

Document: EB 2018/125/R.32/Rev.1
Agenda: 5(e)(i)(a)
Date: 14 December 2018
Distribution: Public
Original: English

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Investing in rural people

President's Report

Proposed Loan and Grant to the Republic of Indonesia for the Youth Entrepreneurship and Employment Support Services Programme

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Executive Board — 125th Session
Rome, 12-14 December 2018

For: Approval

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Abbreviations and acronyms

BDS	business development services
FFR	Financing Facility for Remittances
M&E	monitoring and evaluation
NPMU	national programme management unit
OJK	Financial Services Authority (Otoritas Jasa Keuangan)
PLUTs	Centres for Integrated Business Services (Pusat Layanan Usaha Terpadu)
P4S	Self-Help Agriculture and Rural Training Centre (Pusat Pelatihan Pertanian dan Perdesaan Swadaya)
SME	small and medium-sized enterprises
TVET	technical and vocational education and training
YESS	Youth Entrepreneurship and Employment Support Services Programme

Map of the programme area

Indonesia

Youth Entrepreneurship and Employment Support Services (YESS) Programme

President's report



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 | 19-07-2018

Republic of Indonesia

Youth Entrepreneurship and Employment Support Services Programme (YESS)

Financing summary

Initiating institution:	Ministry of Agriculture
Borrower:	Republic of Indonesia
Executing agency:	Ministry of Agriculture
Total programme cost:	US\$72.70 million
Amount of IFAD loan:	US\$55.3 million
Amount of IFAD grant:	US\$2 million
Terms of IFAD loan:	Ordinary: Maturity period of 18 years, including a grace period of 6 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually
Cofinancier(s):	Financing Facility for Remittances through European Union supplementary funds
Amount of cofinancing:	US\$105,000
Terms of cofinancing:	Grant
Contribution of borrower:	US\$12.09 million
Contribution of beneficiaries:	US\$3.21 million
Appraising institution:	IFAD
Cooperating institution:	IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Indonesia for the Youth Entrepreneurship and Employment Support Services Programme (YESS), as contained in paragraph 48.

Proposed loan and grant to the Republic of Indonesia for the Youth Entrepreneurship and Employment Support Services Programme

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Indonesia is a fast-growing lower-middle-income country with a population of 261 million. Its population is one of the youngest in the world, with a median age of 28 years, and is increasingly urbanized, due to the combined effects of demographic growth and rural-urban migration, particularly by rural youth. More than half of those under 30 move to urban areas in pursuit of education and employment opportunities.
2. Steady economic growth has contributed to significant poverty reduction. Since 2012, poverty reduction has slowed, particularly in rural areas, and remains at around 11 per cent. Another 29 per cent of the population remain highly vulnerable to falling into poverty, leaving more than 100 million Indonesians in poverty or at risk. Farming households are 3.5 times more likely to be poor than non-farming households.
3. Agriculture is the main source of income for one third of the population. However, a low proportion of formal employment, low earnings and limited career opportunities contribute to the agriculture sector having the lowest rate of youth participation. According to the Ministry of Agriculture, over 80 per cent of the nation's farmers are aged 45 or older, and this figure is rising. Only 12 per cent of the country's farmers are under the age of 35. The failure to attract young people is leading to labour shortages and a lack of innovation and institutional change, both vital for future agricultural productivity.
4. The dearth of alternative employment opportunities for youth in rural areas creates potential political and social risks associated with migration and unemployment. Young women and men who want to engage in agriculture lack incentives and face challenges of limited access to land, technical and financial services, vulnerability to environmental risks and price volatility, lack of market information and limited engagement with value chains. Overall, youth unemployment in Indonesia is higher than the regional average.
5. As most households in Indonesia derive their income from employment, the low earnings of those employed in agriculture and the trend in declining earnings for those that work in agriculture informally are a key challenge. Improving conditions in the agriculture sector for formal employment is therefore critical for improving the livelihoods of Indonesia's rural poor and is crucial for poverty reduction and food security.

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

6. The Government envisions inclusive and sustainable transformation of rural areas, with food security and access to nutritious food for all of the population, to support long-term economic growth and social welfare. Yet today, rural youth struggle to

build their livelihoods through agriculture and within the broader rural economy. Growing cities and the rising urban middle class provide an opportunity for the transformation of the rural sector into a modern, youth-led and growth-oriented economy, not only to meet the increased and diversified food needs through a new generation of farmers, but also to secure the provision of other services and products for urban markets.

7. Further trends in rural development create new economic opportunities for rural youth: (i) transformation of food systems and increased demand for diversified food; (ii) increasing connectivity through information and communication technologies, even in the remote areas of the archipelago; (iii) enhanced engagement by the private sector in agriculture; and (iv) increased migrant remittances, offering untapped potential for investment in the rural economy. Rural youth in Indonesia have not yet succeeded in leveraging these opportunities.
8. In Indonesia, IFAD has a proven track record in empowering disadvantaged groups, strengthening rural enterprises and developing inclusive value chains. To date IFAD interventions have benefited 13 million people throughout the country. Since first investing in Indonesia in 1980, the Fund has developed 17 loan projects with a total investment of US\$1,692 million, of which US\$550 million financed by IFAD. As highlighted in the RB-COSOP 2016-2019, IFAD in Indonesia focuses on piloting innovative approaches in agricultural and rural development that can be scaled up through national systems to inform policy and strengthen national capacities to respond to the emerging needs of this lower-middle-income country.
9. Theory of change. In line with IFAD11 commitments, the premise of YESS is based on the notion that the creation of opportunities for rural youth to build their economic livelihoods through rural entrepreneurship or employment will increase their engagement in the rural sector, contribute to sustainable rural transformation, and develop a new generation of young farmers, agripreneurs and rural supply chain actors. Incentivizing youth engagement in rural transformation has the potential to increase youth employment and entrepreneurship. In order to seriously attract young millennials to participate effectively, YESS needs to focus on innovation, leveraging technology, modernizing agricultural employment and practices, and creating incentives for young people for rural entrepreneurship. YESS recognizes that not all young people can be successful entrepreneurs, and also that the agricultural sector does not have the absorptive capacity to provide meaningful opportunities for all young people, particularly when it is modernizing and reforming structurally. The design therefore envisages providing alternative pathways for creating both on-farm and off-farm entrepreneurship and employment opportunities within the broader rural economy.

