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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eighty-eighth Session
Rome, 13-14 September 2006

REPUBLIC OF INDONESIA

PRESIDENT’S MEMORANDUM

RURAL EMPOWERMENT AND AGRICULTURAL DEVELOPMENT PROGRAMME
IN CENTRAL SULAWESI
(IFAD LOAN No. 645-ID AND GRANT No. 726-ID)

CONFIRMATION OF APPROVAL OF THE
FINANCING OF THE REVISED PROGRAMME

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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RECOMMENDATION FOR APPROVAL

The Executive Board is invited to confirm its approval of the financial assistance to the Republic of Indonesia for the revised Rural Empowerment and Agricultural Development Programme in Central Sulawesi, as described in the present document.

I. BACKGROUND

1. On an exceptional basis, in December 2004 the Executive Board approved financing in the amount of SDR 22.99 million (comprising a loan of SDR 22.65 million and a grant of SDR 0.34 million) for the Rural Empowerment and Agricultural Development Programme in Central Sulawesi, for which negotiations had not been held with the Government of Indonesia prior to the Board's consideration. The Board approved the financing proposal on the condition that any important variations to the terms presented to it that might arise during negotiations would be brought to it at a future session before the financing agreement was signed (EB 2004/83/R.24).

2. The following issues led to the Government requesting postponement of negotiations. First, a new Government came into office two months before the approval of the IFAD financing in December 2004, and decided to temporarily freeze all foreign borrowing until the completion of a government review of its borrowing strategy; that review was not completed until June 2006. Second, not all nine districts included in the original design had submitted the required documents to the Ministry of Finance in order to accept IFAD funds as a loan from the Ministry. Third, the Ministry did not accept the proposed on-lending arrangements for the credit component, including the creation of a rural refinancing facility to channel IFAD funds from the Ministry to participating banks. Fourth, the national planning agency (BAPPENAS) and the Ministry indicated that the original design was lacking in concrete agricultural investments to benefit poor farmers directly and that too high a proportion of the loan was earmarked for technical assistance through non-governmental organizations and/or service providers.

3. At the request of the Government, a programme design review mission visited Indonesia from 8 to 26 May 2006 to address the design issues in consultation with the stakeholders and finalize the appraisal version of the programme design document. Prior to the arrival of the mission, IFAD contracted a financial analyst to review the project proposals submitted by the districts to the Ministry.

4. The changes made to the design of the programme – in agreement with the Government and all stakeholders – are substantially as follows:

- (a) The programme area will cover five districts only, and not nine as originally proposed. The five districts have confirmed that they are prepared to accept the Ministry's terms and conditions.
- (b) On 29 August 2006, the Minister for Finance made an official decision to categorize these operations as a "non-cost recovery programme". Therefore, in accordance with decree number 35/KMK.07/2003, Article 27, sub-article 3, the Ministry of Finance will transfer the proceeds of the IFAD loan in the form of on-granting to the local governments concerned for the financing of the programme, except for the programme management and policy analysis components.
- (c) The Ministry of Finance requested that the programme's credit funds be channelled through a state bank. However, it was confirmed after the wrap-up meeting of the programme design review mission on 24 May 2006 that no state bank was willing to act as executing bank. In view of this situation, it was agreed to cancel the rural finance component from the programme design. However, the programme will provide support to the target group in accessing credit from formal or informal rural finance service providers.

- (d) It was agreed with the Government that the Bureau of International Cooperation of the Ministry of Agriculture, rather than BAPPENAS, would implement the IFAD grant for the proposed policy analysis work.
 - (e) The Ministry of Agriculture will set up (by ministerial decree) a single steering committee for policy guidance and coordination under the Ministry's responsibility.
 - (f) As requested by the Government, the revised programme design will focus on introducing new low extension inputs, sustainable agricultural technologies, and practices appropriate for the target group with funding for inputs provided to groups of poor farmers in the form of revolving funds for a range of income-generation and asset-creation activities.
 - (g) The programme management staff will be government staff, and not a mix of government and NGO and/or service provider staff as the original design envisaged. This change, together with a reduction in the number of civil society organizations and/or service provider facilitators at the village level, will reduce the technical assistance costs of implementing the programme, as requested by the Government. The role of the civil society organizations and/or service providers will be facilitation and support of programme implementation.
 - (h) With fewer programme districts and the cancellation of the rural finance component and other changes as indicated above, the total amount of the IFAD financing will be reduced from the original approved amount of US\$33.93 million (equivalent to SDR 22.99 million, comprising a loan of SDR 22.65 million [equivalent to US\$33.43 million] and a grant of SDR 0.34 million [equivalent to US\$0.5 million]) to about US\$21.58 million. The adjusted IFAD financing will comprise a loan of US\$21.08 million and a grant of US\$0.5 million. The net reduction in the IFAD financing is about US\$12.35 million. IFAD will record the loan cancellation once the Executive Board has confirmed its approval of the financing of the revised programme.
5. The United Nations Office for Project Services (UNOPS) will remain as the cooperating institution for the IFAD financing, as approved by the Executive Board in December 2004.
6. Attached is a revised Report and Recommendation of the President to reflect all the design changes.

II. RECOMMENDATION

7. In view of the foregoing considerations and further to the resolutions contained in paragraph 39 of the minutes of the eighty-third session of the Executive Board held in December 2004, it is recommended that the Executive Board confirm its approval of the financing of the revised programme. Paragraph 39 of the minutes of the eighty-third session states that: "The Executive Board approved the loan proposal for Indonesia, for which negotiations had not been held prior to the Board's consideration, on the condition that any important variations to the terms presented to the Board that might arise during negotiations would be brought to the attention of the Board at a future session, before the signature of the Loan Agreement herefore."

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INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eighty-eighth Session
Rome, 13-14 September 2006

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO THE

REPUBLIC OF INDONESIA

FOR THE

RURAL EMPOWERMENT AND AGRICULTURAL DEVELOPMENT PROGRAMME
IN CENTRAL SULAWESI
(IFAD LOAN No. 645-ID AND GRANT No. 726-ID)

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CURRENCY EQUIVALENTS

Currency unit	=	Indonesian rupiah (IDR)
USD 1.00	=	IDR 9 280
IDR 1 000	=	USD 0.1077

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 hectares (ha)
1 ha	=	2.47 acres

**GOVERNMENT OF THE REPUBLIC OF INDONESIA
Fiscal Year**

1 January – 31 December

MAP OF THE PROGRAMME AREA



Source: IFAD

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.

REPUBLIC OF INDONESIA**RURAL EMPOWERMENT AND AGRICULTURAL DEVELOPMENT PROGRAMME
IN CENTRAL SULAWESI****FINANCING SUMMARY**

INITIATING INSTITUTION:	IFAD
RECIPIENT:	Republic of Indonesia
EXECUTING AGENCY:	Ministry of Agriculture
TOTAL PROGRAMME COST:	USD 28.33 million
AMOUNT OF IFAD FINANCING:	Loan: SDR 14.30 million (equivalent to approximately USD 21.08 million) Grant: SDR 340 000 (equivalent to approximately USD 500 000)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIER:	None
CONTRIBUTION OF RECIPIENT:	USD 6.74 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services

PROGRAMME BRIEF

Who are the beneficiaries? The programme will work at three different levels of impact: (a) at the household level, by targeting the poor, including ethnic minorities and women and the upland poor population; (b) at the community level, by targeting poor communities; and (c) at the level of the whole provincial economic system, as Central Sulawesi is poor and ranks 22nd out of the country's 30 provinces in terms of human development. Although the programme is inclusive, it focuses on poor communities and will work directly with the institutions and households in 150 of these communities, which are mainly in the upland areas of the province.

