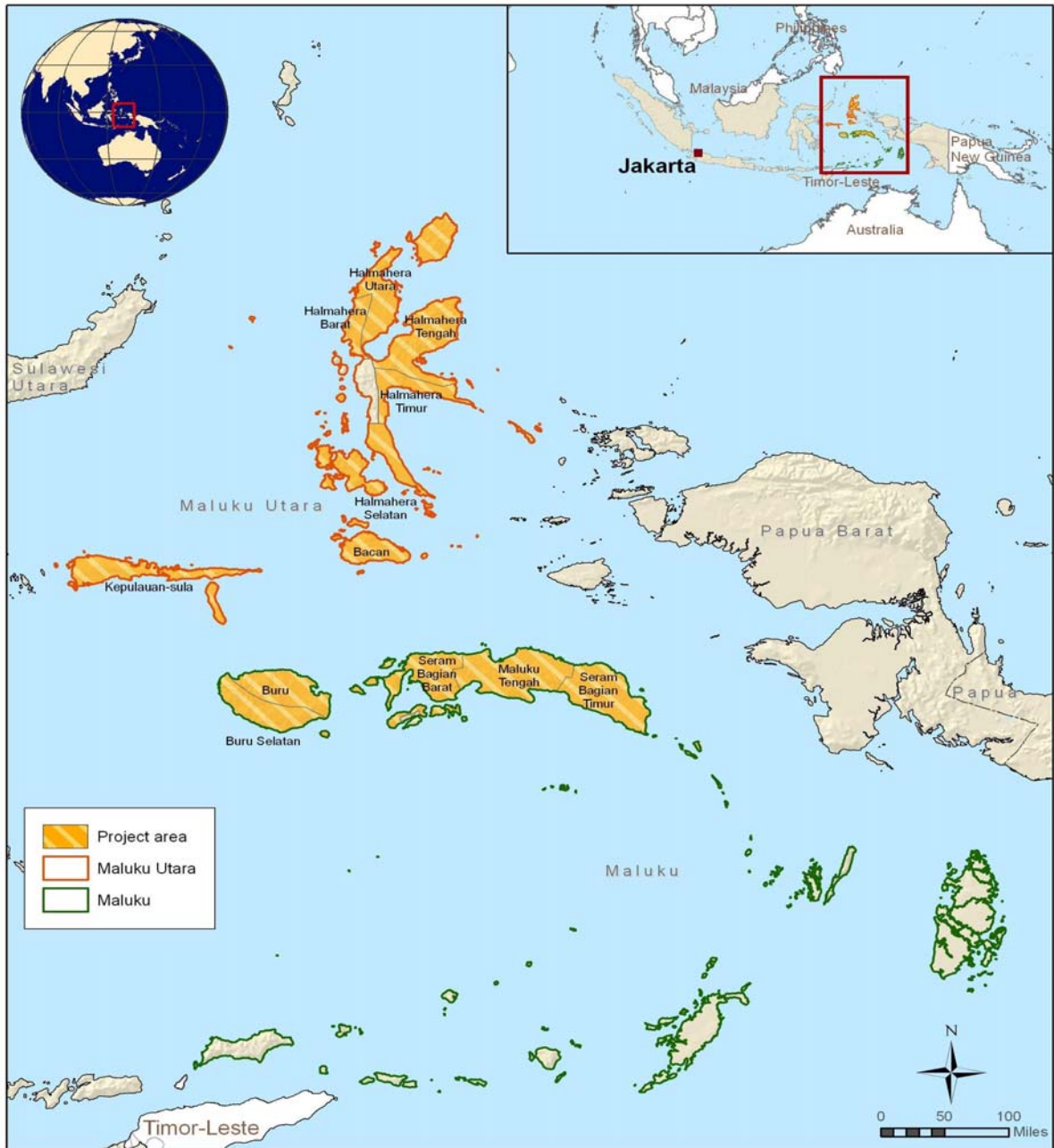
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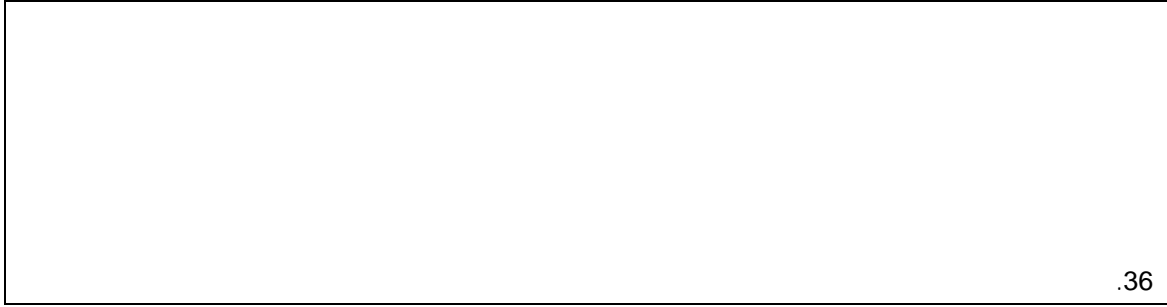
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Negotiated financing agreement: "Smallholder Livelihoods Development Project in Eastern Indonesia"