II. Programme description

A. Programme area and target group

10. Programme area. The YESS will focus on four target provinces: West Java, East Java, South Kalimantan and South Sulawesi. These provinces were selected based on: population density; poverty characteristics; agricultural and market growth potential; youth outmigration and immigration; and the presence of relevant institutions. Within these provinces, YESS activities will focus on 15 selected districts. In addition to these local-level activities, a smaller set of YESS interventions will benefit rural youth nationwide to improve the image and social recognition of agriculture, including through web-based information services.
11. Target group. The main target group is poor and vulnerable youth (16-30 years, as per 2009 Indonesian Law on Youth), as well as young people who remain at risk of poverty. While poverty levels define the main target group typology, the targeting strategy recognizes that this target group is highly diverse. Different age groups, social factors and current livelihood engagements will have an important

influence on how target subgroups are best supported. As such, specific targeting "pathways" have been developed to support the specific needs of rural youth:¹ A Gender Equality and Social Inclusion Strategy will ensure that the main target group – as well as women (50 per cent of beneficiaries), the disabled and indigenous peoples – access the programme's benefits.

B. Programme development objective

12. The programme's goal is that young women and men contribute to rural transformation and inclusive rural growth. The development objective is that rural young women and men are engaged in the agri-based sector through employment and entrepreneurship.

C. Components/outcomes

13. YESS activities are clustered within four interlinked components: components 1 and 2 focus on building the skills of rural youth and creating opportunities for employment and entrepreneurship; component 3 links trained youth to financial institutions; component 4 contributes to an enabling policy and institutional environment that creates incentives for young rural workers and entrepreneurs.
14. Component 1: Rural youth transition to work. The expected outcome is that young people acquire skills that enable them to take advantage of employment and business opportunities by: (i) assisting agricultural technical and vocational education and training (TVET) institutions to better prepare students and trainees to enter the labour market or to develop businesses in the rural sector;² and (ii) complementing TVET institutions by developing certified apprenticeship programmes in the agriculture-based sector, targeting young people coming out of the education system.
 - Subcomponent 1.1: Linking education and training to jobs. Aims at assisting agriculture TVET institutions to better prepare young people to enter the labour market or develop agricultural businesses. Activities include; (i) capacity-building for agricultural TVET institutions; (ii) career orientation and guidance; (iii) agricultural job fairs; and (iv) enhancing the Agriculture Entrepreneurs Programme of the Ministry of Agriculture.
 - Subcomponent 1.2: Apprenticeship. Activities will expand the national apprenticeship system to cover selected occupations in the agriculture-based sector, in partnership with the Ministry of Manpower. Once piloted successfully in the programme districts, the schemes will be rolled out through this ministry's regular systems and budget, and will become available to young people throughout Indonesia.
15. Component 2: Rural youth entrepreneurship. The expected outcome is that young small farmers, rural entrepreneurs and small and medium-sized enterprises (SMEs) access markets and services in the targeted value chains and subsectors, through facilitating the access of rural youth to business development and intermediation services matched to their specific needs, by partnering with district-based business development service (BDS) providers such as the Centres for Integrated Business Services (Pusat Layanan Usaha Terpadu [PLUTs]) established by the Ministry of Cooperatives and SMEs.

¹ Targeting pathways include: a farming/entrepreneurship pathway, an employment pathway, a transition to work pathway and a capacity development pathway. Additionally, the programme supports young people through: (i) measures to empower them in their transition to adulthood with the means to influence their social, economic and political context; (ii) the development of an enabling policy environment; and (iii) attention to procedural issues that may prevent poor young people from participating in the programme.

² "Rural sector/economy" and/or "agriculture-based sector" are intended to cover the range of activities described in Section I.B, i.e. crop and livestock production, agribusiness, the environmental sector and rural services, and activities that can make rural life more appealing to young people.

