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Investing in rural people

Republic of Indonesia

The Development of Integrated Farming
Systems in Upland Areas

Negotiated financing agreement

Executive Board — 128th Session
Rome, 10-12 December 2019

For: Information

Negotiated financing agreement: "The Development of Integrated Farming Systems in Upland Areas"

(Negotiations concluded on 14 November 2019)

Loan No: _____

Project name: The Development of Integrated Farming Systems in Upland Areas (the "Project")

The Republic of Indonesia (the "Borrower")

and

The International Fund for Agricultural Development ("IFAD")

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

WHEREAS,

- A) The Borrower has requested a loan from IFAD for the purpose of financing the Project described in Schedule 1 to this Agreement;
- B) IFAD has agreed to provide financing for the Project;
- C) The Borrower has requested co-financing for the Project from the Islamic Development Bank ("IsDB") in the form of a loan and a grant in the amount of seventy million United States dollars (USD 70 000 000) and five hundred thousand United States dollars (USD 500 000), respectively; and
- D) The IsDB has agreed to provide co-financing for the Project.

NOW THEREFORE, the Parties hereby agree as follows:

Section A

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

2. IFAD's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of December 2018, 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, unless the Parties shall otherwise agree in this Agreement.

3. IFAD shall provide a loan (the "Financing" or "Loan") to the Borrower which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is forty four million eight hundred fifty thousand euro (EUR 44 850 000).

2. The Loan is granted on ordinary terms and shall be subject to interest on the principal amount outstanding of the Loan rate equal to the IFAD Reference Interest Rate, including the variable spread payable semi-annually in the Loan Service Payment Currency, and have a maturity period of 13 years, including a grace period of 6 years, starting from the date as of which IFAD has determined that all general conditions precedent to withdrawal have been fulfilled.
3. The Loan Service Payment Currency shall be in Euro (EUR).
4. The first day of the applicable Fiscal Year shall be the first of January.
5. Payments of principal and interest shall be payable on each first of March and first of September.
6. There shall be one Designated Account in EURO, opened and maintained by the Ministry of Finance ("MoF"), at Bank Indonesia ("BI"), or any other bank assigned by the Ministry of Finance for the exclusive use of the Project. The Borrower shall inform IFAD of the officials authorized to operate the Designated Account.
7. The Borrower shall provide counterpart financing for the Project in the amount of approximately fifteen million three hundred thousand euro (EUR 15 300 000) in the form of taxes on project expenditure, staffing costs and other in kind contributions. The Project beneficiaries are expected to contribute approximately twelve million six hundred thousand euro (EUR 12 600 000) to co-finance the purchase of machinery and equipment, and building storage and production facilities.

Section C

1. The Lead Project Agency ("LPA") shall be the Ministry of Agriculture ("MoA"), through the Directorate General of Agricultural Infrastructure and Facilities ("DGAIF").
2. The bodies and entities described in Part II of Schedule 1 of this Agreement are designated as additional Project Parties.
3. A Mid-Term Review will be conducted early in year three of the Project and as specified in Article VIII, Section 8.03 (b) and (c) of the General Conditions; however, the Parties may agree on a different date for the Mid-Term Review of the implementation of the Project.
4. The Project Completion Date shall be the fifth 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.
5. Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of the Borrower's procurement regulations, to the extent such are consistent with the IFAD Procurement Guidelines.

Section D

1. IFAD will administer the Loan and supervise the Project, and the Borrower through LPA, will implement and conduct its own administration and supervision of the Loan and the Project.

Section E

1. The following are designated as additional grounds for suspension of the right of the Borrower to request withdrawals from the Loan:

- (a) Any transfer of key staff in the Project Management Unit ("PMU"), namely the Project Manager/Director, Financial Officer and Monitoring and Evaluation Officer, has not been communicated to IFAD;
- (b) The Project Implementation Manual ("PIM") and/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, has determined that it has had, or is likely to have, a material adverse effect on the Project; and
- (c) The co-financing agreement between the Borrower and IsDB has failed to be effective within one hundred and eighty (180) days from the date of this Agreement, and substitute funds to finance the Project are not available to the Borrower.

2. The following are designated as additional general conditions precedent to withdrawal:

- (a) The IFAD no objection to the PIM shall have been obtained;
- (b) PMU shall have been established and key staff in the PMU shall have been appointed, (Project Manager/Director, Financial Officer and Monitoring and Evaluation Officer); and
- (c) The Designated Account shall have been duly opened and the names of the authorized signatories shall have been submitted to IFAD.

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

For the Borrower:

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:

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

This Agreement has been prepared in the English language in two (2) original copies, one (1) for IFAD and one (1) for the Borrower and shall enter into force on the date of countersignature.

REPUBLIC OF INDONESIA

Authorised Representative name
Authorised Representative title

Date: _____

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Date: _____

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Target Population. The Project will target small-holder men and women farmers involved or with potential to be involved in the selected commodities; particular priority will be given to youth.
2. Project area. The Project will be operated in seven provinces: Banten, West Java, Central Java, East Java, West Nusa Tenggara, North Sulawesi and Gorontalo (the "Project Area").
3. Goal. The goal of the Project is to reduce poverty and enhance food security in upland areas through remunerative, sustainable and resilient livelihoods.
4. Objective. The objective of the Project is to increase smallholders' agriculture productivity, incomes, livelihoods and resilience in targeted uplands.
5. Components. The Project shall consist of the following Components: (1) Productivity Enhancement & Resilience Building; (2) Agri-business Development and Livelihoods Facilitation; (3) Strengthening Institutional Delivery Systems, and (4) Project Management.

