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Enabling poor rural people
to overcome poverty

President's report

Proposed loan and grant to the Republic of Indonesia for the

Coastal Community Development Project

Note to Executive Board representatives

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For: Approval

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Abbreviations and acronyms

CCDP	Coastal Community Development Project
MMAF	Ministry of Marine Affairs and Fisheries
PIUs	project implementation units
PMO	project management office

Republic of Indonesia

Coastal Community Development Project

President's report

Map of the project area



22-02-2011



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

Republic of Indonesia

Coastal Community Development Project

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Republic of Indonesia
Executing agency:	Ministry of Marine Affairs and Fisheries
Total project cost:	US\$43.24 million
Amount of IFAD loan:	SDR 15.87 million (equivalent to approximately US\$24.2 million)
Amount of IFAD grant:	SDR 1.18 million (equivalent to approximately US\$2.0 million)
Terms of IFAD loan:	15 (to 18) years, including a grace period of five years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually
Cofinancier:	Spanish Food Security Cofinancing Facility Trust Fund
Amount of cofinancing:	EUR 6.28 million (equivalent to approximately US\$7.8 million)
Terms of cofinancing:	Ordinary terms and conditions
Contribution of borrower/recipient:	US\$7.1 million
Contribution of beneficiaries:	US\$2.1 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan and grant financing to the Republic of Indonesia for the Coastal Community Development Project, as contained in paragraph 48.

Proposed loan and grant to the Republic of Indonesia for the Coastal Community Development Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Indonesia is the largest economy in South-East Asia and has progressed rapidly over the past decade into a dynamic, highly competitive and decentralized electoral democracy with a rapidly growing middle class. It weathered the financial crisis of 2008 well and its economy has been among the best performing in the region over the past few years. Indonesia has also made important strides in reducing poverty and promoting equality while enacting policies that create employment opportunities and upgrade skills, improve public services and infrastructure, and address a legacy of poor governance. In spite of the impressive progress that has been made, there still remain substantial challenges, particularly regarding poverty reduction, with poverty still prevalent in many areas, particularly in the eastern parts of the country.
2. Indonesia is working towards becoming the world's largest fisheries producer by 2015. This will require a threefold increase in production. Small-scale fisheries currently account for 92 per cent of overall production. This provides a substantial opportunity for the estimated 7.9 million Indonesian fishers living in poverty, who constitute 25.1 per cent of the total poor population.
3. There is enormous diversity among the fishing communities in Indonesia, as a result of the wide range of physical and cultural environments. While many coastal and fishing communities have a thriving marine economy, others face an increasing struggle to achieve a good return on their fishing due to difficulty in accessing markets and – in some areas – to declining catch levels. In some communities, destructive fishing and sometimes overfishing are having negative effects on the resource base. The coastal and marine sector and, more specifically, the small-scale fisheries subsector represent the nexus between poverty and an increasingly fragile environment. Members of fishing communities are often poor and highly dependent on small-scale inshore fishing for their livelihood. In some places the income from fishing can be insufficient to meet basic subsistence needs. It is common for fishing communities to be among the poorer communities in a district, especially those farther from the main markets. Many of these communities are in the front line of the effects of climate change: increasingly erratic weather patterns, coastal erosion and the progressive loss of coral reefs from ocean acidification. Limited access to capital and equipment, rising operational costs; resort to destructive and illegal fishing methods; and poor management by aquaculture operators mean that there is considerable scope for positive, well-managed interventions in the subsector.

B. Rationale and alignment with government priorities and RB-COSOP

4. There are four main reasons why the Coastal Community Development Project (CCDP) was proposed by the Ministry of Marine Affairs and Fisheries (MMAF) and

why IFAD should consider its financing: (i) coastal and small island communities¹ are often among the poorest communities in the districts; they are frequently bypassed by mainstream economic development initiatives, which tend to focus on communities accessible by the main road network; (ii) many coastal communities have shown the motivation and commitment to improve their economic position and take responsibility for development initiatives, as demonstrated in a series of recent programmes; (iii) good economic opportunities exist within the context of Indonesia's focus on developing its "blue economy", particularly for a range of high-value marine products that can be produced by aquaculture/mariculture operations and have strong market potential; and (iv) the project directly supports government policies and priorities as laid out in the Poverty Reduction Strategy Paper and the National Fisheries Strategic Plan for 2010-2014.