- Subcomponent 2.1: Capacity-building for business development
Service providers: aims at developing an enabling environment for young farmers and entrepreneurs by: (i) preparing and regularly updating business models to assist young people in choosing on-farm and off-farm profitable businesses adapted to local potential and to different socio-economic profiles; (ii) strengthening the capacities of PLUTs and BDS providers to better accommodate the needs of young agricultural entrepreneurs and mainstream youth into the activities of the PLUTs; (iii) assisting PLUTs and Self-Help Agriculture and Rural Training Centre (Pusat Pelatihan Pertanian dan Perdesaan Swadaya [P4S]) to promote inclusive and gender-equitable youth engagement in the agriculture-based sector; (iv) enhance capacity of P4S to deliver services to young agricultural entrepreneurs; and (v) setting up a district multi-stakeholder forum.
 - Subcomponent 2.2: Services to young farmers and entrepreneurs.
Activities include: (i) developing business motivation pathways and delivering start-up training packages; (ii) developing a network of mentors to accompany entrepreneurs; and (iii) promoting business linkages and partnerships between young farmers/entrepreneurs and other value chain actors such as SMEs.
16. Component 3: Investing for rural youth. The expected outcome is that young smallholder farmers, rural entrepreneurs, and migrants and their families have access to financial products and services to finance their businesses. This will be achieved by: (i) promoting financial inclusion for rural young people; (ii) facilitating access to sustainable financial products for young farmers and entrepreneurs willing to start a business with no past experience; (iii) leveraging migrant remittances for investment in rural youth enterprises; and (iv) strengthening the incentives and capacity of financial institutions to meet the needs of young farmers and entrepreneurs with adequate products and services.
- Subcomponent 3.1: Capacity-building for financial inclusion. Activities will focus on: (i) enhancing the financial literacy of rural youth; and (ii) building the capacities and incentivizing partnering banks to provide adapted services to young people.
 - Subcomponent 3.2: Access to finance. Activities will facilitate the access of youth to sustainable financial services, including savings, credit and innovative products (digital, crowd funding, etc.) and to assist young entrepreneurs to develop viable business proposals and demonstrate that they are economically viable clients. As young farmers and entrepreneurs with no prior experience constitute a major part of YESS target groups, the programme will build on the existing initiatives of financial institutions and create incentives to adapt their programmes and products to the needs of the YESS target groups.
17. Component 4: Enabling environment for rural youth. The expected outcome is an enabling policy and institutional/media environment that facilitates stronger youth engagement in the rural sector, by: (i) bringing together relevant stakeholders in the target provinces to collectively promote youth employment and entrepreneurship; (ii) improving the image and social recognition of agriculture among young people; and (iii) promoting a favourable policy and institutional environment to facilitate inclusive youth engagement in the rural sector.
- Subcomponent 4.1: Partnership-building. Activities will build coalitions of private and public stakeholders at the provincial level to collectively promote youth employment and entrepreneurship to: (i) sensitize participants to the diversity of young people, including poorer youth; (ii) facilitate the mainstreaming of a rural youth agenda within the regular programmes of activities of platform participants; and (iii) create new opportunities for youth

employment and entrepreneurship, in line with the provincial potential and the diversity of the challenges facing youth.

- Subcomponent 4.2: Rural youth mobilization. Activities will be implemented at the national level, working towards: (i) improving the image and social recognition of agriculture among young people; (ii) providing information and knowledge supporting rural youth engagement; (iii) connecting young farmers/entrepreneurs with communities and partners; and (iv) disseminating good practices and successful models, including those developed under YESS. This will be achieved through a “Youth Ambassadors” programme and the Digital Rural Youth Online Platform.
- Subcomponent 4.3: Policies for rural youth. Aims at promoting a favourable policy and institutional environment to facilitate inclusive youth engagement in the rural sector. This includes: (i) policy studies; (ii) a programme for youth participation in policy dialogue; and (iii) creating an enabling environment for the replication and scaling up of YESS.

III. Programme implementation

A. Approach

18. The programme design recognizes that in order to effectively engage young rural people, an innovative and dynamic investment approach is required to create the right incentives for young people to engage in agriculture and the rural economy. Considering the many barriers to rural youth employment and enterprise development, the programme adopts an integrated and phased approach to addressing key supply and demand constraints. This approach is closely aligned with the newly proposed IFAD youth action plan and the G20 working paper on rural youth employment.
19. The implementation framework reflects the programme’s multisector nature and ensures that activities will build on existing organizations and initiatives, rather than creating new, programme-based structures. This aims to ensure that sustainability and supporting project innovations are mainstreamed, replicated and scaled up.

B. Organizational framework

20. The Ministry of Agriculture will be the executing agency. Partnerships with other relevant government and non-government institutions will be pursued in strategic areas related to rural youth that do not fall under the executing agencies’ primary mandate.
21. The organizational structure will be as follows:
 - A national steering committee will provide overall guidance and oversight, complemented by a youth advisory committee;
 - The Ministry of Agriculture is the executing agency, and its Agency for Agricultural Extension and Human Resource Development will have overall responsibility for programme implementation;
 - A national programme management unit (NPMU) within the Agency for Agricultural Extension and Human Resource Development will lead programme implementation, supported by provincial and district programme implementation units;
 - Multi-stakeholder platforms at the provincial and district levels will provide a venue for relevant partners to agree on objectives, review progress and seek measures for addressing challenges.

22. The main implementing partners are, but not limited to: the Ministry of Cooperatives and SMEs, for business development services at district level; the Ministry of Manpower, for the apprenticeship scheme; and TVET institutions.

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

23. Planning. Planning processes and schedules within YESS will be harmonized with the mainstream planning process of the Government of Indonesia at central, district and village level. The NPMU, in consultation with the districts, will prepare the annual workplan and budget and submit it to IFAD for review and “no objection”, in close consultation with the programme steering committee.
24. Monitoring and evaluation (M&E), knowledge management and learning. The YESS will have an integrated M&E and knowledge management system, aimed at achieving three main objectives: (i) guiding programme implementation; (ii) sharing knowledge and scaling up good practices; and (iii) supporting economic decisions and policymaking.
25. A web-based management information system will track and regularly update gender-disaggregated financial and technical data on programme outputs and outcomes, lessons learned and good practices, and will generate weekly dashboards showing progress on key outputs and objectives, profiling district and provincial project implementation unit performance and showing progress towards meeting key programme indicators. The management information system will be utilized to support an evidence-based knowledge-sharing and policy dialogue.