Why are they poor? The poverty of the beneficiaries derives from the low capacity and quality of local institutions, lack of access to services and markets, and inadequate private-sector activity. Village institutions show limited effectiveness in establishing inclusive decision-making and in managing available resources in a sustainable and equitable way, in relating to higher levels of government and in promoting private-sector operations. This is reflected in the difficulties faced by village institutions in averting conflicts, in offsetting the unequal access to productive resources and to income-generating opportunities, and in coping with the environmental deterioration and the damage to natural resources that is now starting to become evident. The rural private sector is encountering significant problems stemming from the lack of: infrastructure and information, investment, technical and business advisory services, and security in land tenure.

What will the programme do for them? With regard to poor households and to women, improved agricultural production and new or expanded rural enterprises will have a powerful effect in terms of reducing poverty and marginalization and increasing their capacity to participate in civic and local government activities, thereby boosting their capacity for self-advancement. The consolidation of benefits from the ongoing decentralization programme will accrue to communities that show greater efficiency, transparency and administrative accountability among elected and employed personnel at all levels of district administration. The improved investment opportunities and incentives flowing from the programme will enhance the capacity of new and existing micro-, small- and medium-scale enterprises to produce efficiently and profitably and to explore fresh markets for their products. The greater competitiveness of businesses that serve domestic and international markets will stimulate export growth and, hence, the sustainability of rural economic growth in the province. These benefits will flow directly to poor communities and individuals as a result of the targeting mechanisms employed by the programme. The infrastructure constructed with programme assistance will generate a wide range of benefits through improved road access to markets and other urban services, clean drinking water and irrigation facilities, and other infrastructure facilities identified by the communities. Improved access to markets for produce, inputs and services will increase the incentives for farmers to commercialize their operations by adjusting their farming systems and adopting improved technologies. The improved efficiency in rural enterprises that is induced through infrastructure development and the associated supply and value chains will add to the already substantial livelihood benefits, particularly in terms of access to transport facilities and clean water.

How will they participate in the programme? Communities will be provided with opportunities for economic advancement; they will determine their own development priorities and then proceed to plan, manage and monitor the implementation of their efforts to achieve these priorities. However, their participation will depend on their ability to develop their ownership of the programme and mobilize their own resources to complement those of the programme. The participation of both individuals and institutions in resource mobilization is the first step towards achieving sustainability. The programme will have an enabling role in creating a conducive environment and the necessary capacity to establish sustainable links between the communities and the mainstream economy for the generation of more rural income.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO THE
REPUBLIC OF INDONESIA
FOR THE
RURAL EMPOWERMENT AND AGRICULTURAL DEVELOPMENT PROGRAMME
IN CENTRAL SULAWESI**

I submit the following revised report and recommendation on proposed financial assistance to the Republic of Indonesia, comprising a loan of SDR 14.30 million (equivalent to approximately USD 21.08 million) on highly concessional terms and a grant of SDR 340 000 (equivalent to approximately USD 500 000) to help finance the Rural Empowerment and Agricultural Development Programme in Central Sulawesi. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services as IFAD's cooperating institution.

PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Indonesia has made substantial progress towards restoring the impressive economic dynamism that it enjoyed for more than two decades before the financial crisis of 1997. The crisis stalled growth, introduced a period of severe economic stress and doubled the rates of poverty. Fiscal and monetary discipline were a necessary first step towards establishing macroeconomic stability, followed by still-ongoing structural, policy and governance reforms. Between 2003 and 2005, economic growth was in the range of 5.1% to 5.6%, boosted mainly by services, which generate about 41% of gross domestic product, compared with manufacturing at 28%. Agriculture contributes about 15% of gross domestic product but accounts for 42% of employment. Food crops remain the most important subsector. Growth of the agricultural sector has been modest recently, 2.5% in 2005, but 3.2% to 3.3% in the two previous years. Production of the major food crops has changed little in recent years, while the production of the major estate crops, e.g. rubber, palm oil and sugar cane, has increased substantially. Production of cocoa, a smallholder crop, has also increased considerably, while that of the other smallholder tree crops (coffee, tea and copra) has not changed greatly. Agricultural exports accounted for 37% of the total in 2004. Rubber, livestock and livestock products, cocoa, coffee, shrimp, wood and wood products are among the important export products.

2. Since 1999, the country has taken impressive steps towards creating an open, representative democracy and laid the foundations for decentralization, local autonomy and participatory development. However, achievements remain uneven across regions. Several provinces, particularly in eastern Indonesia, have been stricken more severely by poverty. There, deprivation is more pervasive than elsewhere, and communities in remote rural areas are often economically and socially marginalized.

¹ See Appendix I for additional information.

B. Lessons Learned from Previous IFAD Experience

3. The major lessons learned from the country programme include: (a) the need for IFAD to increase and deepen its contribution to policy change based on the experience of its field operations; (b) the need for better balance between empowering the poor and investment to raise farm and non-farm productivity; (c) the need to promote the development of markets and market-linkages and agro-processing; (d) the need for IFAD to establish and nourish strategic partnerships with civil society organizations and/or service providers working with the poor to find new and workable solutions to raise incomes and empower the poor; (e) the need to further improve effectiveness, impact and sustainability of project interventions; (f) the need to pay adequate attention to implementation support; and (g) the need for community participation in village infrastructure investment, maintenance and operation as a way of contributing to an enhanced sense of ownership and responsibility for the schemes or facilities. The proposed programme has internalized the lessons learned and the recommendations of the country programme evaluation undertaken in 2004.

C. IFAD's Strategy for Collaboration with Indonesia

4. **Indonesia's policy for poverty eradication.** The Interim Poverty Reduction Strategy Paper recognizes that the eradication of poverty can only be achieved if the entire nation addresses it as its first priority. In order to reach this goal, it was necessary to forge a coalition and joint action by the various partners: the private, public and civil society sectors. To this end, the Government committed itself to increased budgetary support through mainstreaming poverty reduction across its various planning and budgetary instruments; identifying policy issues that hamper poverty reduction; and improving coordination between strategies and interventions. The strategy includes four broad themes: (a) creation of income-generation opportunities; (b) community empowerment; (c) human capital and capacity development; and (d) social protection. The strategy has a distinct, pro-decentralization bias, which is confirmed by the establishment of poverty reduction committees at the district level and the formulation of their own poverty reduction strategy papers on the basis of local participatory poverty assessments.

5. **IFAD's strategy in Indonesia.** The financial crisis that swept Asia in 1997 and 1998 prompted IFAD to prepare a new country strategic opportunities paper (COSOP) for Indonesia. The COSOP argued that IFAD should continue to work on long-term solutions to chronic rural poverty and use the new political climate to promote an agenda of empowering the rural poor. The COSOP included a clear definition of the target group, a geographic focus on eastern Indonesia, sector priorities for the development of tree crops, credit and rainfed agriculture, and emphasis on gender, community development and local institution-building. It also stressed the need for policy dialogue with the Government and other development agencies on issues such as indigenous rights, transparency, decentralized development and project management, land rights, and enhancement of the role of civil society organizations and/or service providers. It would also address other issues, including poor intra-governmental coordination, transparency and beneficiary input into project design. However, the COSOP did not give adequate emphasis to rural economic growth based on improved productivity and value addition in the rural economy. A new COSOP is expected to be prepared in 2007-2008.