(Negotiations concluded on 6 May 2011)

FINANCING AGREEMENT

Loan Number: _____

(Grant Number: _____)

Project Title: Smallholder Livelihood Development Project in Eastern Indonesia (the "Project")

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

and

The Republic of Indonesia (the "Borrower/Recipient")

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

hereby agree as follows:

Preamble

WHEREAS, the Borrower/Recipient has requested a Loan and a Grant from the Fund for the purpose of financing the Project described in Schedule 1 to this Agreement (the "Project");

NOW THEREFORE, the parties hereto hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions"), are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

- 1 (a) The amount of the Loan is thirty million three hundred thousand Special Drawing Rights (30 300 000 SDR)
(b) The amount of the Grant is six hundred and seventy-five thousand Special Drawing Rights (675 000 SDR).
- 2 The Loan is granted on intermediate terms in accordance with Section 5.01(c) of the General Conditions.
3. The Loan Service Payment Currency shall be the United States Dollar.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and interest shall be payable on each 1 March and 1 September.
6. There shall be two Designated Accounts in United States dollars, one for the Loan and one for the Grant at the Bank of Indonesia for the benefit of the Lead Project Agency.
7. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of fourteen million eight hundred thousand United States dollars (USD 14 800 000).

Section C

1. The Borrower/Recipient designates the Ministry of Finance as representative for the purposes of Section 15.03 of the General Conditions.
2. The Lead Project Agency shall be the Agency for Food Security of the Ministry of Agriculture (MOA).
3. The following are designated as additional Project Parties. The National Project Coordinating Office (NPCO), Provincial Project Coordinating Offices (PPCOs), District Project Management Offices (DPMOs) and shall include but are not limited to institutions and other development partners mentioned in Schedule 1.
4. The Project Completion Date shall be seven (7) years and six (6) months from the date of entry into force of this Agreement.

Section D

The Fund shall administer the Loan and supervise the Project.

Section E

1. The following is designated as an additional specific condition precedent to withdrawal. The Agency for Food Security (AFS) shall prepare and issue a Project Implementation Manual within 90 days of the date of entry into force of this Agreement.

2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

Ron Hartman
Country Programme Manager
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome,
Italy

For the Borrower/Recipient:

Director of Funds
Ministry of Finance of the
Republic of Indonesia
Gd Prijadi Praptosuhardjo II
Lantai 3
Jakarta Pusat 10710
Indonesia

This Agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

For the Fund

For the Borrower/Recipient

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit approximately 49,500 farm households in 11 districts in Maluku (5 districts) and North Maluku (6 districts) (the "Project Area"). The target group consists of smallholder farmers engaged in tree and food crop production. The Project will specifically target woman-headed households and poor indigenous and immigrant communities.
2. *Goal.* The goal of the Project is: to improve livelihoods (incomes and food security) and reduce the incidence of poverty for people in the targeted villages in the Maluku and North Maluku districts.
3. *Outcomes.* The expected outcomes of the Project are: (i) village institutions and self-help groups and unions function effectively; (ii) target group farmers use improved, sustainable production systems and low levels of purchased inputs are achieved; (iii) target communities improve natural resource management systems; (iv) self-help groups (SHGs) and unions/federations operate as successful elements of the value chains for the targeted commodities; and (v) small-scale infrastructure available in the target villages with the community organisations undertaking their operation and/or maintenance is improved.
4. *Components.* The Project shall consist of the following Components:
 - 4.1 Component 1: Community Empowerment. The output of this component is that communities are mobilised and SHGs and Federations are established. The Project will adopt a Sustainable Village Development Approach which will include: establishing and capacity building of the smallholders' institutions (SHGs and Federations), mainstreaming the use of local social capital, improving smallholder competitiveness and farming systems, value chain management, and environmentally sound resource management.
 - 4.2 Component 2: Productivity Improvement and Integrated Farming Systems. The output of this component is that the extension services are improved to facilitate increased agricultural productivity by smallholders. Following a menu of options, the focus will be on productivity and quality improvement in the production of agriculture and livestock products in which the provinces enjoy a natural comparative advantage, e.g. increasing cocoa, nutmeg and coconut production, improving the productivity of annual food crops (rice, cassava etc.) within the farming systems, improving production of vegetables for villages with access to urban markets and development of small semi-intensive units for livestock.
 - 4.3 Component 3: Value Chain Development and Marketing. The output of this component is the availability of services to improve market returns by the SHGs and Federations. The Project will support the development of Federations and their integration in value chains through the provision of financial (equity and/or working capital¹), technical and management support, based on sound business plans. Links will be developed between the Federations and key value chain participants to provide incentives for farmers to adopt the interventions and produce higher (export) quality products, to grade produce and ensure good primary processing (drying and storage). An additional potential opportunity for cacao is exploring the