D. Financial management, procurement and governance

26. Financial management. The programme will be aligned to national systems for accounting and reporting, standards, fund flows, asset management, audit and procurement. The NPMU will be responsible for financial management and will be staffed adequately. NPMU responsibilities will include: (i) preparing the annual workplan and budget; (ii) treasury forecasting and annual disbursement projections; (iii) collecting and consolidating expenditure reports from districts and provinces; (iv) timely preparation and submission of withdrawal applications to IFAD; (v) interim financial reporting; (vi) preparation of annual financial statements in line with international accounting standards; (vii) coordination of audit processes; and (viii) procurement.
27. A financial management assessment of the programme, prepared in accordance with IFAD’s guidelines, found overall a financial management risk rated as medium. This risk will be mitigated by a range of measures that include: hiring of external financial management expertise at the NPMU level; development of manuals; interim financial reporting; strengthened internal audit arrangements; and regular training, in addition to intensive support and training at start-up to promote good governance.
28. Flow of funds. The loan will be on-budget and on-treasury. IFAD funds will flow through Indonesia’s treasury single account to designated accounts denominated in United States dollars. Disbursements for programme expenditures will be made via the treasury system through local treasury offices (Kantor Pelayanan Perbendaharaan Negara) and reported from that level through the Government’s financial management information system for public finances (Sistem Perbendaharaan dan Anggaran Negara).
29. Procurement will be undertaken in accordance with national procurement rules and regulations, to the extent that these are consistent with the IFAD’s Project Procurement Guidelines. The NPMU will prepare an integrated framework for good governance.

30. **Audit.** The programme's accounts will be audited annually by the supreme audit authority. The settlement of audit observations will be monitored by the executing agency, the auditors and IFAD, through its supervisory processes. In addition, the YESS programme will be included within the workplan of the Ministry of Agriculture's internal audit unit, with reporting made available to IFAD supervision missions.
31. **Governance.** Governance measures will include: (i) creating and sustaining a corruption-free environment for programme activities; (ii) complying with internal procedures and controls in following international best practice standards; (iii) complying with the requirements of IFAD's Policy on Preventing Fraud and Corruption in its Activities and Operations (2005, as amended to date); (iv) ensuring that a good governance framework is implemented promptly; and (v) establishing a complaints mechanism for programme beneficiaries and other stakeholders.
32. **Other measures reflected in project design to ensure transparency** include the following: (i) an internal code of conduct to be signed by all NPMU, the provincial project implementation unit and district project implementation unit staff and consultants, and a code of business ethics to be signed by all partners and beneficiaries of YESS activities; (ii) IFAD's direct supervision process will specifically address fiduciary compliance and implementation of the project framework for transparency and publicity; (iii) project stakeholders will be directly involved in the programming, implementation and M&E of YESS activities; (iv) and multi-stakeholder platforms will provide a forum for raising issues affecting value chain development, including transparency.

E. Supervision

33. The programme will be directly supervised by IFAD. Joint supervision missions will be conducted by IFAD and the Government of Indonesia, complemented by regular implementation support missions. Continuous supervision, follow-up and implementation support will be provided by the IFAD sub regional office in Jakarta.

IV. Programme costs, financing and benefits

A. Programme costs

34. Total programme costs, including physical and price contingencies, duties and taxes, are estimated at US\$72.70 million over a six-year implementation period. Programme investments are organized into four components: (i) rural youth transition to work (21.2 per cent of costs); (ii) rural youth entrepreneurship (26 per cent); (iii) investing for rural youth (28 per cent); and (iv) enabling environments for rural youth (24.9 per cent of costs).

Table 1
Programme costs by component and financier
 (Thousands of United States dollars)

Components	IFAD loan		IFAD grant		FFR		Beneficiaries		Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Rural youth transition to work	9 382	67.5	55	0.40	-	-	-	-	4 454	32.06	13 891	21.2
2. Rural youth entrepreneurship	15 462	74.9	685	3.32	-	-	-	-	4 492	21.76	20 639	26
3. Investing for rural youth	15 157	76.7	-	-	80	0.40	3 212	16.25	1 314	6.65	19 763	28
4. Enabling environments for rural youth	15 299	83.1	1 260	6.84	25	0.14	-	-	1 831	9.94	18 415	24.9
Total	55 300	76.06	2 000	2.7	105	0.14	3 212	4.42	12 091	16.63	72 708	100.00

B. Programme financing

35. Total IFAD financing is US\$57.3 million, or 78.8 per cent of total programme costs, consisting of an IFAD loan of US\$55.3 million and an IFAD grant of US\$2 million. The executing agency is expected to subcontract service providers for the implementation of the grant activities related to innovative finance, policy dialogue, and South-South and Triangular Collaboration. In addition, US\$105,000 is expected to be provided through IFAD's Financing Facility for Remittances (FFR) for international technical assistance, funded by European Union supplementary funds.
36. The Government of Indonesia will contribute US\$12.1 million (16.63 per cent), consisting of in-kind contribution of staff and tax exemptions. Beneficiaries will contribute an estimated US\$3.21 million in-kind (4.42 per cent).