6. **Programme rationale.** There is a sound rationale for IFAD to support a rural empowerment and agricultural development programme in Central Sulawesi. First, the rural areas of Central Sulawesi contain large numbers of poor households and the province is one of Indonesia's poorest. This situation reflects the isolation of many upland areas because of their rugged terrain, poor access and lack of services. Second, village-level institutions are evolving in the wake of recent administrative changes triggered by the decentralization effort, providing an opportunity to launch participatory and inclusive planning processes at the village level. In addition, local community groups have been formed by other programmes and these could provide an entry point for this

programme's interventions. Third, significant opportunities exist to improve livelihoods through the development of on-farm and off-farm enterprises. Current levels of agricultural productivity are low, although simple improvements to husbandry can lead to substantial increases in production and quality. Central Sulawesi has a comparative advantage for many crops (e.g. cocoa, cloves, coffee, vanilla and pepper), but marketing chains are inefficient and little value is added locally to the commodities produced, as most are exported in unprocessed form. Opportunities exist to address this issue. Fourth, decentralization provides an opportunity for district governments to tackle poverty by implementing their own targeted programmes through investments in rural infrastructure and other priority areas. Similarly, there is an opportunity for the provincial government to reduce rural poverty by working in cooperation with the Ministry of Agriculture.

7. To improve rural livelihoods, a socio-economic assessment conducted in 2003 identified the need for the following investments: (a) assistance for farmers to start or improve agricultural activities; (b) improved village infrastructure; (c) training and support for poor smallholders in cocoa production and other activities; and (d) activities focused on women, including horticultural and small livestock production. There is also a need for: (a) investments to improve the quality of seed available to farmers, especially for maize and paddy; (b) initiatives to improve value chains so that poor farmers can obtain higher income; and (c) natural resource management initiatives to counter the growing threat of environmental degradation in upland areas.

8. The rationale for providing an IFAD grant is to support the Ministry of Agriculture in building greater capacity for policy analysis based on documenting the lessons learned, best practices and innovations from the experience of IFAD projects and other poverty reduction programmes and analysing their implications for future policy development. This analysis will build on the findings of the IFAD country programme evaluation and will inform the government policy formulation process and therefore support the evolution of the Interim Poverty Reduction Strategy Paper, which focuses on achieving the Millennium Development Goals.

9. **Programme approach.** The programme approach will focus on the following major elements. First, the programme approach will be to support initiatives to increase the capability of local communities to manage their own social and economic development and to become transparent, accountable, equitable and competent community-owned institutions. It will assist the various segments of the local population, including ethnic minorities, the poor and women. In addition, the programme will support existing organizations at the village level and enable the emergence of new forms of community-level organizations for the poor. This approach will help communities build links between their own community institutions (e.g. farmers' groups) and institutions beyond the villages, including public and private service providers and economic enterprises, thereby enabling better access to markets and information.

10. Second, the programme will also support the newly decentralized system of government that aims to bring government resources closer to people in order to enable greater responsiveness to local needs and greater government accountability to the citizenry.

11. Third, the programme will also address the constraints that prevent poor smallholders from achieving higher levels of income and improved food security from their on-farm and off-farm enterprises. These constraints include: (a) low levels of technical and management skills; (b) limited knowledge of markets and market opportunities and lack of bargaining power; and (c) shortages of capital. The programme will involve technology transfer, technical support, provision of capital through group revolving funds, and assistance to small producers to access capital from the formal banking system and through market channels, such as contracting with suppliers and purchasers.

12. Fourth, the programme will improve the poor state of village infrastructure, which is hampering both production and marketing activities of smallholders and other entrepreneurs, under agreements

between the communities and district governments. Investments will respond to the needs and priorities of the communities as expressed in their village development plans. Investments in rural access roads, farm production roads, drinking water supply and irrigation facilities are likely to be priorities, although other forms of infrastructure would be eligible for funding, e.g. marketplaces, electricity supply facilities and small wharves. Beneficiaries will contribute to the cost of construction, operation and maintenance of the investments under agreements between the community and the district government.

13. Finally, the programme will support the Ministry of Agriculture in operating as a facilitation and coordination agency in respect of poverty reduction in the programme area, rather than as an implementing agency. This approach will support the Government's decentralization policy.

PART II – THE PROGRAMME

A. Programme Area, Target Group, Targeting and Other Interventions

14. **Programme area.** The programme targets Central Sulawesi in eastern Indonesia, which is one of the poorest provinces of Indonesia (22nd out of 30 provinces in terms of human development and 25th in terms of human poverty). An estimated 25% to 65% of the population lives below the poverty line, with 32% of the population living in extreme poverty. Central Sulawesi's economy is far less developed than the average for Indonesia despite being endowed with abundant natural resources, a very favourable climate and active research and knowledge centres. Agriculture accounts for 55% of gross regional product; trade and services contribute 13%-14%; and manufacturing 10%. Recent growth in the agricultural sector has been higher than the national average thanks to improving terms of trade for export crops such as cocoa. Central Sulawesi is a net exporter of cereals and cash crops.

15. The programme area will cover five of the nine rural districts in Central Sulawesi (Banggai, Buol, Parigi Moutong, Poso and Toli-toli), which have agreed to participate in the programme on the terms and conditions proposed by the Ministry of Finance.

16. **Target group and targeting.** The programme will target an estimated 48 500 households in 150 target villages, for a total of approximately 220 000 people. It will target the poor population in the five participating districts who live below the poverty line, especially those living in the more marginal upland areas. Communities in these areas show complex social stratification, with immigration adding to the pressure on productive resources. Competition between the more skilled migrant farmers and native subsistence-based farming groups has led to conflicts in some places.

17. Four broad indices will be used to provide a basis on which to select the villages where the programme might concentrate its assistance. The indices correlate closely with each other and are a good proxy for poverty: (a) land potential index; (b) index of isolation; (c) index of access to services; and (d) index of organizations. Within selected communities, the programme will seek to work specifically with three key groups: (a) poor households; (b) village institutions; and (c) owners of enterprises in and near villages.

18. **Other interventions.** There are no major rural development programmes in Central Sulawesi Province. The most recent assistance has been humanitarian relief provided by national and international civil society organizations and/or service providers, following the conflict in Poso District. The Ministry of Agriculture is revamping the Government's approach to agricultural extension and will involve public- and private-sector agencies providing technical and business development services to farmers. The World Bank is planning to provide financial support to the Government to implement this new approach. The introduction of a modern demand-driven extension approach will benefit the programme activities. Of relevance to the programme is the Agribusiness

Linkages Program based in southern Sulawesi, which has a mandate to develop supply chain linkages for agribusiness in eastern Indonesia. This programme has been operating for several years and has accumulated valuable experience to guide the proposed programme's implementation. Humanitarian assistance from international and local civil society organizations and/or service providers is supporting some small-scale programmes, including a sustainable agriculture and nutrition programme, a national park buffer-community land tenure project and some other programmes, especially in post-conflict areas. International civil society organizations and/or service providers are assisting in building the capacity of local civil society organizations and/or service providers through partnership programmes. One such partnership is the Sustainable Cocoa Extension Services for Smallholders, which involves assistance from the United States of America and Australia and the World Cocoa Foundation.

19. The programme design reflects learning from other programmes and provides the opportunity to replicate or refine successful local initiatives, such as community-based natural resource management.

B. Objectives and Scope

20. The goal of the programme is a sustainable improvement in the livelihoods of the rural poor in 150 targeted villages in the five target districts. The objective is sustained growth of economic activities and improved natural resource management in the target villages. The expected outputs are: (a) village institutions and activity groups are functioning effectively; (b) target group farmers adopt improved production and marketing systems and improved natural resource management systems and establish new off-farm enterprises and/or further develop existing ones; (c) improved infrastructure is available in the target villages, with communities participating in their operation and maintenance; and (d) the Ministry of Agriculture has increased capacity for policy analysis, pro-poor rural sector policy formulation and mainstreaming gender within the sector.