¹ The financing will be provided on a grant basis.

possibility of linking with the fermented bean market and encouraging farmers to enter this higher value market chain.

- 4.4 Component 4: Productive Rural Infrastructure. The output of this component is that small-scale rural infrastructure is improved. The Project will finance investments in small-scale productive rural infrastructure through the provision of community grants, in response to proposals submitted by the villages and to complement the Project's support for agricultural productivity improvement. Examples of possible investments include: upgrading access from village to the farmers' fields, micro-irrigation schemes, small crop drying and storage facilities, clean water facilities/dug wells and rehabilitation of previously cropped areas.
- 4.5 Component 5: Institutional Strengthening and Project Management. The output of this component is efficient Project management and coordination. This component will finance the costs of Project management at national, provincial and district levels and support the development of the staff capacity of key participating agencies to provide the services required by the rural community in the target villages.

II. Implementation Arrangements

1. The Project will be a "central government project", with the Agency for Food Security (AFS) of the Ministry of Agriculture (MOA) as the Lead Project Agency, delegating the responsibilities to the local governments for Project implementation. The National Project Coordinating Office (NPCO) in AFS, headed by a National Project Coordinator, will manage the coordination and implementation of the Project. For policy guidance, advice and overall coordination, the SOLID Project will use the existing National Steering Committee (NSC) established for all IFAD-supported projects under the responsibility of MOA which was established by decree of the Minister of MOA in February 2008. In each province, a Provincial Project Coordinating Office (PPCO), headed by a Provincial Project Coordinator, will be established in the Provincial Lead Project Agency. In each district, a District Project Management Office (DPMO), headed by a District Project Manager (DPM), will be established in the District Lead Agency, responsible for overall Project management at the district and sub-district levels. The Project will work with other government agencies, NGOs, donor-supported projects, universities, private sector and/or other development partners to strengthen the capacity of provincial, district and sub-district institutions and their staff for effective service delivery.

2. Main Implementing Agencies and their Roles

- 2.1 National Level. The NPCO in the AFS will provide overall supervision, implementation guidance and management support to the sub-national levels, including planning, financial management, procurement and M&E. The NPCO will prepare the consolidated documents combining provincial level documents with those for national level activities: AWPBs, semi-annual and annual Progress Reports, annual Financial Reports, M&E reports, including the Results Impact Management System (RIMS) reports, Withdrawal Applications (WAs), annual financial statements, audit reports and other reports/ documents needed by IFAD and the government.
- 2.2 Provincial Level. In each province, a Provincial Project Coordinating Office (PPCO), headed by a Provincial Project Coordinator, will be established in the Provincial Lead Project Agency (AFS in Maluku and Provincial Agriculture Services in North Maluku).

The responsibilities of the PPCOs are to: (i) consolidate the district annual work plan and budget (D-AWPB), prepare the provincial AWPB (P-AWPB), and submit P-AWPB to the

AFS/NPCO in a timely manner; (ii) supervise, monitor and evaluate the district and provincial project activities and manage the M&E/RIMS; (iii) manage the recruitment of the NGO to undertake the community mobilisation/facilitation activities with assistance from the NPCO; (iv) consolidate the district reports and prepare the provincial semi-annual and annual progress reports for submission to the AFS/NPCO in a timely manner; (v) consolidate the district financial reports, records and accounts for provincial expenditures and prepare the quarterly financial reports for submission to the AFS/NPCO; (vi) prepare training curricula and manuals, organise Trainer-of Trainers courses and train provincial and district staff on project management and technical topics; (vii) produce appropriate multi-media materials for extension workers and farmers in collaboration with the AIAT staff; (viii) establish linkages with research and training institutions and support the identified activities; (ix) assist in organising meetings of the Provincial Technology and Extension Committee (PTEC) and keep accurate records of the minutes of meetings; and (x) organise provincial *fora* (seminars, conference and workshops) for sharing of project experiences with participation from all the districts in the province.