Table 2
Programme costs by expenditure category and financier
 (Thousands of United States dollars)

	IFAD loan		IFAD grant		FFR		Beneficiaries		Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Technical assistance and consultancies	5 264	76.8	448	6.54	30	0.4	-	-	1 111	16.2	6 853	9.4
B. Grants and subsidies	13 840	75.0	-	-	-	-	-	-	4 618	25.0	18 458	25.4
C. Goods and services	17 232	72.0	920	3.8	25	0.1	3 212	13.4	2 531	10.6	23 921	32.9
D. Training, workshops and meetings	8 872	78.2	632	5.6	50	0.4	-	-	1 788	15.8	11 342	15.6
E. Salaries and allowances	5 112	76.7	-	-	-	-	-	-	1 556	23.3	6 668	9.2
F. Operating costs	4 980	91.1	-	-	-	-	-	-	487	8.9	5 467	7.5
Total	55 300	76.1	2 000	2.8	105	0.1	3 212	4.4	12 091	16.6	72 708	100

C. Summary benefit and economic analysis

37. The programme will benefit a total of 320,000 households. Benefits will directly accrue to farmers, women and youth through activities aimed at: (i) diversifying productive activities and sources of income, (ii) boosting agriculture through an increase in production and productivity; (iii) improved access to markets; (iv) increased access to finance for on-farm and off-farm productivity; (v) promoting entrepreneurship and adding value to agricultural produce; (vi) increasing formal employment in on-farm and off-farm activities; (vii) increasing access to land and production inputs; and (viii) augmented tax revenues as a result of an increased volume of taxable production.

38. Economic analysis. The programme is expected to be a financially and economically viable investment. The economic net present value of the programme's net benefit stream, discounted at 9 per cent, is Indonesian rupiah 2,483 billion (approximately US\$183.8 million), producing an economic internal rate of return of 32.7 per cent for the base-case scenario.

D. Sustainability

39. All activities have been designed to establish sustainable mechanisms for continued access and benefits for rural youth after programme completion. The main features of the programme sustainability approach are: (i) implementation set-up leveraging existing organizations and initiatives; (ii) financial sustainability through the development of sound business plans, with incentives to support start-up, the capacity-building of key players, linkages to performing financial service providers and the promotion of district-based business mentors; (iii) outreach and mobilization networks ensuring youth representation and participation; (iv) capacity-building; (v) partnerships with and integration of the private sector to support youth access to employment, youth entrepreneurship and the financing of agribusinesses; and (vi) generation of a knowledge basis for sustaining programme achievements, as well as for promoting further public and private sector engagement in scaling up the most promising and commercially viable models.

E. Risk identification and mitigation

Risks	Mitigation measures
Variable Government of Indonesia implementation capacity	Complementing implementation teams with qualified and experienced consultants; bringing in relevant partners for specific activities; performance-based allocation of project resources at district level; continuous supervision and implementation support by the IFAD Country Office.
Management challenges related to broad geographical area	Adopting phased programme implementation approach; use of ICT tools to facilitate communication and project monitoring; close monitoring of performance with performance dashboards; regular capacity-building.
Limited interest of private-sector partners and financial institutions	Provision of incentives for agribusiness and financial providers to de-risk support to youth.
Drop-out and failure of entrepreneurs	Entrepreneurs will: be directed to types of businesses suited to their assets and skill profiles; get support for developing sustainable business plans; access adapted BDS services, including support for developing business linkages; access financial services along the graduation path; and have access to mentorship services.
Elite capture of programme benefits	Self-targeting, social mobilization teams.
Limited access to land	Provincial land tenure reviews; development of tenure models and relevant business opportunities.
Limited coordination between ministries involved	Clear incentives to enhance coordination (including budgetary coordination) integrated into memoranda of understanding; high-level backing for the programme.
Limited effectiveness of PLUTs	Phasing of project activities will allow for capacity-building; close performance monitoring.
Limited coordination within Multi-stakeholder platforms'	Clear alignment with partners' strategies and establishment of an incentive and commitment matrix will support effective functioning of the 'Multi-stakeholder platforms'
Weak financial management performance, impacting on project execution and disbursement	Strengthened financial management staff capacity at NPMU level; quarterly financial reporting; intensive implementation support at start-up.

V. Corporate considerations

A. Compliance with IFAD policies

40. YESS is fully aligned with the goals and objectives of IFAD's Strategic Framework 2016-2025, the RB-COSOP 2016-2019 and relevant IFAD policies and strategies, including: targeting and gender; private sector; rural finance; and indigenous peoples. In particular, the programme takes into account the issues to be

mainstreamed within the Eleventh Replenishment of IFAD's Resources (IFAD11): youth, gender, nutrition and climate change.

B. Alignment and harmonization

41. The YESS will directly contribute to key national policies and the 2030 Agenda for Sustainable Development, including: (i) the Medium-Term Development Plan 2015-2019; (ii) the National Youth Action Plan; (iii) the Sustainable Development Goals; (iv) the United Nations Partnership for Development Framework in Indonesia, and the newly formed Inter-Agency Network on Youth Development; (v) the Leaders' Declaration at the G20 Initiative for Rural Youth Employment; and (vi) IFAD11 commitments, particularly those related to the empowerment of rural youth.
42. There is a strong potential to develop linkages with other ongoing IFAD-supported initiatives within the region and with in-country development partners (including the German Agency for International Cooperation, the United Nations Development Programme, the Asian Development Bank, the International Labour Organization and the Netherlands). Where possible, the programme will be linking to national, provincial and village-level initiatives to facilitate sustainability and scaling up.