21. The programme will tackle poverty by establishing conditions that lead to increased incomes and improved livelihoods for marginal communities through sustained growth of rural economic activities. Poor households in a marginalized community require at least three elements to achieve this central goal: (a) available opportunities to increase assets and incomes on a sustained basis; (b) the capacity to take advantage of these opportunities; and (c) a supportive environment beyond the community that enables the first two situations to occur. The sustainability of programme interventions depends critically on community ownership, development of sufficient institutional capacity, inclusion of the poor and women neglected in the past, establishment of links between institutions at the community level and the formal institutions of the state and markets, and an enabling environment for pro-poor growth through support for responsive and effective public policies, institutions and services that are accessible to marginalized communities.

C. Components

22. The programme has four components: (a) community empowerment; (b) farm and off-farm enterprise development; (c) rural infrastructure; and (d) programme management and policy analysis.

Community Empowerment

23. This component has three elements, namely: (a) strengthening the skills of village administrations in ways that complement the assistance provided by the regional offices of the Village Community Empowerment division of the Ministry of Home Affairs to identify, plan, manage and monitor development activities; (b) ensuring greater inclusion of the interests of the poor and other groups currently excluded from the above processes; and (c) improving links between village planning processes and sub-district and district planning and management.

24. The community empowerment process will build the capacity of communities, the poor, women and marginalized groups within the communities to engage more equally with the Government, the private sector and civil society organizations and/or service providers. This capacity-building will help these groups to address their priority needs in an inclusive and transparent manner and to build on their assets and the opportunities available to them. The process will also build social capital at the community level to support the management of productive assets and the development of economic opportunities. The component will work with sub-village groups and individuals at three levels: (a) groups engaged in managing infrastructure and other common-property village assets; (b) sub-village groups and associations that support income-earning opportunities or enterprises of the poor; and (c) linking groups and individuals within villages to broader economic services, such as banking, technical services and agribusiness. Household groups will receive various kinds of capacity-building training and technical and business management support.

25. The programme will employ facilitators of civil society organizations and/or service providers, who will live and work in the villages under the supervision of a sub-district (or district) facilitator. These facilitators will also play the role of information broker between village institutions and the outside world. To help ensure the sustainability of the programme's development initiatives, the programme will not rely totally on civil society organization and/or service provider facilitators but will also involve agricultural extension staff to lend technical agricultural expertise and support the villages after the end of the programme together with private-sector service providers.

Farm and Off-farm Enterprise Development

26. This component is aimed at providing poor farmers in marginal communities with sustainable access to appropriate technology, management skills, and commercial linkages with markets and private-sector entities operating in the supply chain for goods and services. There are numerous opportunities to improve Central Sulawesi's agricultural production and profitability, and the programme will adopt a three-pronged strategy for promoting sustainable agriculture and rural enterprise development: (a) improved rural enterprise productivity; (b) commercial integration of rural enterprises; and (c) improved natural resource management. The civil society organization and/or service provider village facilitators and agricultural extension staff will work together to identify opportunities for increasing agricultural production efficiency and developing market opportunities.

27. Improving rural enterprise productivity will include initiatives designed to provide farmers with sustainable access to appropriate technology, management skills and private-sector enterprises operating in the rural supply chain for goods and services. Extension staff will receive initial and follow-up training in community mobilization skills as well as training in agricultural matters. Where necessary, the programme will recruit specialist service providers. Extension staff will help groups of poor households to improve food security, generate cash incomes and avoid dependence on money lenders by providing them with training and inputs. Group members will subsequently repay the value of the inputs to the group's revolving fund. Later on, groups and their members should be able to access financial services from the formal banking sector or other rural finance service providers. Other activities include support for establishing small- and medium-scale paddy and maize seed businesses at the district level with contract seed growers and support for intensive homestead crop and vegetable production. The latter may be of interest to women, providing a source of income and/or produce. At the end of the programme, farmers should know where to go and how to obtain the technical and business services required in future.

28. As part of the commercial integration of rural enterprises, support will be provided for the formulation of subsector strategies to develop integrated supply chains that incorporate the upland target communities. This support will take the form of pilot enterprises that, if successful, could be used as models for other groups to follow. The focus will be on the area's major crops (cocoa, maize, vanilla and pepper) and on poultry production. A registry of service providers will be compiled in

each district that the programme can subsequently use to provide training, services and support. Some of the subsector strategies will be selected for pilot-scale implementation. Support will be provided in the form of enterprise initiation grants to test the strategies.

29. **Improved natural resource management.** Sustainable hillside cultivation systems are already in place in Central Sulawesi, but the programme will also test other systems, e.g. sloping agricultural land technologies. Using such systems can lead to a broader awareness of catchment management and to community involvement in integrated watershed management. The programme will support the replication of pilot community planning and mapping approaches that are already addressing land ownership and natural resources management issues. Support will be provided for communities and individuals to register their land through formal certification. If proven effective, this approach will be widely replicated. The programme will aim to develop accreditation and auditing of “clean and green” products for specific niche markets, as a direct result of implementing sustainable farming activities.

Rural Infrastructure

30. This component will finance the infrastructure investments that districts include in their submissions to the Ministry of Finance, which will provide these funds in the form of on-granting to the district governments. The component will finance investments in different types of infrastructure, with slightly different approaches depending on the type of infrastructure being financed. All rural infrastructure facilities will be selected and designed using participatory approaches involving close cooperation between beneficiary communities and district technical agencies. Rural access roads, farm production roads, drinking water supply and irrigation facilities are expected to be priority investments. Except for rural access roads that also benefit others, communities requesting investments will cover part of the cost in the form of cash, local materials or labour. Communities will be responsible for the operation and maintenance of water supply and irrigation facilities and farm production roads. Rural access roads will be maintained by the district governments. All rural infrastructure facilities will be selected, designed, constructed, operated and maintained under agreements between the communities and local governments. All project proposals submitted by communities will be financed by the programme if they meet the eligibility criteria.

31. The village facilitators will work with the communities to assist them in interacting with the professional and technical staff of the infrastructure agencies in selecting and designing projects and enabling them to monitor scheme implementation, the mobilization of funds for operation and maintenance, ensure that agreed plans and designs are followed, and build capacity within the community for operation and maintenance. The district management units will take the lead in implementing and coordinating this component and will advise the technical agencies as to project eligibility and the conditions to be met for financing. Technical services for surveying, design, supervision of construction and advising on operation and maintenance will be provided by the relevant district agencies. The Department of Public Works will design the facilities, supervise construction by contractors and participate in drafting the agreement between the communities and local governments. The provincial facilitation unit will monitor district governments’ compliance with their agreements with the communities.

Programme Management and Policy Analysis

32. In support of its own management and coordination, the programme will work within and strengthen existing government structures rather than establish parallel ones. The national, provincial and district governments will implement programme activities but, where necessary, will use civil society organizations and/or service providers, private-sector enterprises or academic institutions to provide specialist services under contracts. Monitoring and evaluation will be integrated into programme management at the national, provincial and district levels.

33. The Ministry of Agriculture will be the executing agency in the central government and provide overall coordination, with the assistance of a national steering committee, policy guidance and donor liaison.

34. The provincial facilitation unit will be the main administrative office for programme implementation and coordination and will manage the community empowerment and on-farm and off-farm enterprise development components on behalf of the Ministry of Agriculture, together with capacity-building, reporting and impact assessment, networking and communications, and supervision of district implementation.

35. The district management units will establish sustainable links between the communities and banks, commercial enterprises, civil society organizations and/or service providers, research centres and other government agencies.