In each province, the existing Provincial Technical Committee of the Assessment Institute for Agricultural Technology (AIAT) will be strengthened by integrating extension in its mandate to become the PTEC for SOLID with the members designated by a Governor's Decree. This committee will provide advice, recommendations, and feedback on the implementation of the Project at the provincial level. The membership will be across sectors with representatives from public agencies (50%) and non-government institutions (50%), including private entrepreneurs, NGOs, *Kamar Dagang dan Industri (KADIN)* – Indonesian Chamber of Commerce and Industry, civil society, etc. (about 30% women).

2.3 District Level. In each district, a DPMO, headed by a District Project Manager (DPM), will be established in the District Lead Implementing Agency. As a multi-sector extension team already exists at the district level under the Agency of Agriculture Extension, the Project will request them as team members in a District Technical and Extension Committee (DTEC) for the provision of project supported services and activities when needed. Therefore, the DPMO and DTEC will be responsible for overall project management at the district and sub-district levels and to: (i) select target villages based on the agreed phasing of villages and the selection criteria; (ii) manage all Project activities implemented at the village, sub-district, and district levels; (iii) receive village plans and activity proposals from target villages and forward these to the DTEC for technical evaluation and approval/rejection for funding; (iv) consolidate approved proposals and include them in the district annual work plan and budget (D-AWPB) for submission to the PPCO; (v) ensure that the financial management is efficient, prepare quarterly financial reports for submission to the PPCO on a timely manner; (vi) procure the services of individual consultants required and ensure that procurement staff comply with IFAD procurement procedures and guidelines; (vii) operate the M&E/RIMS systems, and prepare semi-annual and annual progress reports for submission to the PPCO; (viii) ensure that technical guidance and implementation support are provided to all target villages; (ix) coordinate all the activities of the service providers; (x) organise trainings in collaboration with the PPCO and carry out annual evaluation of staff; and (xi) assist in organising meetings of the DTEC and keep accurate records of the minutes of meetings.

2.4 DTEC. In each district, the Lead Implementing Agency will establish a multi-sectorial DTEC to provide policy advice and overall coordination during Project implementation. The DTEC will be established through a decree of the *Bupati* before the start of the Project. The membership of the committee will consist of representatives from public agencies (50%) and non-government institutions (50%), including private entrepreneurs, NGOs, producer/farmer groups, civil

society organisations, etc. (about 30% women). The responsibility of the DTEC will be to: (i) receive and verify the technical feasibility of proposals from the target villages and recommend the qualifying proposals for funding; (ii) provide technical guidance to the Farmer Facilitators (FFs) and Commercial Village Officers (CVOs); (iii) prepare training modules and train field extension workers, FFs, and CVOs; (iv) prepare appropriate communication materials, in collaboration with the PPCO, for distribution to community groups in the target villages; (v) periodically monitor and evaluate the Project activities at the village level; and (vi) strengthen linkages of the DPMO with other technical staff in collaborating and other institutions in the district to enhance Project implementation.

- 2.5 Sub-district Level. Project implementation at the sub-district level will be through the existing integrated Sub-District Extension Offices (*BPP*) consisting of extension staff with expertise and experience in agriculture, forestry, and fishery as technical and extension team when needed. The extension team in each sub-district will provide technical guidance and facilitation to the various village/community groups in the target villages, based on their specific needs and will advise and facilitate the technical aspects of village planning and the preparation of village proposals for funding by the Project.

3. Project Staff

The selection of staff to be assigned to Project activities will follow a competitive and transparent recruitment process and shall include the establishment of a staff selection committee at the provincial and district levels.

The Project Coordinator or the Project Manager shall not be appointed, removed or transferred from the Project, until the completion of the Mid-Term Review, except in the case of unsatisfactory job performance or promotion, without the prior no-objection from IFAD.

Schedule 2*Allocation Table*

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

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage of eligible expenditure
I. Civil Works	4 620 000		100 % net of taxes
II. Vehicles, Equipment and Materials	7 770 000		100 % net of taxes
III. Capacity Building, Studies and Workshops	8 530 000	175 000	100 % net of taxes
IV. Matching Funds	4 360 000		100 % net of taxes
V. International Consultant		60 000	100 % net of taxes
VI. Local Consultant and NGO Services	1 990 000	375 000	100 % net of taxes
VII. Unallocated	3 030 000	65 000	
TOTAL	30 300 000	675 000	

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

Matching Funds. The Project shall provide Matching Funds to SHGs and Federations (over a three year period). As defined in the Project Implementation Manual, on attaining a certain threshold, the groups shall be eligible to receive initial matching funds from the Project to expand their Group Revolving Fund lending activities with a second tranche to follow when the groups are assessed as having met criteria that demonstrates their increasing maturity. Federations will be eligible to receive matching funds to finance business plans based on established criteria.