II. Project description

A. Project area and target group

5. The project will be implemented in eastern Indonesia in areas with a high incidence of poverty. The focus will be on a limited number of districts with diverse marine environments and socio-cultural contexts.
6. Twelve districts in nine provinces have been selected for inclusion based on: (i) their ability to successfully participate in project activities and demonstrate political and financial commitment by the districts; (ii) presence of qualifying numbers of poor coastal and small island communities; (iii) the potential for increasing incomes from fishing and marine operations; and (iv) the scope for scaling up activities. The selection reflects a broad cross-section of districts with the capacity to replicate project interventions in the future. The inclusion of diverse marine environments will allow the project to introduce a variety of resource management methods, in combination with the sustainable economic development of mariculture, fish capture and other marine operations.
7. A total of 15 coastal and small island villages in each district are proposed based on inter alia: (i) poverty level; (ii) demonstrated motivation and successful participation in previous programmes; (iii) potential for marine and fisheries production and value addition; and (iv) inclusion of small islands in each location. A total of 180 villages will be targeted. Of the estimated 660 households living in an average project village, approximately 60 per cent will be involved directly or indirectly in the fishing, aquaculture and other marine-based activities. Overall about 70,000 households (or 320,000 people) will constitute the direct target group.

B. Project development objective

8. The overall goal for the project is reduction in poverty and enhanced economic growth poor but active coastal and small island communities. The development objective is increased household incomes for families involved in fisheries and marine activities in the target communities.

C. Components/outcomes

9. **Community empowerment, development and resource management.** This component aims to enable target households to implement profitable marine-based economic activities with no detrimental effect on marine resources. The component builds on the extensive experience and lessons learned in Indonesia and will adopt a village participatory planning approach focused on marine-based economic development, primarily working through groups and associations within the communities. It will build capacity within the communities to implement project activities, take control of their own development and facilitate access to technical

¹ The target communities are located along the coasts of the selected districts and on "small islands" within the districts; references in this report to "coastal" generally refer to both coastal and small islands.

and financial support from both the Government and the private sector. The component comprises three community-based subcomponents: 1.1 community facilitation, planning and monitoring; 1.2 coastal resource assessment, planning and co-management; and 1.3 market-focused village investment.

10. **District support for marine-based economic development.** The envisaged outcome of component 2 is expansion of economic opportunities in project districts for sustainable market-based, small-scale fisheries/marine operations. The aim of this component is to support the project's village-level interventions with complementary investments at the district level. The district investments are needed to remove constraints faced by the communities in realizing full benefit from their investments and to create opportunities for communities to improve the productivity of their fishing and marine activities and capture greater benefits from marketing their products. The component comprises two subcomponents, the first focuses on infrastructure, innovation and institutional capacity-building (2.1 district-level investment and capacity-building); the second on markets and value chains (2.2 market and value chain support).
11. **Project management.** The component provides for implementation of project activities in each district, with national oversight, and lays the foundation for replication and extension of project activities. The expected outputs are: (i) project management office (PMO) and 12 project implementation units (PIUs) established and operating effectively, and (ii) replication and scaling up of the project facilitated. In investment terms, component 3 provides for the total cost of managing the project and delivering associated services to the communities.

III. Project implementation

A. Approach

12. The project approach has four main elements as described below.
13. Community empowerment continues to be a key strategy underlying government development programmes. It will shape the mode of implementation, provide the main structuring element in project design and the basis for project investment activities to work and interact. Community empowerment will enhance transparency and accountability in the use of project funds and dictate project management methods.
14. The market-focused strategy and associated interventions will enable fisher/marine households to raise their incomes by increasing sustainable net returns on fish and other marine products. The community's creation of enterprise groups will be the key intervention to open up economic opportunities. The enterprise groups would be "the engine" in the high-potential value chains supported by the project.
15. The focus on poverty and pro-poor targeting has been a determining factor in selecting the project communities. Within those communities, the focus is on the active poor and their inclusion in project activities.
16. The planned replication and scaling up of project activities and processes has also influenced the selection of districts, and resulted in physical and social diversity and the geographical spread of project districts from West Kalimantan to Papua. The use of this approach will influence the structure and functioning of project management and imply implementation costs; however, it will allow the dispersed project districts to become regional nuclei for testing a range of solutions in diverse and predominantly poor communities.

B. Organizational framework

17. The project will be implemented under MMAF with the districts assuming general implementation responsibility. However, the villages will have the main responsibility for managing implementation of their project activities.

18. At the central level, MMAF will appoint a team within the Directorate General of Marine, Coasts and Small Islands to staff the PMO, which will be responsible for guiding project implementation and providing management support. The PMO will facilitate planning processes, consolidate annual workplans and budgets, allocate resources, provide implementation support, monitor results and achievements, and coordinate multi-district initiatives.
19. At the district level, a team of dedicated staff within each district marine affairs and fisheries agency will run the PIUs and be assigned responsibility for project management and implementation. In the communities, the project will set up project working groups composed of members of fishing/marine households. Provincial marine affairs and fisheries agencies and regional technical centres will play the limited but important role of ensuring that the project is consistent with sector plans and policies, providing technical support, fulfilling a knowledge management function and facilitating linkages with complementary programmes.
20. For the purposes of project oversight and guidance, a national steering committee will be established at the central level to ensure oversight and overall coordination.

