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Investing in rural people

The Republic of Indonesia

Rural Empowerment and Agricultural
Development Programme Scaling-up Initiative

Negotiated financing agreement

Executive Board — 121st Session
Rome, 13-14 September 2017

For: Information

Negotiated financing agreement: "Rural Empowerment and Agricultural Development Programme Scaling-up Initiative"

(Negotiations concluded on 31 August 2017)

Loan Number:
Grant Number:

Programme Title: Rural Empowerment and Agricultural Development Programme Scaling-up Initiative (The "Programme" or "READSI")

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

and

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

(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 Programme described in Schedule 1 to this Agreement (the "Programme");

NOW THEREFORE, the Parties hereto hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme 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, amended as of April 2014, 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. 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 Programme in accordance with the terms and conditions of this Agreement.

Section B

1. A. The amount of the Loan is thirty nine million eight hundred and eighty five thousand United States dollars (USD 39 885 000).

B. The amount of the Grant is one million United States dollars (USD 1 000 000).

2. The Loan shall be granted on ordinary terms and shall be subject to interest on the principal amount outstanding at a rate equal to the IFAD Reference Interest Rate, payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of eighteen years, including a grace period of six (6) years starting from the date that the Fund has determined that all general conditions precedent to withdrawal from the Loan have been fulfilled in accordance with Section 4.02(b) of the General Conditions and Section E of this Agreement.
3. The Loan Service Payment Currency shall be the United States dollar (USD).
4. The first day of the applicable Fiscal Year shall be 1st of January.
5. Payments of principal and interest shall be payable on each 1st of March and 1st of September.
6. There shall be two Designated Accounts denominated in US Dollars for the Loan and the Grant respectively.
7. The Borrower/Recipient will provide counterpart financing in the approximate amount of USD 9.6 million for the Programme in the form of taxes on Programme expenditure, staffing and other in-kind contributions.

Section C

1. The Lead Programme Agency (LPA) as defined in Section 2.01 of the General Conditions (the entity with overall responsibility for the execution of the Programme) for Loan and Grant-funded activities shall be the Ministry of Agriculture (also referred to as MoA or Executing Agency-EA). The Implementing Agency for Grant funded activities will be the Ministry of National Development Planning (BAPPENAS).
2. The Agency of Agricultural Extension and Human Resource Development (AAEHRD) will host the National Programme Management Office (NPMO) on behalf of MoA. The Deputy Ministry for Maritime and Natural Resources will host the Grant Secretariat on behalf of BAPPENAS.
3. The following is designated as additional Programme Parties: provincial and district level governments.
4. The Programme Completion Date shall be the fifth (5th) anniversary of the date of entry into force of this Agreement.

Section D

1. The Loan and Grant will be directly supervised by IFAD.

Section E

1. The following is designated as an additional ground for suspension of the right of the Borrower/Recipient to request withdrawals from the Loan and Grant:
 - (a) Any transfer of key staff in the NPMO or the Grant Secretariat that has not been communicated to the Fund.

2. The following is designated as an additional ground for suspension of the right of the Borrower to request withdrawals from the Loan:

- (a) The Programme Implementation Manual (PIM) 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 such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme, and the Borrower has not taken any measures to remedy the situation.

3. The following are designated as additional general conditions precedent to withdrawal from the Loan:

- (a) The NPMO within the MoA shall have been created and key staff in the NPMO shall have been nominated to the satisfaction of IFAD; and
- (b) Preparation of the PIM in a manner satisfactory to IFAD.

4. The following are designated as additional general condition precedent to withdrawal from the Grant:

- (a) A Coordinator for the start-up of the Policy Secretariat has been appointed from within BAPPENAS; and
- (b) Terms of Reference for specialists have been prepared in a manner satisfactory to IFAD.

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

For the Borrower/Recipient:

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

For Correspondence:

Attn: Director of Loans and Grants
Frans Seda Building, 6th Floor
Jalan Dr. Wahidin Raya No.1
Jakarta 10710, Indonesia
Tel: (62-21) 3458289, 3865330
Fax: (62-21) 3812859

For Disbursements and Payments:

Attn: Director of Evaluation, Accounting and Settlements
Frans Seda Building, 7th Floor
Jalan Dr. Wahidin Raya No.1
Jakarta 10710, Indonesia
Tel: (62-21) 3864778
Fax: (62-21) 3843712
Email: deas@kemenkeu.go.id

For the Fund:

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

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/Recipient and shall enter into force when both the Fund and the Borrower/Recipient have signed it as provided in Section 13.01 of the General Conditions.