Component 1. Productivity Enhancement & Resilience Building will aim at increasing small farmers' productive capacity by: (1) promoting sustained adoption of improved inputs, technologies and practices including land terracing and construction of physical infrastructure (tertiary systems, well, water pumps, ponds and farm road etc.); and (2) assisting farmers to improve climate adaptation practices including soil and water conservation to reduce the risk of erosion and landslides due to agriculture activities. Through this component, the Project will invest in the productive potential and resilience building of farming households in upland areas, mainly in land development, infrastructure, production and farm management.

Component 2. Agri-business Development and Livelihoods Facilitation will focus on increasing farmers' incomes from enhanced post-harvest, processing, marketing and access to financial services to improve product quality and market participation. This will be done by supporting farmers institutional development, supplying market infrastructure and equipment, strengthening market linkages and alliances, and promoting access to financial services.

Component 3. Strengthening Institutional Delivery Systems will aim at enhancing delivery of services and research in upland areas, what will be achieved through capacity building for institutional development of MoA and Districts, and adaptive research.

Component 4. Project Management will aim at ensuring the effective management and implementation of the Project.

II. Implementation Arrangements

1. Advisory Group (AG). The Project will be overseen by an Advisory Group, composed of senior government officials, which will provide overall policy guidance and oversight to the Project Management Unit.
2. Project Management Unit (PMU). The Ministry of Agriculture will establish a Project Management Unit (PMU), with overall responsibility for Project implementation. The PMU will coordinate the District Project Implementation Units (DPIUs), and will be staffed by

dedicated full time technical and administrative staff to ensure timely and quality Project implementation.

3. District Project Implementation Units (DPIUs). As the main Project activities will be undertaken at district level, in each District where the Project will be implemented a District Project Implementation Unit (DPIU) will be established. The DPIUs will be coordinated by the NPMU, and will be staffed by dedicated full time technical and administrative staff to ensure timely and quality Project implementation.

4. Project Implementation Manual (PIM). The Borrower through the PMU shall prepare, in accordance with terms of reference acceptable to IFAD the PIM, which shall include, among other arrangements: (i) institutional coordination and day-to-day implementation of the Project; (ii) Project budgeting, disbursement, financial management, procurement monitoring, evaluation, reporting and related procedures; (iii) detailed description of implementation arrangements for each Project component; and (iv) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project.

The PMU shall forward the draft PIM to IFAD for comments and approval. The PMU shall adopt the PIM, substantially in the form approved by IFAD, and the PMU shall promptly provide copies thereof to IFAD. The PMU shall carry out the Project in accordance with the PIM and shall not amend, abrogate or waive the aforementioned manual, or any provision thereof, without the prior written consent of IFAD.

5. Monitoring and Evaluation (M&E). The Project will set up an integrated M&E and knowledge management system, aimed at: (i) guiding programme implementation; (ii) sharing knowledge and scaling up good practices; and (iii) supporting decisions and policymaking. The M&E system will collect, process and report information on the Project implementation progress and specific indicators disaggregated by gender and integrating physical progress and financial progress.

6. Supervision. The Project will be directly supervised by IFAD. An annual supervision mission will be undertaken, complemented by implementation support missions as needed. The IFAD Country Office will provide continuous supervision as required.

7. Accounting system. The Project will utilize the government's existing national computerized accounting system for the project book keeping and reporting, as it is the practice in IFAD on-going supported projects, to satisfy International Accounting Standards and IFAD's requirements.

Schedule 2

Allocation Table

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

Category	Loan Amount Allocated (expressed in EUR)	Percentage (net of Government and other contribution)
I. Consultancies	370 000	100%
II. Grants and Subsidies	4 510 000	100%
III. Goods, Services a& Inputs	29 600 000	100%
IV. Training	8 240 000	100%
V. Equipment & Materials	180 000	100%
VI. Operating Costs	1 950 000	100%
Total	44 850 000	

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

- (i) "Grants and Subsidies" under Category II, shall mean eligible expenditures incurred related to: (i) mechanisms suited for smallholder farming under Component 1; (ii) transport of equipment used for activities carried out under Component 2 (iii); and knowledge management product that may be utilized for Project management purposes.
- (ii) "Goods, services and inputs" under Category III, shall mean eligible expenditures incurred related to: (i) Project equipment and materials; and (ii) works that may be carried out under Component 1.
- (iii) "Equipment & Material" under Category V, shall mean eligible expenditures incurred related to Project equipment and materials.

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs (Project start-up expenditures) incurred before the satisfaction of the general conditions precedent to withdrawal after the entry into force of the Financing Agreement shall not exceed an aggregate amount of EUR 300,000. Activities to be financed by Start-up Costs will require the no objection from IFAD to be considered eligible.