C. Planning, monitoring and evaluation, and learning and knowledge management

21. Project planning will be based on the participatory processes carried out in each of the selected villages. The effective management of the processes by the project's community facilitators, complemented by support from specialized NGOs and private-sector partners, will be important. The output of the planning process will be three-year marine-based village development plans, incorporating strategies for managing designated coastal resource management areas. The village development plans will be translated into investment activities financed under subcomponents 1.2 and 1.3, and will be the basis for compiling annual workplans and budgets (AWP/Bs). The AWP/Bs, together with the quantified results-based indicators (in the logical framework), will be used for project monitoring. A baseline survey will be completed early in the first year and will provide the foundation for subsequent evaluations and for the mid-term review and project completion review.
22. Prior to project implementation, the PMO will establish a monitoring and evaluation (M&E) system satisfactory to IFAD. The M&E system will be interlinked at all levels and will track the effects of project investments on all project beneficiaries and key stakeholders. The M&E system will include financial and physical reporting and meet both the Government's and IFAD's reporting requirements, including Results and Impact Management System (RIMS) data. It will also provide for progress and impact/outcome monitoring.
23. Knowledge management will play an important role in the piloting, replication and scaling up aspects of project design. It will provide the foundation for replicating project successes and the analytical capacity to resolve challenges and adapt project activities to changing environmental, social and economic circumstances in the target areas. The four regional technical centres will receive particular support for knowledge management to facilitate related project activities and build their knowledge management capacity.

D. Financial management, procurement and governance

24. To receive funds in advance, the borrower/recipient will open and maintain at the Central Bank of Indonesia three designated accounts: two in United States dollars for the IFAD loan and grant and one in euro for the contribution of the Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund). The funds will flow from the national level to the district treasuries, which will make the funds available to PIUs, vendors and community groups in project villages.
25. The financial management arrangements will be aligned with the Government's systems, with due consideration of IFAD's rules and regulations in relation to

disbursement documentation, procurement and audit. Given the limited experience in implementing internationally funded projects, particularly at the district level, particular attention will be paid to capacity-building/training in finance and procurement. The central PMO and the district PIUs will be responsible for handling financial management duties and the general governance of the CCDP.

Administrative staff located within the district PIUs will assume responsibility for day-to-day implementation of project activities and be accountable for project performance.

26. The National Procurement Law (*Perpres* 54/2010) will apply to the extent that it is consistent with IFAD Procurement Guidelines.
27. In accordance with section 9.03, article 9 of the General Conditions for Agricultural Development Financing and the IFAD project audit guidelines, the national audit authority will be responsible for project audits.

E. Supervision

28. The project will be directly supervised by IFAD on a biannual basis. In addition, IFAD will soon establish an office in Indonesia with an outposted country programme manager.

Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies

29. An exception to article 5.01(d) is foreseen for the provision of a grace period of five years.

IV. Project costs, financing, benefits

A. Project costs

30. Total costs over five years are estimated at US\$43.2 million including physical and price contingencies, which amount to 3 per cent and 5 per cent of base costs, respectively. The foreign exchange element is estimated at US\$6.1 million or 14 per cent of base costs.

B. Project financing

31. The project costs of US\$43.2 million equivalent will be financed through an IFAD loan of US\$24.2 million and a grant of US\$2.0 million; US\$7.8 million equivalent from the Spanish Trust Fund; a government contribution of about US\$7.1 million including US\$2.8 million in taxes and duties; and the beneficiaries' contribution of US\$2.1 million equivalent.

Components by financier

(Thousands of United States dollars)

	The Government		IFAD Loan		IFAD Grant		Spanish Trust Fund		Beneficiaries		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
A. Community empowerment, development and natural resource management											
1. Community facilitation, planning and monitoring	104.5	1.8	1 337.9	22.7	-	-	4 458.6	75.6	-	-	5 901.1
2. Coastal resource assessment, planning and co- management	511.6	9.5	4 253.7	79.1	-	-	614.0	11.4	-	-	5 379.2
3. Market-focused village investment	1 037.9	6.4	11 104.4	68.2	2 000.2	12.3	-	-	2 131.2	13.1	16 273.7
Subtotal community empowerment, development and natural resource management	1 654.0	6.0	16 696.0	60.6	2 000.2	7.3	5 072.6	18.4	2 131.2	7.7	27 554.0
B. District support for marine-based economic development											
1. District-level investment and capacity-building	176.4	6.4	2 409.1	87.5	-	-	166.4	6.0	-	-	2 751.8
2. Market and value chain support	519.0	10.0	2 827.3	54.5	-	-	1 823.0	35.1	20.7	0.4	5 190.1
Subtotal district support for marine-based economic development	695.4	8.8	5 236.4	65.9	-	-	1 989.4	25.0	20.7	0.3	7 941.9
C. Project management	4 740.4	61.2	2 267.6	29.3	-	-	738.0	9.5	-	-	7 746.0
	7 089.8	16.4	24 200.0	56.0	2 000.2	4.6	7 800.0	18.0	2 151.9	5.0	43 241.9

C. Summary benefit and economic analysis

32. The main project benefits will go to participating communities: the community empowerment initiatives will build capacity, self-reliance and ability to interact effectively with the market, while the investments in income-generating subprojects and infrastructure will improve economic and market opportunities. Within the project's 180 target villages, some 70,000 fishing/marine households (or 320,000 people) will benefit from the project. The financial internal rate of return and the economic internal rate of return are positive, at 15.0 per cent and 19.6 per cent respectively.