2. *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of USD 500 000.

Key reference documents

Country reference documents

Poverty reduction strategy paper

IFAD reference documents

Project design document and key files

IFAD Results-based Country Strategic Opportunities Programme (COSOP) for Indonesia
2009-2013

Logical framework

Objectives-hierarchy	Objectively verifiable indicators	Means of verification	Assumptions
<p>Goal</p> <p>Improved livelihoods (incomes and food security) and reduced incidence of poverty for people in the targeted villages in the two provinces.</p>	<ul style="list-style-type: none"> Income poverty indicators reduced by 50 per cent in accordance with the CMDG1 target for 2015. 25 per cent increase in the ownership of household assets (average value of the household asset index).* Reduction in child malnutrition* (averages for target villages) by 25 per cent. Target group households² with improved food security (months per year reduced from an average of 6 months to below 3 months). <p>(Targets: number of villages and federations: 330; households: 3,300 groups and 49,500 households).</p>	<ul style="list-style-type: none"> Monitoring of the MDGs. RIMS impact assessment surveys (baseline, annual, MTR and PCR). WFP Food Insecurity Atlas. 	<ul style="list-style-type: none"> Macro-economic and political stability and continued government support for decentralisation. AFS and Province and District legislatures support Programme's approach and strategy.
<p>Outcomes</p> <ol style="list-style-type: none"> Village institutions and self-help groups and federations functioning effectively. Target group farmers use improved, sustainable production systems and low levels of purchased inputs Target communities using improved natural resource management systems. Self-help groups and unions/ federations operating as successful elements of the value chains for the targeted commodities. Improved small-scale infrastructure available in the target villages with the community organisations undertaking their operation and/or maintenance. 	<ul style="list-style-type: none"> 330 village administrations with improved capacity for social and economic development and natural resource management. 24 750 (50 per cent of total target HHs) farmers reporting increased production from their plots. 24 750 (50 per cent of total target HHs) farmers adopting technology recommended by the project (by gender). 330 villages operating new sustainable community-based natural resource management schemes (type and length of operation). 24 750 (50 per cent of total target HHs) target group households reporting new marketing arrangements 12 375 ha (25 per cent of total target HHs) farmers with sustainable access to irrigation water. Km of farm production and access roads maintained. 	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Annual RIMS report. Supervision reports GEF reports. 	<ul style="list-style-type: none"> Villagers participate to the extent envisaged and adopt the approaches promoted. Assumed rates of technology uptake are achieved. Communities adopt the community approaches to natural resources management to the extent envisaged. Assumed rates of marketing uptake are achieved. Communities assume responsibility for O&M.
<p>Outputs</p> <ol style="list-style-type: none"> 1.1 Communities mobilised and self-help and unions/federations established. 1.2 Extension services improved to facilitate increased agricultural productivity by smallholders. 1.3 Extension services improved to assist communities improve their management of natural resources. 1.4 Availability of services to improve market returns by the self-help groups and unions/federations. 1.5 Small-scale rural infrastructure improved. 	<ul style="list-style-type: none"> 37 125 (75 per cent) households receiving project services (total project, m/f.). 3 300 SHGs and Federations formed. 49,500 SHG members. 37 125 (75 per cent) households accessing technical advisory services facilitated by the project. 1 980 (2 per village per year for 3 years) demonstrations held on farmers' land. 3 300 community management groups formed/strengthened- 330 resource management plans enacted 15 per cent of village land area improved through soil and water conservation measures. No of infrastructure schemes constructed/ rehabilitated. 	<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Annual RIMS report. Supervision reports. 	<ul style="list-style-type: none"> Village administrations and villagers accept participatory development approaches. Village administrations and villagers accept participatory development approaches. Appropriate low input and environmentally sustainable technology available. Village administrations and villagers support community approaches to natural resources management. Appropriate market opportunities available. Villagers agree to participate with the community participation in procurement procedures.

² All household and enterprise data is to be disaggregated by the gender of the household head involved, the socio-economic status of the household and whether or not from an indigenous ethnic group i.e. Indigenous People.