C. Innovations and scaling up

43. Innovation and scaling up are central to the YESS approach. The programme will adopt an innovation agenda to attract young people to agriculture and related spheres of rural transformation. Given the high priority – and need – for youth engagement in the rural sector, the programme is expected to benefit from a favourable political and institutional environment, and demand from the Government, the private sector and young people themselves for innovation in the rural space. Key elements to facilitate scaling up will include: (i) a solid M&E and knowledge management system allowing the tracking of achievements, documenting approaches and outcomes, and disseminating them to relevant stakeholders; (ii) implementation through existing organizations that will mainstream successful instruments into their regular systems and operations; (iii) involvement of key policymakers at national and provincial levels in implementation and through evidence-based policy dialogue; (iv) multi-stakeholder partnerships; (v) strengthening national and provincial capacities; and (vi) empowering youth as champions for scaling up.

D. Policy engagement

44. The YESS will contribute to enhancing the policy and regulatory environment in key priority areas required to promote inclusive youth engagement in the agriculture-based sector, building on policy gaps identified through the provincial mapping studies, YESS project operations and recommendations made by district forums, provincial platforms and the Youth Advisory Committee. The YESS will finance policy studies and multi-stakeholder policy workshops to support the preparation of policy assessments. The YESS will also contribute to the Policy Lab for Inclusive Food and Agriculture Policies, recently established in the Ministry of National Development Planning with IFAD support.

VI. Legal instruments and authority

45. A programme 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 in appendix I.
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 Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on ordinary terms to the Republic of Indonesia in an amount equivalent to fifty-five million three hundred thousand United States dollars (US\$55,300,000), 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 two million United States dollars (US\$2,000,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement

"Youth Entrepreneurship and Employment Support Services Programme"

(Negotiations concluded on 4 December 2018)

Loan No: _____

Grant No: _____

Youth Entrepreneurship and Employment Support Services Programme (the "Programme" or "YESS")

Republic of Indonesia (the "Borrower/Recipient")

and

The International Fund for Agricultural Development ("IFAD")

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

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2) and the General Conditions.

2. The IFAD 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. IFAD 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 Fifty Five Million Three Hundred Thousand United States Dollars (USD 55 300 000).

B. The amount of the Grant is Two Million United States Dollars (USD 2 000 000).

2. The Loan is granted on ordinary terms and shall have a rate of interest per annum equivalent to one hundred per cent (100 per cent) of the variable reference interest rate, as determined annually by the Executive Board, and a maturity period of eighteen (18) years, including a grace period of six (6) years.

3. The Loan Service Payment Currency shall be the United States Dollars (USD).

4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and interest shall be payable on each 1st of March and 1st of September.
6. There shall be two separate Designated Accounts denominated in USD, one for the Loan and the other for the Grant, opened and maintained by the Ministry of Finance (MoF) at the Bank of Indonesia (BI).
7. The Borrower/Recipient shall provide counterpart financing for the Programme in the approximate amount of Twelve Million Ninety Thousand United States Dollars (USD 12 090 000), for the Programme in the form of taxes on Programme expenditure, staffing and other in kind contribution.

Section C

1. The Lead Programme Agency shall be the Ministry of Agriculture (MoA) through the Agency of Agricultural Extension and Human Resource Development (AAEHRD).
2. Along with the MoA, the bodies and entities described in Part II, paragraphs 8-14 of Schedule 1 are designated as additional Programme Parties.
3. A Mid-Term Review will be conducted at the end of the third year of Programme implementation and as specified in Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Programme.
4. The Programme Completion Date shall be the sixth (6th) anniversary of the date of entry into force of this Agreement and the Financing Closing Date will be established as specified in the General Conditions.

Section D

The Financing will be administered and the Programme 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 NPMU that has not been communicated to IFAD; and
 - (b) The Programme Implementation Manual (PIM) or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior agreement of IFAD, and IFAD, after consultation with the Borrower/Recipient, 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/Recipient has not taken any measures to remedy the situation.
2. The following are designated as additional general conditions precedent to withdrawal from loan and grant:
 - (a) The NPMU, as defined in part II, paragraphs 9-11 of Schedule 1, shall have been created and key staff in the NPMU shall have been nominated to the satisfaction of IFAD;

- (b) The Designated Accounts shall have been duly opened and the names of the authorized signatories shall have been submitted to IFAD;
 - (c) The IFAD no objection to the PIM shall have been obtained.
3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Attn: 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 IFAD:

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 IFAD and one (1) for the Borrower/Recipient.

REPUBLIC OF INDONESIA

Luky Alfirman
Director General of Budget
Financing and Risk Management

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Schedule 1

Programme Description and Implementation Arrangements

I. Programme Description

1. **Target Population.** The Programme shall benefit a total of approximately 220,000 direct beneficiaries. The main target group will include young rural people, including poor and vulnerable youth below the National Poverty Line as well as young people that remain vulnerable to poverty and are living on less than USD 3.1 a day. A further target group will include emerging youth, i.e. youth above the poverty line who are able to act as lead farmers and role models, but who remain vulnerable and at risk of poverty. The target group will include a broadly equal representation of women and will be inclusive of indigenous, disabled and remotely located young people.

2. **Programme Area.** The Programme intervention will focus most of its activities on four target provinces: West Java, East Java, South Kalimantan and South Sulawesi. A small set of activities, particularly related to policy and knowledge management work, will benefit rural youth nationally.

3. **Goal.** The goal of the Programme is that young men and women contribute to rural transformation and inclusive rural growth.

4. **Objectives.** The Programme development objective is that rural young men and women are engaged in the agri-based sector through employment and entrepreneurship.