D. Sustainability

33. The project will work within a market/private-sector context and promote enterprise development groups that, when successful, will sustain activities with their own resources after the project closes. Similarly, the process of community empowerment will facilitate progress in communities, enabling them to pursue development initiatives and thus become more self-sufficient. Furthermore, the project will develop a resource management and co-management framework and measures to create a sustainable resource to enable communities achieve reliable returns on fishing and mariculture activities in the future and adapt to the threats and impact of climate change.

E. Risk identification and mitigation

34. Three main risks have been identified, and a clear mitigation strategy has been developed.
35. **Geographical spread and project phasing.** The geographical distribution of the districts reflects the pilot nature of the project and the need to work with a range of marine resources and environments, and economic and social conditions to facilitate replication and scaling up. This risk will be mitigated by: (i) commencing the important start-up activities six months prior to project effectiveness by utilizing government resources already budgeted for the project in 2012; and (ii) carrying out activities on a limited scale in the first year by implementing the project in only three out of 15 villages per district, choosing the most dynamic communities with a successful record of implementing similar community facilitation-based projects. This will provide a learning ground for the other villages, the social mobilizers and project management.

36. **Pressure on marine resources.** While there is strong evidence of overfishing in many areas, this does not apply to all types of fisheries. National statistics confirm that while there is overfishing of demersals and large pelagics, there is still considerable scope for small pelagics, which are particularly important for small-scale fishers. Current exploitation in most project areas of these is moderate. Furthermore, the project strategy and investment by enterprise groups will be focused primarily on aquaculture, mariculture and seaweed culture rather than capture fisheries. In those areas where capture fisheries is the only viable option due to the nature of the coastline and adjacent waters, the project will manage the additional fishing effort so as to avoid negative impact on fish stocks. In support of this, the project has a major intervention in marine resource management (subcomponent 1.2) with co-management arrangements planned in all project villages.
37. **Scaling up and replication.** There is always a risk that other villages and districts will not recognize the benefits of project activities and lack the motivation to take them up, or that they will be limited by availability of finance. The design incorporates a number of measures that mitigate against this risk: (i) involvement of other villages and fisheries agency officers in the implementation of CCDP through exposure visits, participation in different phases of project implementation, dissemination of success stories and experiences, and inter-village exchanges; (ii) confirmation by the Government that it intends to use the experience of CCDP to extend its programme of block grants for activities being implemented under the project – most likely through an extension of the Program Nasional Pemberdayaan Masyarakat Mandiri (PNPM) Fisheries Programme – and has the budget to do so; in fact, a number of provinces have already made commitments to finance extensions of programme activities to adjacent districts; and (iii) the group enterprises to be used in the project will not need matching grant financing to be replicated as these enterprises have demonstrated that they are viable with loan financing.

V. Corporate considerations

A. Compliance with IFAD policies

38. The project is aligned with IFAD's overarching goal that rural women and men in developing countries are empowered to achieve higher incomes and improved food security at the household level. It complies with the IFAD Strategic Framework 2011–2015 and its principles of engagement, and the relevant IFAD policies and procedures (such as the RIMS, and the policies on targeting, rural enterprise, climate change, rural finance and engagement with indigenous peoples).

Gender

39. The project will have a positive gender impact through improvements to women's income particularly through support for marketing activities that are dominated by women and through women's involvement in aquaculture, in particular seaweed culture. Balanced gender participation in village CCDP working groups and in the recruitment of community facilitators will also be promoted.

Findings of IFAD's environmental assessment process

40. In accordance with IFAD's Environmental and Social Assessment Procedures, the project has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

B. Alignment and harmonization

41. MMAF has a mandate to manage and conserve coastal areas and promote the sustainable use of fish and marine resources for economic growth in coastal and small island communities. In 2010, a comprehensive fisheries policy was produced² that provides guidance for project initiatives. The policy is structured around four

² Strategic Plan, Ministry of Marine Affairs and Fisheries, 2010-2014.

themes: “pro-poor, pro-job, pro-growth and pro-sustainability” and will be implemented through a series of strategies. The most important of these focus on “Minapolitan”;³ entrepreneurship, networking, technology and innovation; and empowering and institutional strengthening of community groups. The strong commitment to the community and poverty reduction, and recognition of the need for market-focused initiatives and enterprise development with an emphasis on community groups provide a solid basis for the project. Resource conservation measures to combat the effects of climate change and weather events such as the recent tsunamis are emphasized in government strategies; a number of major programmes – such as the Coral Reef Rehabilitation and Management Programme – deal directly with the subject.