REPUBLIC OF INDONESIA

[Authorized Representative]

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. Target Population. The target groups will include: (i) the poor and near poor who have the potential to generate economic returns from agriculture with programme support; ii) active /demonstration farmers that will act as “agents of change” who have the potential to demonstrate and motivate the poor and near poor in their area to improve their livelihoods; and; (iii) landless and land-poor, including women-headed households, who will be included in activities directed at homestead gardening, improved nutrition and financial literacy. Women will be a specific target group. The targeting strategy will ensure the inclusion of ethnic groups and indigenous people who meet the programme selection criteria.

2. Programme area. The Programme area (the “Programme Area”) will include a total of 18 districts, with 14 districts within four provinces of Sulawesi Island and two districts in each of Kalimantan Barat and Nusa Tenggara Timur (NTT). READSI will continue in the five original READ districts in Sulawesi Tengah and two districts in each of NTT and Kalimantan Barat.

3. Goal. The Programme’s goal is supporting the growing prosperity of Indonesian smallholder farming families and its objective is to empower rural households in the programme area with the skills, confidence and resources to sustainably improve their farm and non-farm incomes and livelihoods through a scalable programmatic approach.

4. Objective. The Development Objective of the Programme is that rural households in Sulawesi, Kalimantan Barat and NTT are empowered individually and collectively with the skills, confidence and resources to sustainably improve their farm and non-farm incomes and livelihoods.

5. Components. The Programme shall consist of the following components:

Component 1: Village agriculture and livelihoods development. The expected outcome is: improved household incomes and livelihoods are enabled through improved productivity and profitability of farm and non-farm activities and better management of household finances and nutrition.

Building on the Rural Empowerment and Agricultural Development (READ) Programme, this outcome will be derived by closely integrating community mobilization with agriculture and livelihood development.

The elements of the integrated village development process include four complementary dimensions which will run in parallel with the programme supported households and common interest groups:

- i. Community mobilization;
- ii. Agriculture and livelihoods;
- iii. Savings, loans and financial literacy; and
- iv. Nutrition, including early childhood nutrition (i.e. "the first 1000 days"/1000 Hari Pertama Kehidupan).

Component 2: Services, inputs and market linkages. The expected outcome is: critical services and input markets in programme districts are sustainably improved in terms of quality, relevance, availability and accessibility to serve the needs of programme communities.

This component addresses key support services and markets, especially at the district level and the associated systems at higher levels, and is intended to improve the performance and service delivery of these key services in a more sustainable way. Each key service is addressed under a specific sub-component:

- i. Agricultural extension service (all districts).
- ii. Financial services (all districts).
- iii. Seed supply markets and system (all districts).
- iv. Cocoa farmer support services and markets (Sulawesi only).
- v. Livestock production and health services and markets (before Mid-Term Review only in NTT, possible scale up post- Mid-Term Review).

Component 3: Policy and strategy development support. The expected outcome is: supportive policy and institutional frameworks on food, agriculture and rural development.

This component will support policy development and coordination for food, agriculture and rural development, based on four sub-components:

- i. Support to key development policies;
- ii. Building capacity for evidence-based policy and planning processes;
- iii. Strengthen development partner coordination on food, agriculture and rural development policy support; and
- iv. Enhance the use of results, lessons learned and smart practices from past and ongoing development projects and programmes.

Component 4: Programme Management at national, provincial and district levels. This component supports the effective management of Programme implementation. The implementation arrangements are defined in Section II Implementation Arrangements.

II. Implementation Arrangements

1. Approach. READSI will adopt the implementation structure of READ and will build on good practices developed by other IFAD-supported investments in Indonesia, including: operating within mainstream government systems and processes; building strong systems and processes to maximize management efficiency; benchmarking between districts and within districts and staff, enabled by independent monitoring and evaluation; strong and transparent governance structures; and incentives for strong performance.