1. 5. **Components.** The Programme's interventions are clustered around four Components as follows:

Component 1: Rural youth transition to work. The expected outcome is that young people acquire work readiness skills that enable them to take advantage of employment and business opportunities, by: (i) assisting institutions of Technical and Vocational Education and Training (TVET) for agriculture to better prepare students and trainees to enter the labour market or to develop a business in the rural sector;³ and (ii) complementing TVET institutions by developing certified apprenticeship programmes in the agriculture-based sector, targeting young people coming out of the education system.

As defined in the PIM, the component consists of two subcomponents which are: (i) Linking education and training to jobs, and (ii) Apprenticeship.

Component 2: Rural youth entrepreneurship. The expected outcome is that young small farmers, rural entrepreneurs and Small and Medium Enterprises (SMEs) access markets and services in the target value chains and subsectors, through facilitation of access by rural youth to business development and intermediation services suited to their specific needs, by partnering with district-based Business Development Service Providers (BDSP).

As defined in the PIM, the component consists of two subcomponents which are: (i) Capacity-building for BDS providers, and (ii) Services to young farmers and entrepreneurs.

³ "Rural sector/economy" and/or "agriculture-based sector" are intended to cover the range of activities described in Section I.B, i.e. crop and livestock production, agribusiness, the environmental sector and rural services, and activities that can make rural life more appealing to young people.

Component 3: Investing for rural youth. The expected outcome is that young small farmers, rural entrepreneurs, and migrants and their families have access to sustainable and adequate financial products and services to finance their businesses by: providing financial education to the target group; extending capacity-building to financial institutions; and facilitating access to sustainable financial products for young farmers and entrepreneurs willing to start a business with no past experience.

As defined in the PIM, the component consists of two subcomponents which are: (i) Capacity-building for financial inclusion, and (ii) Access to Finance.

Component 4: Enabling environment for rural youth. The expected outcome is that an enabling policy and institutional/media environment facilitate youth engagement in the rural sector by: (i) bringing together relevant stakeholders in the target provinces to collectively promote youth employment and entrepreneurship; (ii) improving the image and social recognition of agriculture among young people; and (iii) promoting a favourable policy and institutional environment to facilitate inclusive youth engagement in the rural sector.

As defined in the PIM, the component consists of three subcomponents which are: (i) Partnership-building, (ii) Rural youth mobilization, and (iii) Policies for rural youth.

II. Implementation Arrangements

6. Implementation Period. The Programme will be implemented over six (6) years. A Mid-Term Review shall be carried out early in Programme Year 3 to assess performance and to support scaling up.

7. Approach. The implementation framework reflects the Programme's multi-sector nature and ensures that activities will build on existing organizations and initiatives in order to consolidate them, rather than creating new, project-based structures. This is aimed at supporting sustainability and ensuring that Programme innovations can be mainstreamed into the country's institutional framework, replicated and scaled up.

8. A Programme Steering Committee (PSC), as defined in the PIM, will include representatives of line Ministries, representatives of youth organizations, and other public and private stakeholders involved in YESS implementation, will provide overall guidance and oversight.

9. A National Programme Management Unit (NPMU) will be accountable for the performance of the implementation of activities funded by the Financing. The NPMU will be responsible for overall consolidation and coordination of financial management and reporting.

10. The NPMU will lead the preparation of an Annual Work Plan and Budget (AWPB) for the Financing and submit it to IFAD no objection.

11. While the NPMU has overall responsibility for activities funded by the Financing, Components 1, 2 and 3 have specific implementation arrangements drawing on resources of relevant agencies of the Borrower/Recipient. The roles and responsibilities of the Programme Parties will be detailed in (i) a Memorandum of Understanding (MoU) to be entered into among said Programme Parties and (ii) the PIM.

12. A Provincial Programme Implementation Unit (PPIU) will be established in every target province to support the implementation of Programme activities at the provincial level, carry out overall coordination throughout the province, provide technical assistance to BDSP-based district units and ensure knowledge management across the region. The PPIUs will also provide support on programme administration functions, such as financial reporting, M&E and planning.

13. A District Programme Implementation Unit (DPIU) will be established in every target district, which will be responsible for facilitating access to services for young entrepreneurs and farmers, for increasing BDSP outreach and inclusiveness of YESS target groups and mainstreaming successful approaches into BDSP regular operations. DPIUs will be also responsible for financial management, planning and reporting related to activities in their respective district.

14. In addition to the bodies described above, the following entities are designated as additional Programme Parties, including, but not limited to:

- The MoM will be associated in the piloting and subsequent scaling up of a certified apprenticeship programme in the agriculture sector in the four target provinces, against an MoU to be established with MoA (Component 1);
- The MoCSME will be associated to the implementation of activities to be executed at district level under the overall responsibility of PLUTs and/or other BDSPs (Component 2), through a MoU signed with MoA.

15. The NPMU shall prepare a draft PIM. The draft PIM shall cover, at a minimum, the following aspects: (i) institutional coordination and day-to-day execution of the Programme; (ii) Programme budgeting, accounting, financial management, procurement, disbursement monitoring and evaluation, reporting and other related procedures; (iii) detailed description of the Programme Sub-components and implementation arrangements thereof; (iv) detailed breakdown of the Programme counterpart financing; (v) complaints settlement mechanism and (vi) such other administrative, technical and organizational arrangements and procedures as may be required for the Programme.