C. Innovations and scaling up

42. The project has been developed with the intention of scaling up within the context of Indonesia’s policy objectives for developing its blue economy. The project includes a number of innovations, reflecting its pilot nature. Districts have been selected to suit project activities and processes, which has resulted in physical and social diversity and a geographical spread of districts from West Kalimantan to Papua. This approach will enable the dispersed project districts to become regional nuclei for testing a range of innovative solutions in diverse and predominantly poor communities. This will facilitate replication and scaling up in other districts in Indonesia by exposing contiguous districts to the project after the mid-term review and enabling them to understand processes and capture lessons that will facilitate implementation in their own districts.

D. Policy engagement

43. The project responds to the need to promote poverty reduction and improvements in small-scale fisheries and marine production through community empowerment, group strengthening and market-linked enterprise development. It is aligned with and supports the Government’s blue economy policy objectives, which span the areas of equitable growth, development and the environment. Furthermore, the project will respond to the pressing need to address resource degradation and climate change by restoring marine ecosystems, maintaining ecosystem services, and building the awareness and capacity of coastal communities.
44. The project will provide the Government with the experience, development models and lessons learned to replicate project activities in other coastal communities within the selected districts and to scale up in districts with similar resource and social/cultural profiles. Government funding allocations at district, provincial and national levels are already planned for this replication and scaling up.

VI. Legal instruments and authority

45. A project financing agreement between the Republic of Indonesia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
46. The Republic of Indonesia is empowered under its laws to receive financing from IFAD.
47. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

³ Minapolitan is a nationwide government programme managed by MMAF to promote and pilot new initiatives in the fisheries sector.

VII. Recommendation

48. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on ordinary terms to the Republic of Indonesia in an amount equivalent to fifteen million eight hundred and seventy thousand special drawing rights (SDR 15,870,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Indonesia in an amount equivalent to one million one hundred and eighty six thousand special drawing rights (SDR 1,186,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as the Trustee of the Trust, shall make a loan on ordinary terms to the Republic of Indonesia in an amount equivalent to six million two hundred and eighty eight thousand euro (EUR 6,288,000) (equivalent to approximately US\$7,800,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement

IFAD LOAN NO. _____
IFAD GRANT NO. _____
TRUST LOAN NO. _____

FINANCING AGREEMENT

Coastal Community Development Project
(CCDP)

between the

REPUBLIC OF INDONESIA

and the

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

and the

Spanish Food Security Co-financing Facility Trust Fund

Signed in

on

FINANCING AGREEMENT

IFAD loan Number:

IFAD grant Number:

Trust loan Number:

Project Title: Coastal Community Development Project (the "Project")

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

and

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

and

The Spanish Food Security Co-financing Facility Trust Fund (the Trust)

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

hereby agree as follows:

Preamble

WHEREAS the Executive Board of the International Fund for Agricultural Development (the "Fund" or "IFAD"), at its 100th Session approved the establishment of a Spanish Food Security Co-Financing Facility Trust Fund ("the Trust") and further approved that the Trust, acting through IFAD in its capacity as the Trustee of the Trust, enter into a borrowing agreement with the Kingdom of Spain (Spain);

WHEREAS Spain and IFAD, in its capacity as Trustee of the Trust, signed the Borrowing Agreement on 28 December 2010;

WHEREAS IFAD has agreed to extend a loan and a grant to the Borrower for the purpose of financing the Project, on the terms and conditions set forth in this Agreement;

WHEREAS, on the basis of the above and other considerations, the Trust has agreed to extend a Trust Loan to the Borrower for the purpose of increasing the financing in respect of the above referred Project, on the terms and conditions set forth in this Agreement;

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 and the Trust shall provide a Trust Loan to the Borrower (collectively referred to as "the Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

- 1 (a) The amount of the IFAD Loan is fifteen million eight hundred and seventy thousand Special Drawing Rights (SDR 15 870 000).
- (b) The amount of the IFAD Grant is one million one hundred and eighty-six thousand Special Drawing Rights (SDR 1 186 000).
- (c) The amount of the Trust Loan is six million two hundred and eighty-eight thousand Euro (EUR 6 288 000).

2. The IFAD Loan is granted on ordinary terms according to the IFAD Reference Interest Rate.

3. The Trust Loan is granted on ordinary terms according to the IFAD Reference Interest Rate applicable to Trust Loans.

4. The Loan Service Payment Currency for the IFAD loan shall be United States dollars.

The Loan Service Payment Currency for the Trust loan shall be Euro.

5. The first day of the applicable Fiscal Year shall be 1 January.

6. Payments of principal and interest of the IFAD loan and the Trust loan shall be payable on each 1 March and 1 September.

7. There shall be three Designated Accounts at the Bank of Indonesia for the benefit of the Lead Project Agency, one in United States dollars for the IFAD Loan, one in United States dollars for the IFAD Grant and one in Euro for the Trust Loan.