36. **Policy analysis.** This subcomponent will strengthen in-country capacity for policy analysis in the agriculture sector and provide policy advice and advocacy to key ministries and departments regarding policies for decentralized agricultural development, rural poverty reduction, piloting of alternative service delivery arrangements, and approaches to gender analysis and mainstreaming. The Ministry of Agriculture in Jakarta will execute the policy-related work and will prepare case studies and policy papers, hold workshops and seminars, and disseminate its findings via a web site. Subjects could include issues related to the rural development sector framework used by the IFAD performance-based allocation system, linking of rural savings and credit groups to the formal banking sector, land tenure for the rural poor, the role of communities in the management of forestry resources, and livelihoods improvement and agricultural development in the upland areas.

D. Costs and Financing

37. The total programme costs have been estimated at USD 28.3 million, including contingencies and duties and taxes. The largest component is the rural infrastructure component, which accounts for 59% of the base cost, while community empowerment and farm and off-farm enterprise development together represent 25% of the base cost. The programme management and policy analysis component accounts for 16% of the base cost.

38. IFAD financing will consist of a loan of USD 21.08 million to finance 74% of the programme costs and a grant of USD 500 000 in support of policy analysis, equivalent to 2% of the programme costs. The balance of the costs will be financed by the central Government, the government of Central Sulawesi Provinces and the five district governments. The contribution by the beneficiaries has not been included in the financing plan, but the beneficiaries will contribute to: (a) the construction of water supply and irrigation facilities and farm production roads, in the form of labour and local materials; and (b) the costs of operating and maintaining the water supply and irrigation facilities and farm production roads.

39. The proposed programme completion date will be six years from the date of loan effectiveness and the proposed loan closing date will be six months after the programme completion date.

Table 1: Summary of Programme Costs^a
(USD '000)

Components	Local	Foreign	Total	% Foreign Exchange	% Total Base Costs
A. Community empowerment	2 638.8	-	2 638.8	-	10
B. Farm and off-farm enterprise development	3 799.2	209.8	4 009.0	5	15
C. Rural infrastructure	12 976.4	3 244.1	16 220.6	20	59
D. Programme management and policy analysis					
Management and supervision	3 715.3	198.3	3 913.6	5	14
Policy analysis	623.7	10.6	634.3	2	2
Subtotal	4 339.0	208.9	4 547.9	5	17
Total baseline costs	23 753.4	3 662.8	27 416.2	13	100
Physical contingencies	102.7	6.4	109.1	6	-
Price contingencies	775.1	28.5	803.6	4	3
Total programme costs	24 631.2	3 697.7	28 328.9	13	103

^a Discrepancies in totals are due to rounding.

Table 2: Financing Plan^a
(USD '000)

Components	IFAD Loan		IFAD Grant		Central Government		Government of Central Sulawesi		District Governments		Total		Foreign Exchange	Local (Excluding Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
A. Community empowerment	2 918.2	100.0	-	-	-	-	-	-	-	-	2 918.2	10.3	-	2 918.2	-
B. Farm and off-farm enterprise development	2 359.8	54.7	-	-	1 956.2	45.3	-	-	-	-	4 316.0	15.2	228.6	3 876.8	210.5
C. Rural infrastructure	14 598.5	90.0	-	-	0.0	-	-	-	1 622.1	10.0	16 220.6	57.3	3 244.1	11 354.4	1 622.1
D. Programme management and policy analysis															
Management and supervision	1 171.0	27.7	-	-	871.9	20.6	524.8	12.4	1 656.6	39.2	4 224.4	14.9	212.8	3 746.7	264.9
Policy analysis	34.3	5.3	499.5	76.9	116.0	17.8	-	-	-	-	649.8	2.3	12.1	626.3	11.4
Subtotal	1 205.4	24.7	499.5	10.2	987.9	20.3	524.8	10.8	1 656.6	34.0	4 874.2	17.2	225.0	4 373.0	276.3
Total disbursement	21 081.8	74.4	499.5	1.8	2 944.1	10.4	524.8	1.9	3 278.7	11.6	28 328.9	100.0	3 697.7	22 522.3	2 108.9

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

40. All programme goods and services will be procured in accordance with the IFAD procurement guidelines. The disbursement conditions include: (a) approval by IFAD of the procurement plan for the initial 18 months of the programme implementation period before the first withdrawal from the loan account; and (b) approval of the programme implementation manual by IFAD and the cooperating institution before the first withdrawal from the loan account for the financing of the revolving fund and the rural infrastructure investment fund.

41. Funds from the IFAD loan will flow to a special account maintained in United States dollars at a bank acceptable to IFAD and operated by the Ministry of Finance through an authorized allocation of up to USD 2.2 million. The IFAD grant funds will flow to a grant bank account maintained in United States dollars at a bank acceptable to IFAD and operated by the Ministry of Finance to defray expenditures for policy analysis to be undertaken by the Ministry of Agriculture. At the request of this latter ministry, IFAD will make an initial deposit of up to USD 100 000 to the grant bank account for eligible expenditures. The Ministry of Finance will make the loan and grant proceeds available to the Ministry of Agriculture, the provincial government of Central Sulawesi and the programme districts in accordance with the annual workplans and budgets and its customary national procedures for development cooperation to carry out the programme.

42. Consolidated annual financial statements for the programme will be prepared and submitted by the national support unit of the Ministry of Agriculture to IFAD and the cooperating institution. With the prior approval of IFAD, independent auditors selected by the borrower will audit the programme's records and accounts in accordance with the procedures and criteria set forth in the IFAD Guidelines on Project Audits. The supervision missions will verify and report on the progress made in implementing the recommendations made in the auditor's management letter.

43. The national support unit will prepare and submit consolidated programme progress reports in English to IFAD on a semi-annual basis.

F. Organization and Management

44. Programme implementation will follow the Government's system and procedures for decentralized development planning, financing and implementation. The programme will work within and strengthen existing institutional structures. Within 90 days after effectiveness, the Ministry of Agriculture will prepare a programme implementation manual that will specify the programme's financial management system, procedures for planning and budgeting, loan and grant disbursement and reimbursement, release of funds, operation of the special account and programme accounts and procurement.

45. The Ministry of Agriculture will host the national support unit; the provincial planning agency will host the provincial facilitation unit; and the agriculture district offices will host the district management units. There will be one national steering committee for all IFAD-assisted programmes for which the Ministry is responsible; the committee will be established by ministerial decree and include representation from all ministries involved in agricultural and rural development activities. The committee will provide: (a) policy guidance for programme implementation; (b) inter-ministerial coordination; and (c) feedback on the results of the policy analysis work into the appropriate policymaking framework of the Government.

46. Programme implementation will require that civil society organizations and/or service providers implement the community empowerment component. For the other components, all programme staff will be made up of government employees selected following a transparent process and with qualifications and experience that match their terms of reference.

G. Economic Justification

47. The programme's direct impact will fall into three main areas: (a) farmers taking up new or modified crop and livestock enterprises or combinations of crops and livestock; (b) villagers starting and/or expanding off-farm enterprises; and (c) users of infrastructure facilities.

48. In addition, major benefits will flow from the programme's empowerment and capacity-building activities. Poor men and women, village-based organizations and village administrations will be better able to manage their social and economic development, including planning, financing and implementation management, and to operate and manage completed infrastructure investments. Greater levels of transparency and accountability among elected and employed personnel at the village and district levels will be additional benefits. Villages will have a functioning link with the districts and with the agriculture district offices and be able to access other service providers from the public and private sectors. The programme will have a positive impact on women and household nutrition and food security, while also enhancing the role of women as agents of change in the process of social and economic development.

49. All programme activities would have clearly identified and verifiable exit strategies prior to commencement. Participating individuals and institutions would not become dependent on temporary support, but would maintain a focus on the achievement of their own objectives. Moreover, in the planning of activities, the involvement of private-sector entities would begin at the outset of the programme, with a clear strategy for private entities taking over any necessary long-term activities.