16. The Lead Programme Agency shall forward the draft PIM to the PSC for comments and to IFAD for no objection. The NPMU shall adopt the PIM, substantially in the form approved by IFAD, and promptly provide copies thereof to IFAD. 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 PIM, or any provision therein, without the prior written consent of 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 amounts allocated to each Category of the Financing, with 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 tax, Government and other co-financier contribution
I. Consultancies	5 264 000	448 000	100%
II. Grants and Subsidies	13 840 000	-	100%
III. Goods, Services & Inputs	17 232 000	920 000	100%
IV. Trainings	8 872 000	632 000	100%
V. Salaries and Allowances	5 112 000	-	100%
VI. Operating Costs	4 980 000	-	100%
Unallocated		-	
Total	55 300 000	2 000 000	

(b) The terms used in the Table above may include but not limited to the following:

- (i) Consultancies includes international and national technical assistances, advisory services, preparation of business models, team consultants, studies, and platform development (apps and e-platform);
- (ii) Grants and Subsidies includes competitive grant and apprenticeships;
- (iii) Goods, services and inputs includes equipment, policy studies, module development, evaluation and study for scaling up Trainings includes awareness raising campaigns, trainings, supporting Programme workshop and dissemination activities (including start up, validation and policy workshops), capacity building (including for BDSPs, Financial Service providers and network), exchange visits and participation in international conferences;
- (iv) Salaries and Allowances includes cost of facilitation, mentoring and support services;
- (v) Operating costs includes administrative cost and travel allowances related to Programme activities.

2. Start-up Costs. Withdrawals from the Loan account in respect of expenditures for start-up costs incurred associated with setting up the Programme, before the satisfaction of the general conditions precedent to withdrawal, but after the entry into force of the Agreement, shall not exceed an aggregate amount equivalent to USD 500 000. Any unused balance of the start-up advance will be considered as part of the initial advance under the authorized allocation.

Logical framework

Results Hierarchy	Indicators ⁴				Means of Verification			Assumptions (A) / Risks (R)
	Name	Base line	Mid-Term (early PY3)	End Target	Source	Frequency	Responsibility	
Outreach ⁵	<ul style="list-style-type: none"> ▪ Number of persons receiving services promoted or supported by the programme (CI1) ▪ Corresponding number of households reached (CI1a) 	0	127,672	320,000	Program me reports	Annual	NPMU with MoA, MoCSME, OJK and service providers	
		0	127,672	320,000				
Goal Young women and men contribute to rural transformation and inclusive rural growth	Number of beneficiaries (corresponding number of HH/HH members) receiving services promoted by YESS that report an increase in HH asset ownership index ²	⁶	0	+ 191,508 (287,262)	Program me survey	Mid-term review and programme end	NPMU with MoA and MoCSME	Continued GoI commitment to promote youth employment and youth entrepreneurship (National Youth Action Plan)
Outcome 1 Young people take advantage of employment and business opportunities	Number of young women and men finding employment in the agri-based sector	0	8,000	32,500	School reports Graduate tracer studies MoM reports	Semi-annual reports	NPMU with MoA, partner schools and MoM	Young people enrol in agriculture schools Farms/enterprises interested in receiving apprentices
Outcome 2 Young small farmers, rural entrepreneurs and SMEs access markets and services in the target value chains and sub-sectors	<ul style="list-style-type: none"> ▪ Percentage of supported young farmers/entrepreneurs reporting increase in earnings (CI2.2.2) ▪ Number of enterprises operating profitably 3 years after establishment 	0	3,100	33,800	PLUT reports	Semi-annual reports	NPMU with MoA, MoCSME and PLUTs	Agribusiness interested in partnering with young people
		0	5,800	50,600				

⁴ Indicators will be disaggregated by gender and age where relevant.

⁵ Following the recommendation of the external reviewers and considering that this programme aims at reaching young people who likely have not yet started their own household, the outreach indicator 3 on estimated total number of people reached has not been included.

⁶ Will be established based on the baseline study to be carried out at project start.

Results Hierarchy	Indicators ⁴				Means of Verification			Assumptions (A) / Risks (R)
	Name	Base line	Mid-Term (early PY3)	End Target	Source	Frequency	Responsibility	
Outcome 3 Young women and men have increased access to inclusive financial services	Number of rural youth accessing financial services (CI1.2.5)	²	+4,800	+60,250	Reports from financial institutions	Semi-annual reports	NPMU with OJK and service provider	Partner banks willing to adapt their products and services to the agriculture-based sector
Outcome 4 Supportive policy, institutional and media environment for youth engagement in the rural economy	Number of policy/regulatory instruments proposed to policy makers for approval, ratification or amendment (CI Policy 3)	0	0	4	Reports from programme partners	Annual	NPMU with programme partners	
Outputs for Outcome 1	Number of TVET institutions running programmes facilitating youth transition to work	0	15	30				
Outputs for Outcome 2	▪Number of rural enterprises accessing BDS (CI 2.1.1)	²	4,800	62,500				
	▪Number of persons trained in business management (CI 2.1.2)	0	4,800	62,500				
Outputs for Outcome 3	▪Number of persons accessing financial services (CI 1.1.5)	²	+40,000	+100,000				
	▪Number of persons trained in financial literacy (CI 1.17)	0	50,000	120,000				
Outputs for Outcome 4	▪Number of functioning multi-stakeholder platforms supported (CI Policy 2)	0	14	19	PMU reports and policy documents			Continued GoI commitment to promote youth employment and youth entrepreneurship
	▪Number of visitors of Rural Youth Online Platform	0	20,000/month	100,000/month				