8. The Borrower shall provide counterpart financing for the Project in the amount of approximately seven million United States dollars, including taxes and duties estimated at two million eight hundred thousand United States dollars.

Section C

1. The Lead Project Agency shall be the Directorate General of Marine, Coasts and Small Islands (DGMCSI), Ministry of Marine Affairs and Fisheries (MMAF).

2. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The IFAD loan and grant and the Trust loan will be administered and the Project supervised by the Fund.

Section E

1. The following is designated as an additional ground for suspension of this Agreement: any transfer of key project staff, except in the case of unsatisfactory job performance, shall be communicated to IFAD at least three months prior to the planned transfer.
2. The following are designated as additional specific conditions precedent to withdrawal:
 - (a) Creation of the Project Management Office (PMO) and Project Implementation Units (PIUs) and nomination of key staff to the satisfaction of IFAD;
 - (b) Preparation of the AWPB for the first year of Project Implementation and the 18 month Procurement Implementation Plan satisfactory to IFAD;
 - (c) Preparation of the Project Implementation Manual satisfactory to IFAD; and
 - (d) Opening of the Designated Accounts and designation of persons authorized to sign withdrawal applications.
3. The following provision of the General Conditions shall not apply to this Agreement: The provision for a grace period of three (3) years contained in Section 5.01(d) of the General Conditions shall not apply to this Agreement. The grace period shall be of five (5) years.
4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Director General of Debt Management
Ministry of Finance
Frans Seda Building, 2nd Floor
Jalan Dr. Wahidin Raya No. 1
Jakarta 10710, Indonesia

For Correspondence:

Attn: Director of Funds
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For the Spanish Food Security Co-Financing Facility Trust Fund

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

REPUBLIC OF INDONESIA

Authorized Representative
Title

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

President

FOR THE SPANISH FOOD SECURITY
CO-FINANCING FACILITY TRUST FUND

President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit approximately 70 000 households (direct and indirect beneficiaries), or approximately 320 000 people in twelve districts, in nine provinces in Eastern Indonesia (the "Project Area"). The twelve districts have been selected for inclusion in the project based on their ability to successfully participate in project activities, including a demonstrated political and financial commitment by the districts, qualifying numbers of poor coastal and small island communities, the potential for increasing incomes from fishing and marine operations, and the scope for scaling up activities in other districts. In addition a Learning Centre will also be established under the Project, in Badung.
2. *Goal.* The goal of the Project is: reduction in poverty and enhanced economic growth in active poor coastal and small island communities.
3. *Objectives.* The development objective of the Project is: increased household incomes for families involved in fisheries and marine activities in poor coastal and small island communities. In support of the development objective, the project would have three outcomes, each linked to one of the project's investment components: (i) target households implementing profitable marine-based economic activities with no detrimental effect on marine resources; (ii) expansion of economic opportunities in project districts for sustainable, market-based, small-scale fisheries/marine operations; and (iii) the project is being managed efficiently and transparently for the benefit of the project's target households and communities.
4. *Components.* The Project shall consist of the following Components:
 - 4.1 Component 1 – Community Empowerment, Development and Resource Management. The outcome from the component would be: target households implementing profitable marine-based economic activities with no detrimental effect on marine resources. The component comprises three sub-components, all of which are community based.
 - i. Sub-Component 1.1 - Community Facilitation, Planning and Monitoring. The expected output is: *marine and fisheries households' development priorities identified, agreed and documented*. The sub-component would provide the basis for implementation of all project activities within the community and also establish priorities that would guide the allocation of resources under the second and third sub-components.
 - ii. Sub-Component 1.2 - Coastal Resource Assessment, Planning and Co-Management. The expected output is: *community-based marine resource management areas being managed effectively*. The Sub-component focus is sustainability of project interventions for long term economic health of project communities. Not only would the project facilitate effective co-management arrangements, but critically co-management would influence the selection of project investments in enterprise groups.
 - iii. Sub-Component 1.3 - Market Focused Village Development. There would be two outputs: (i) financially sustainable community enterprises created under the project, and (ii) community infrastructure implemented under

the project supporting marine-based economic activities in project villages. The Sub-Component, which represents the largest project investment, with 39% of base costs, aims to stimulate successful investments in small-scale marine-related activities that respond to specific near-term market demand and raise the profitability and scale of production from sustainably managed marine resources.

4.2 Component 2 - District Support for Marine-Based Economic Development. The outcome of the Component would be: expansion of economic opportunities in project districts for sustainable, market-based, small-scale fisheries/marine operations. The aim of this component is to support the project's village-level interventions with complementary investments at the district level. The district investments are needed to remove constraints faced by the communities to realising the full benefits from their investments; and to open opportunities for communities to improve the productivity of their fishing and marine activities and capture greater benefits from marketing their products. The component comprises two sub-components, the first focuses on infrastructure, innovation and building institutional capacity; the second on markets and value chains.