H. Risks Assessment and Management

50. Measures have been built into the programme design to mitigate potential risks associated with the proposed programme. There are no major technical risks. The proposed agricultural and natural resources management approaches, including that for crops and livestock, has been successfully used elsewhere in Sulawesi. The main risks are institutional. The first risk concerns the lack of capacity to undertake participatory development in the districts; it will be addressed through the use of experienced and capable civil society organizations and/or service providers to undertake these activities. To ensure that the recruited civil society organization and/or service provider staff are suitably skilled and motivated, the programme design includes substantial training, mentoring of recruited staff and an adequate number of supervisors to avert that risk.

51. The second risk is that extension staff will be unable to provide agricultural extension services to poor households in response to their demands. To counter this risk, the programme will provide significant technical and management support to agricultural extension staff. The programme's approach would be consistent with the development of the national agricultural extension system that the Government is currently undertaking with planned assistance from the World Bank. By the end of the programme, villagers will know how and where to access technical and business services from the private and public sectors.

52. A third risk is that inadequate time is allowed to build ownership and responsibility at all levels of the community. This situation will be addressed by undertaking capacity-building activities before the technical extension activities.

53. A final risk is that the operation and maintenance of infrastructure facilities by agencies and communities might be underfunded or inadequate. This risk is addressed by supporting the formulation of agreements between communities and local government agencies, detailing responsibilities both in terms of functions and resource mobilization.

I. Environmental Impact

54. The environmental screening and scoping note recommends a Category B classification. It is expected that the programme will have a positive impact on the environment as a result of programme interventions, such as the adoption of community-based and sustainable natural resource management activities, the rehabilitation of degraded land and soil conservation, environmental screening prior to infrastructure project selection, and the training of communities and technical agency staff in the monitoring of environment-related indicators and conservation practices.

J. Innovative Features

55. The programme design focuses on replicating successful experiences from previous IFAD projects in Indonesia and takes into account the recommendations of the country programme evaluation in respect of increasing the investment in agriculture and income-generation activities. Programme design includes two innovations for IFAD in Indonesia. First, it will be the first IFAD programme to work with district governments as implementing agencies. Second, for the first time, the Ministry of Agriculture will have a coordinating and facilitating role rather than a direct implementation role. In addition, programme design includes a mechanism whereby experience from programme implementation and that from other projects can feed back, through a policy analysis subcomponent, into policy development and dialogue.

PART III – LEGAL INSTRUMENTS AND AUTHORITY

56. A financing agreement between the Republic of Indonesia and IFAD will constitute the legal instrument for extending the proposed financial assistance to the recipient. A summary of the important supplementary assurances included in the negotiated financing agreement is attached as an annex.

57. The Republic of Indonesia is empowered under its laws to borrow from IFAD.

58. I am satisfied that the proposed financial assistance will comply with the Agreement Establishing IFAD.

PART IV – RECOMMENDATION

59. I recommend that the Executive Board confirm its approval of the financial assistance of the revised programme in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Indonesia in various currencies in an amount equivalent to fourteen million three hundred thousand special drawing rights (SDR 14 300 000) to mature on or prior to 1 September 2044 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this revised Report and Recommendation of the President.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Indonesia in various currencies in an amount equivalent to three hundred and forty thousand special drawing rights (SDR 340 000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this revised Report and Recommendation of the President.

Lennart Båge
President

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED FINANCING AGREEMENT**

(Negotiations concluded on 6 September 2006)

1. The Government of the Republic of Indonesia (the Government) has requested a loan and a grant for the purpose of financing the Rural Empowerment and Agricultural Development Programme in Central Sulawesi.
2. **Availability of loan and grant proceeds.** The Government will make the loan and grant proceeds available to each programme party in accordance with the annual workplan and budget (AWP/B) and its customary national procedures for development assistance to carry out the programme.
3. **Availability of additional resources**
 - (a) In addition to the proceeds of the loan, the Government will make available to each programme party, promptly and as needed, such funds, facilities, services and other resources as may be required from time to time to carry out the programme in accordance with the financing agreement.
 - (b) Without limiting the generality of paragraph (a) above, the Government will make available to the programme parties during the programme implementation period counterpart funds from its own resources (including resources from the province and the programme districts), in accordance with its customary national procedures for development assistance, in an approximate amount in local currency equivalent of US\$6,377,000, to finance part of the costs of rural infrastructure, staff salaries, office operations, and operation and maintenance of vehicles. For such purpose, the Government will make: (i) budgetary allocations for each fiscal year equal to the counterpart contributions called for in the AWP/B for the relevant programme year and make such allocations available to each programme party quarterly in advance; and (ii) exempt from taxes the importation, procurement and supply of all goods, civil works and services financed by the loan and grant.
4. **Channelling of programme resources.** The Government, through the Ministry of Finance, will transfer available funds and other resources called for in the AWP/Bs to each programme party to carry out programme activities in accordance with the financing agreement, the national budgetary and channelling-of-funds procedures, the on-granting agreements and other loan and grant documents.
5. **On-granting agreements.** The Government will enter into an on-granting agreement with each of the district governments of the programme area, which will provide, among other things, that:
 - (a) the district governments will declare their commitment to the goals and purpose of the programme and, in furtherance of such goals and purpose, they will undertake to carry out the programme activities;
 - (b) the provisions of the financing agreement will become an integrated part of the on-granting agreements;
 - (c) the detailed terms and conditions for the transfer of the loan and grant proceeds to the district governments will be in accordance with national laws and regulations;

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- (d) the Government will transfer available funds and other resources to the district governments on terms and conditions agreed with the district governments and in accordance with national laws and regulations;
- (e) the national support unit (NSU), the Bureau of International Cooperation of the Ministry of Agriculture, the provincial facilitation unit (PFU) and each of the district management units (DMUs) will each have a separate ledger in their respective treasury accounts in their respective banks to receive the loan and grant proceeds;
- (f) a description of the detailed procedures for the flow of funds of the loan and grant proceeds from the special account to each of the district governments of the programme area will be included; and
- (g) the district governments will make their respective contributions in the form of counterpart funds.

6. **Suspension.** IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and grant account, upon the occurrence of any of the following events, provided however that IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the loan account and grant account if the audit report has not been satisfactorily completed within 12 months after the financial reporting period:

- (a) the programme implementation manual, or any provision thereof, has been amended or modified without the prior consent of IFAD, and IFAD has determined that such amendment or modification has had, or is likely to have, a material adverse effect on the programme;
- (b) the procurement plan, or any provision thereof, has been amended or modified without the prior consent of IFAD, and IFAD has determined that such amendment or modification has had, or is likely to have, a material adverse effect on the programme;
- (c) the on-granting agreements, or any provision thereof, have been amended or modified, and IFAD has determined that such amendment or modification has had, or is likely to have, a material adverse effect on the programme;
- (d) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to the attention of IFAD and the Government has failed to investigate the matter fully and promptly to the satisfaction of IFAD, or thereafter, based on the conclusions of the aforesaid investigation and any other information relevant to it, IFAD, in consultation with the Government, determines that such practices have occurred, and the Government has failed to take timely and appropriate action to remedy the matter to the satisfaction of IFAD.

7. As part of maintaining sound environmental practices, the programme parties will maintain appropriate pest management practices under the programme and, to that end, the Government will ensure that pesticides procured under the programme do not include any pesticide either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations, as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization's Recommended Classification of Pesticides by Hazard and Classification 1996-1997, as amended from time to time.