2. Loan and grant-funded activities will be managed and reported separately.

Implementation Arrangements related to Loan-funded activities:

3. Lead Programme Agency. The Ministry of Agriculture (MoA) will be the Executing Agency (EA) with the Agency for Agricultural Extension and Human Resource Development (AAEHRD) being assigned to host the National Programme Management Office (NPMO).

4. The NPMO will be accountable for the performance of the implementation of Loan funded activities and the use of Loan funds. The NPMO will be responsible for overall consolidation and coordination of financial management and reporting.

5. The NPMO will lead the preparation of an annual work plan and budget (AWPB) for the Loan and submit it to IFAD no objection.

6. While the NPMO has overall responsibility for Loan funded activities, both component 1 and 2 have specific implementation arrangements in collaboration with sub-national agencies. The roles and responsibilities of implementing partners will be detailed in a Memorandum of Understanding between the parties and in the Programme Implementation Manual.
7. Provincial Programme Support Units (PPSU) will be set-up in each Province with the primary focus on programme administration functions, such as financial reporting, planning, and monitoring and evaluation. PPSUs are support units to the district level programme management offices.
8. District Programme Management Offices (DPMOs) will be set up in each district and focus on implementation of district level activities. DPMOs will be responsible for financial management, planning, monitoring and evaluation, and reporting related to activities in their respective district, for consolidation by the NPMO.
9. Steering Committee (SC). READSI will be overseen by a SC which will guide the overall direction of the programme. The establishment and composition of the steering committee will be defined in the Programme Implementation Manual.
10. Programme Implementation Manual. The NPMO shall prepare a draft PIM covering loan-funded activities, in a manner acceptable to the Fund. The PIM shall include among other arrangements: (i) institutional coordination and day-to-day execution of the Programme; (ii) Programme budgeting, accounting, financial management, procurement, disbursement monitoring and evaluation, reporting and related procedures; (iii) detailed description of implementation arrangements for each Programme component, including the operational modalities for the matching grant mechanisms; (iv) complaints settlement mechanism; (v) and such other administrative, technical and organizational arrangements and procedures as shall be required for the Programme.
11. The LPA shall forward the draft PIM to the Steering Committee for comments and to the Fund for no objection. The NPMO shall adopt the PIM, substantially in the form approved by the Fund, and promptly provide copies thereof to the Fund. The Borrower shall carry out the Programme in accordance with the PIM and shall not amend, abrogate, waive or permit to be amended, abrogated, or waived, the aforementioned manual, or any provision thereof, without the prior written consent of the Fund.

Implementation arrangements of Grant-funded activities

12. Implementing Agency. BAPPENAS will be the Implementing Agency for the grant funded activities. A Grant Secretariat will be established in the Deputy Ministry for Maritime and Natural Resources.
13. Secretariat. The Secretariat will manage and coordinate Component 3. It will manage the day-to-day work of the Secretariat under the overall supervision of the Deputy Ministry for Maritime and Natural Resources.
14. Planning. The Secretariat will be responsible for the preparation of the AWPB and procurement plan as well as reporting Grant-funded activities. The AWPB will be submitted to IFAD no objection by the Secretariat.
15. The Secretariat will coordinate closely with the Ministry of Agriculture, including the NPMO, to ensure adoption of good practices and strong coordination.

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 USD)	Grant Amount Allocated (expressed in USD)	Percentage net of taxes and other Government contribution
I. Works	1 250 000		100%
II. Consultancies and non-consulting services	11 950 000	700 000	100%
III. Goods	3 910 000	30 000	100%
IV. Training and workshops	4 540 000	200 000	100%
V. Community matching grants	12 460 000		100%
VI. Operating costs	5 775 000	70 000	100%
TOTAL	39 885 000	1 000 000	

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

- i. Goods includes equipment and vehicles
- ii. Operating costs includes administrative costs and travel allowances related to Programme activities

2. Start-up Costs. Withdrawals from the Loan account in respect of expenditures for start-up costs in Categories II, III, IV and VI, incurred before the satisfaction of the general conditions precedent to withdrawal, shall not exceed an aggregate amount equivalent to USD 300 000.