- i. Sub-Component 2.1 - District-Level Investment and Capacity Building. The expected output from the sub-component is: *improved infrastructure and services supporting small scale fishing and marine activities established in the project districts*. The sub-component aims to:
 - (i) facilitate investment in district-level marine infrastructure and services, often through public-private partnerships, in support of the small-scale fisheries and mariculture/aquaculture for the target communities;
 - (ii) provide scope for the district fisheries offices to develop and implement new and innovative approaches on a limited/pilot scale;
 - (iii) improve the capacity of the district, civil society and the business community. Opportunities for further capacity building will be reviewed at Mid-Term Review; and
 - (iv) facilitate scaling up of project activities and approaches in other coastal villages in the district and in similar and often adjacent districts.
- ii. Sub-Component 2.2 - Market and Value Chain Support. The expected output is: *increased participation and earnings by small scale fishers and marine producers from prioritized high potential products in each project district*. The objective is to create opportunities for enterprise groups and individual households in target villages to profitably invest in production and first-stage marketing of sustainable, high potential marine products linked to market demand. This would be primarily achieved by implementing selected systematic interventions to create mutually profitable win-win opportunities between buyers and producers and remove other critical bottlenecks.

4.3 Component 3 - Project Management. The expected outputs are: (i) PMO and 12 PIUs established and operating effectively, and (ii) replication and scaling up of the project facilitated. This component provides for implementation for the range of project activities in each district, with national oversight, and lays the foundation for replication and extension of project activities.

II. Implementation Arrangements

1. The project will be implemented under DGMCSI, with the districts taking the main implementation responsibility; however, the villages would assume a major part of the responsibility for managing implementation of their project activities.
2. At the central level, the Lead Project Agency will appoint a team within DGMCSI to staff the PMO which would be responsible for guiding project implementation and providing management support. Key personnel for the PMO may be appointed from other relevant agencies. The PMO would facilitate planning processes, consolidate annual plans and budgets, allocate resources, provide implementation support, monitor results and achievements and coordinate multi-district initiatives.
3. At district level, a team of dedicated staff within each District Marine Affairs and Fisheries Agency would form the PIUs and be assigned the responsibility for project management and implementation. Key personnel for the PIUs may be appointed from other relevant agencies. The district project team would be supported by two full time contracted experts – the District Technical Expert and District Market and Enterprise Development Specialist – who would support a team of community facilitators, one based in each village. While the regent (or Bupati) has overall titular responsibility for the project at district level, the head of the district fisheries administration (Dinas Kelautan dan Perikanan, or equivalent names that are directly responsible to MMAF), who is responsible to the Bupati, would have the overall financial responsibility for project funds at the district level. A full-time project Executive Secretary, appointed as a Deputy Director of the Dinas and responsible to the Kepala Dinas, would have full operational responsibility for project activities and would be the de facto project manager at the district level.
4. In the communities, the project set-up would involve the establishment of a project working group that would be selected from among the fishing/marine based households. Each village project working group would be constituted by five persons, each of who would be elected by the participating village households, with at least two members of the group being women. Consistent with the arrangements under PNPM, the working group would be legalized by the Village Head and registered with the *Dinas Kelautan dan Perikanan*.
5. The province (Provincial Marine Affairs and Fisheries Agencies) and Regional Technical Centres/Support Office of DGMCSI (BPSPL/BKKPN) would play a limited but important role in the project. As well as fulfilling its regular monitoring, evaluation and technical support roles, they would help ensure that the project is consistent with sector plans and policies, provide technical support, fulfil a knowledge management function and help to facilitate linkages with complementary programmes.
6. For the purposes of project oversight and guidance, a National Steering Committee (NSC) would be established at central level to ensure project oversight and overall coordination. In each district, a District Reference Group (DRG), with representatives from the existing technical working groups, would be established comprising District Marine Affairs and Fisheries Agencies, other relevant *Dinas*, *Bappedas*, and other parties including, but not limited to representatives from universities, NGOs and private sector players. Membership to DRGs will be limited to nine participants only.

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 Grant and the allocation of the amounts of the Loan and Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	IFAD Grant Amount	Trust Loan Amount Allocated (expressed in Euro)	Percentage of Eligible Expenditures to be Financed
I. Vehicles , Materials and equipment	2 850 000			100% net of Taxes and beneficiaries contribution
II. Training and workshops	2 570 000		3 850 000	100% net of Taxes
III. Studies and surveys			1 800 000	100% net of Taxes
IV Technical assistance		1 186 000		100% net of Taxes
IV. Consultancy services	2 400 000			100% net of Taxes
VI. Community enterprise and Infrastructure Fund	5 350 000			100% net of Taxes and beneficiaries contribution
VII. District Fund for Supporting Small Scale Fisheries	1 100 000			100% net of Taxes
Unallocated	1 600 000		638 000	
TOTAL	15 870 000	1 186 000	6 288 000	

(b) The terms used in the Table above are defined as follows: "Community Enterprise and Infrastructure Fund, for financing": The main characteristics of the Fund are: (i) three types of eligible investments: enterprise groups, village-based service enterprises, and small scale economic infrastructure; (ii) demand-driven, with flexibility given to each village to decide on the relative allocation of the funds between the three types of investment, but within percentage limits; and (iii) disbursed in two tranches in each village, in year 1 and year 3 respectively.