8. **Decentralization.** The Government will take all measures that are necessary or appropriate to ensure that the programme is implemented through a decentralized system whereby programme

implementation and management responsibilities are assumed at the village and district levels, monitoring responsibilities at the provincial level, and coordination responsibilities at the national level.

9. **Accounting and internal control systems.** The Government will ensure that the NSU, PFU and each DMU maintain appropriate financial records and accounts in accordance with government systems. These accounts will follow generally accepted accounting practices and will reflect the progress of the programme and identify its resources, operations and expenditures. The accounts will reflect all financial transactions during the programme implementation period for the loan, grant and government financing by programme component and separately by standard expenditure category. The accounts will be maintained separately from any routine budget account or other externally funded programme account.

10. **Appointment and training of key programme staff.** The Government will ensure that the programme manager (national), the programme facilitator (provincial), the district managers and all key programme staff receive management training in the organizational and financial systems prior to the date of effectiveness.

11. **Distribution of appraisal documents.** The Government will ensure that all design documents for the programme are translated into Bahasa Indonesia and distributed to all programme parties prior to the date of effectiveness.

12. **Operation and maintenance of rural infrastructure.** The Government will ensure that proper arrangements for the operation and maintenance of roads, water supply and irrigation facilities financed by the programme are made in agreement with the local communities before infrastructure construction is commenced.

13. **Tax exemption.** The Government will exempt from taxes the importation, procurement and supply of all goods and services financed by the loan and the grant. The value of such exemptions will be credited against the Government's obligation to provide counterpart funds for the programme.

14. **Monitoring and evaluation system.** The monitoring and evaluation system developed by the programme will include:

- (a) routine monitoring of physical and financial progress of the programme, including monthly, quarterly and annual progress reports based on data collected by DMUs and compiled by the PFU and NSU;
- (b) performance indicators to be defined for inputs and outputs in both physical and financial terms and to be agreed upon by the lead programme agency and IFAD;
- (c) participatory evaluation exercises to be carried out every year to enable the target group to evaluate the progress of the programme according to their own criteria;
- (d) baseline survey to be undertaken within 180 days after the date of effectiveness, including indicators of the results and impact management system (RIMS);
- (e) mid-term impact survey to be undertaken prior to the mid-term review, with data fully analysed, including indicators of the RIMS; and
- (f) programme completion impact survey to be undertaken prior to the loan closing date, with data fully analysed, including RIMS indicators.

15. **Office space.** The Government will ensure that the Ministry of Agriculture, the provincial government of Central Sulawesi and each district government of the programme area respectively provide office space for the NSU, PFU and DMUs and finance all incremental operating costs, including staff salaries, office and vehicle running costs.

16. **Gender focus.** The Government will ensure that gender equity considerations are integrated into all programme activities during the programme implementation period.

17. **Conditions precedent to withdrawals.** As from the date of effectiveness, the Government may request an initial withdrawal in the amount of up to US\$500,000 from the loan account provided, however, that:

- (a) no further withdrawals will be made in respect of expenditures under the programme until the procurement plan for the initial 18 months of programme implementation has been submitted and approved by IFAD; and
- (b) no further withdrawals will be made in respect of expenditures for category I (revolving fund) and category II (community infrastructure investment fund) until the programme implementation manual has been approved by IFAD in draft; and a copy of the manual as adopted by the national steering committee, substantially in the form so approved and certified as true and complete by a competent officer of the lead programme agency, has been delivered to IFAD.

18. **Conditions precedent to effectiveness.** The financing agreement will become effective subject to the fulfilment of the following conditions precedent:

- (a) the lead programme agency, through the agency for agricultural human resources development of the Ministry of Agriculture, has duly established the NSU, and its staff, including the national programme manager, has been duly appointed;
- (b) the regional development planning agencies and the provincial agriculture office of the Government have duly established the PFU, and its staff, including the programme facilitator, has been duly appointed;
- (c) the district agricultural office of the Government and regional development planning agency in each district of the programme area have duly established the DMUs, and the staff of each DMU, including the district manager, has been duly appointed;
- (d) the Government has duly opened the special account and the grant bank account;
- (e) the AWP/B for the first programme year has been duly approved by IFAD;
- (f) the Government has confirmed to IFAD that the national, provincial and district governments have provided adequate budgetary allocations as counterpart funds for financing the programme activities;
- (g) a copy of the signed on-granting agreements has been delivered to IFAD; the signature and performance thereof by the Government have been duly authorized or ratified by all necessary administrative and governmental action; and all conditions precedent to the effectiveness thereof (other than the effectiveness of the loan and grant documents) have been fulfilled;

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- (h) the financing agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and
- (i) a favourable legal opinion, issued by the Minister of Law and Human Rights of the Government or the Bureau of Legal Affairs of the Ministry of Finance of the Government and in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA

INDONESIA

Land area (km² thousand) 2004 1/	1 812	GNI per capita (USD) 2004 1/	1 140
Total population (million) 2004 1/	218	GDP per capita growth (annual %) 2004 1/	3.7
Population density (people per km²) 2004 1/	120	Inflation, consumer prices (annual %) 2004 1/	6
Local currency	Rupiah (IDR)	Exchange rate: USD 1 =	IDR 9 280
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1998-2004 1/	1.3	GDP (USD million) 2004 1/	257 641
Crude birth rate (per thousand people) 2004 1/	20	GDP growth (annual %) 2/	
Crude death rate (per thousand people) 2004 1/	7	2003	4.9
Infant mortality rate (per thousand live births) 2004 1/	30	2004	5.1
Life expectancy at birth (years) 2004 1/	67	Sectoral distribution of GDP 2004 1/	
Number of rural poor (million) (approximate) 1/	n/a	% agriculture	15
Poor as % of total rural population 1/	n/a	% industry	44
Total labour force (million) 2004 1/	105.13	% manufacturing	28
Female labour force as % of total 2004 1/	38	% services	41
Education		Consumption 2004 1/	
School enrolment, primary (% gross) 2004 1/	116 a/	General government final consumption expenditure (as % of GDP)	8
Adult illiteracy rate (% age 15 and above) 2004 1/	10	Household final consumption expenditure, etc. (as % of GDP)	65
Nutrition		Gross domestic savings (as % of GDP)	27
Daily calorie supply per capita	n/a	Balance of Payments (USD million)	
Malnutrition prevalence, height for age (% of children under 5) 2004 3/	n/a	Merchandise exports 2004 1/	72 330
Malnutrition prevalence, weight for age (% of children under 5) 2004 3/	26 a/	Merchandise imports 2004 1/	54 895
Health		Balance of merchandise trade	17 435
Health expenditure, total (as % of GDP) 2004 1/	3 a/	Current account balances (USD million)	
Physicians (per thousand people) /	0 a/	before official transfers 2004 1/	675
Population using improved water sources (%) 2002 2/	78	after official transfers 2004 1/	3 108
Population with access to essential drugs (%) 2/	n/a	Foreign direct investment, net 2004 1/	1 023
Population using adequate sanitation facilities (%) 2002 2/	52	Government Finance	
Agriculture and Food		Cash surplus/deficit (as % of GDP) 2004 1/	-1
Food imports (% of merchandise imports) 2004 1/	11	Total expenditure (% of GDP) 2004 1/	n/a
Fertilizer consumption (hundreds of grams per ha of arable land) 2004 1/	1 460 a/	Total external debt (USD million) 2004 1/	140 649
Food production index (1999-01=100) 2004 1/	117	Present value of debt (as % of GNI) 2004 1/	61
Cereal yield (kg per ha) 2004 1/	4 275	Total debt service (% of exports of goods and services) 2004 1/	22
Land Use		Lending interest rate (%) 2004 1/	14
Arable land as % of land area 2004 1/	12 a/	Deposit interest rate (%) 2004 1/	6
Forest area as % of total land area 2004 1/	n/a		
Irrigated land as % of cropland 2004 1/	13 a/		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* CD Rom 2006