“District Fund for Supporting Small Scale Fisheries”: (i) Supporting District Infrastructure for Small-Scale Fisheries, and (ii) Supporting District Innovation for Small-Scale Fisheries. Funding would be made available in two tranches: an initial tranche in project year one, and a second performance-related tranche after the mid-term review.

2. *Start-up Costs*. Withdrawals in respect of expenditures in Categories I, II, III, IV, V, VI, and VII incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of USD 344 000 equivalent for start-up costs.

Logical framework

Results Hierarchy	Indicators	Means for Verification	Risks (R) & Assumptions (A)
Goal. Reduction in poverty and enhanced, economic growth among the active poor in coastal and small island communities	1. 9 900 additional HHs with improvement in HH assets ownership index 2. 40% reduction in the prevalence of child malnutrition	Quantitative baseline, mid-term review, project completion survey. Health statistics. Studies to complement indicator based data	
Development Objective. Increased household incomes for families involved in fisheries and marine activities in poor coastal and small island communities	1. The value of marine and fisheries products sold by participating households has increased by an average of 30%, compared with the pre-project level of sales. 2. 13 200 additional households for which food security have improved.	Baseline, mid-term, completion surveys Financial records of project enterprise groups Qualitative studies to complement indicators	(A) Cross section of active poor in marine and fisher households able to participate in project activities. (A) Group based collective economic activity is appropriate to social and market conditions within a large majority of project villages
Component 1. Community Empowerment, Development and Resource Management			
Outcome 1. Project communities implementing profitable and sustainable marine-based economic activities with no detrimental effect on marine resources	1. 60% of the project-funded enterprise groups are assessed to be still operating profitably by the end of the project 2. Health of marine resources maintained or improved in 80% of areas managed by project and adjacent villages	Independent assessment of enterprise performance Enterprise bank records Community perception-based resource inventory and assessment	(A) Access by project HHs to fishing grounds and aquaculture sites effectively controlled / managed (R) Fishing by commercial vessels limits catches by project fishers
Output 1.1 Marine and fisheries households' development priorities identified agreed and documented	1. 70% of fisheries/marine HHs state village plans represent their priorities (disaggregated by poverty status) 2. 50% of women state village plans represent their priorities	District project quarterly reports Village impact assessments Project M&E records Sample surveys	(R) Risk of elite capture of the planning/prioritisation process (A) Non-fisher/marine HHs in project villages do not have a disruptive influence on the planning processes
Output 1.2 Community-based marine resource management areas being managed effectively	1. 40 community-based marine resource management areas demarcated, declared and ratified (through <i>Perdes</i>) and community register of resource users established and maintained 2. Fish landing statistics from vessels based in project and adjacent villages show no decline in levels of catches	District project quarterly reports Project M&E records Reports of co-management committees in project villages Community register of resource users	(R) Management regimes will vary significantly between villages. (R) Adjacent villages refuse to participate in the projects' marine resource management activities,
Output 1.3 Financially sustainable community enterprises created under the project	1. At least 66% of supported enterprise groups and village-based service enterprises show cumulative growth of their balance sheets (i.e. net group assets) of at least 10% above the value of initial project-supported investment (including beneficiary contribution) three years after the group receives the initial project grant disaggregated by poverty ranking of member households	District project quarterly reports Project M&E records Financial records of project-supported enterprise groups (balance sheet and profit & loss statements)	(R) Limited HH assets and slow build-up of savings, limits participation of in enterprise groups A) Ratio between prices of input factors and fish remains favourable (A) Sufficient viable economic opportunities to attract interest in developing enterprise groups.
Component 2. District Support for Marine-Based Economic Development			
Outcome 2. Expansion of economic opportunities in project districts for sustainable, market-based, small-scale fisheries and marine operations	1. 5% increase in net returns by mid-term review and 10% by end of project from small-scale fisheries/marine based activities in terms of fish/marine products sold by project districts on local, national and export markets (volumes marketed/prices received)	Impact survey of small-scale fishing landings and net returns Financial records from larger fishing vessels Project M&E records	(A) Economic opportunities and investments appropriate and accessible by project HHs. (R) Larger scale fishing operations influence investments decisions
Output 2.1 Improved infrastructure and services supporting small scale fishing and marine activities established in the project districts	1. 70% of facilities, services and infrastructure financed by the project operating/available and used by small-scale fishers/marine operators in support of fishing production and marketing. 2. 20 projects financed by District Fund for Supporting Small Scale Fisheries driving new business models and benefiting target villages	Survey of fishing/marine HHs in project villages Project M&E records Audits of project enterprises and infrastructure	(A) District staff are motivated and actively commit their time to implementation of the project