2/ UNDP, *Human Development Report*, 2005

PREVIOUS IFAD FINANCING IN INDONESIA

Project/Programme Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Smallholder Cattle Development Project	IFAD	World Bank: IBRD	I	06 May 80	01 Oct 80	31 Mar 87	L - I - 35 - ID	SDR	20800000	99.33%
Sulawesi Paddy Land Development Project	IFAD	AsDB	HC	08 Sep 81	29 Sep 82	31 Dec 90	L - I - 74 - ID	SDR	30050000	79%
Seventeenth Irrigation (East Java Province) Project	World Bank: IBRD	World Bank: IBRD	I	31 Mar 82	15 Dec 82	31 Mar 89	L - I - 94 - ID	SDR	21800000	100%
Second Smallholder Cattle Development Project	IFAD	World Bank: IBRD	I	05 Sep 85	15 Apr 86	31 Mar 94	L - I - 171 - ID	SDR	11600000	81.46%
Income-Generating Project for Marginal Farmers and Landless	IFAD	UNOPS	I	03 Dec 87	18 Jun 88	30 Jun 98	L - I - 215 - ID	SDR	10600000	94.40%
East Java Rainfed Agriculture Project	IFAD	AsDB	I	19 Apr 90	09 Oct 90	31 Mar 99	G - I - 502 - ID	USD	22000	99.14%
East Java Rainfed Agriculture Project	IFAD	AsDB	I	19 Apr 90	09 Oct 90	31 Mar 99	L - I - 255 - ID	SDR	15400000	79.46%
South Sumatera Smallholder Tree Crops Development Project	IFAD	AsDB	I	14 Apr 92	29 Sep 92	15 Mar 99	L - I - 301 - ID	SDR	14450000	31%
Eastern Islands Smallholder Cashew Development Project	IFAD	UNOPS	I	19 Apr 94	29 Jul 94	30 Sep 02	L - I - 350 - ID	SDR	18450000	59%
Eastern Islands Smallholder Farming Systems and Livestock Development Project	IFAD	UNOPS	HC	06 Dec 95	22 Mar 96	31 Mar 04	G - I - 25 - ID	USD	100000	35%
Eastern Islands Smallholder Farming Systems and Livestock Development Project	IFAD	UNOPS	HC	06 Dec 95	22 Mar 96	31 Mar 04	L - I - 396 - ID	SDR	12050000	45%
P4K – Phase III	AsDB	AsDB	I	04 Dec 97	09 Jul 98	30 Sep 05	L - I - 458 - ID	SDR	18250000	69.07%
Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas	IFAD	IFAD	HC	04 May 00	31 Jan 01	30 Sep 09	G - I - 99 - ID	USD	60000	99.37%
Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas	IFAD	IFAD	HC	04 May 00	31 Jan 01	30 Sep 09	L - I - 539 - ID	SDR	17500000	41%
East Kalimantan Local Communities Empowerment Programme	IFAD	UNOPS	HC	11 Dec 02	02 Jun 03		G - I - 155 - ID	USD	100000	100%
East Kalimantan Local Communities Empowerment Programme	IFAD	UNOPS	HC	11 Dec 02	Not effective		G - I - 601 - ID	SDR	15100000	Cancelled
East Kalimantan Local Communities Empowerment Programme	IFAD	UNOPS	HC	11 Dec 02	Not effective		G - I - E-47 - ID	SDR	100000	Cancelled
Rural Empowerment and Agricultural Development Programme in Central Sulawesi	IFAD	UNOPS	HC	03 Dec 04	Not signed		G - I - 645 - D	SDR	22650000	Not signed

LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators ²	Means of Verification	Assumptions
Goal			
Sustainable improvement in the livelihoods of the rural poor in 150 targeted villages in the five target districts.	<ul style="list-style-type: none"> • Income poverty indicators reduced by 50% in accordance with the CMDG1. • Increase in the ownership of household assets³ (average value of the household asset index).* • Reduction in child malnutrition (averages for target communities). 	<ul style="list-style-type: none"> • Household Income and Expenditure Surveys • Monitoring of the CMDGs • RIMS impact assessment surveys (baseline, MTR and PCR) 	
Purpose/Objective			
Sustained growth of economic activities and improved natural resource management in the targeted villages in the five districts.	<ul style="list-style-type: none"> • Target group households⁴ with improved food security (months per year). • Target group households reporting new sources of income following the start of the programme. • Communities operating sustainable community-based natural resource management schemes and their length of operation. (Targets: number of households: 48 500 and 218 000 people). 	<ul style="list-style-type: none"> • RIMS impact assessment surveys (baseline, MTR and PCR) • WFP Food Insecurity Atlas. 	<ul style="list-style-type: none"> • Macro-economic and political stability. • Government continues to support decentralisation. • Province and District legislatures support Programme's approach and strategy.
Outputs			
1. Village institutions and activity groups functioning effectively.	<ul style="list-style-type: none"> • No. of village administrations with improved capacity for social and economic development and natural resource management. • No. of activity groups operational by type. • No. of groups with women leaders. • No. of community programmes functional by type. • No. of women on management committees (group and community). (Targets: number of communities: 150, number of households: 48 500; and total number of groups: 1 070). 	<ul style="list-style-type: none"> • Programme MIS and participatory impact monitoring. • Supervision reports. 	<ul style="list-style-type: none"> • Village administrations accept participatory development approaches.
2. (a) Target group farmers adopt improved production and marketing systems.	<ul style="list-style-type: none"> • No. of households reporting increased production from their plots. • No. of households adopting technology recommended by the Programme. • No. of functioning marketing, storage and/or processing groups/facilities. • Performance of group revolving funds (% repaid). • No. of contracts between producers (groups) and marketing enterprises. (Targets: number of households: 48 500 and number of agricultural related groups expected: 620). 	<ul style="list-style-type: none"> • Programme MIS and participatory impact monitoring. • Supervision reports. 	<ul style="list-style-type: none"> • Market led and environmentally sustainable investment choices.

² Indicators in bold are the IFAD RIMS Indicators and those with an * are the "anchor" indicators.

³ Household assets ownership index is under development.

⁴ All household and enterprise data is to be disaggregated by the gender of the household head involved.

Narrative Summary	Verifiable Indicators ²			Means of Verification	Assumptions
2. (b) Target communities adopt improved natural resource management systems.	<ul style="list-style-type: none"> Area of hillsides under improved management systems. Area of forests under improved management. (Targets: number of communities 150 and 15 000 hectares of hillsides). 			<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	<ul style="list-style-type: none"> Village administrations support community approaches to natural resources management.
2. (c) Target group households establish new off-farm enterprises and/or develop further existing ones.	<ul style="list-style-type: none"> No. of (new micro and small-scale) enterprises started since the baseline and operating after three years in the targeted villages. No. of jobs created (men and women) by small and medium-scale enterprises. No. of contracts between producers (groups) and marketing enterprises. (Targets: start 300 and 210 operating after three years and employing: 1 000 people). 			<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	<ul style="list-style-type: none"> Market led and environmentally sustainable investment choices.
3. Improved infrastructure available in the target villages with the communities participating in their operation and maintenance.	<ul style="list-style-type: none"> No. of households served by wells. No. of functioning infrastructure (programme constructed). No of farmers with secure access to water (irrigation). Km of rural access and farm production roads being maintained. (Targets to be based on the village development plans and included in the district AWPBs). 			<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	<ul style="list-style-type: none"> Government budget disbursed on time. Communities assume responsibility for O&M.
4. Increased capacity for policy analysis and pro-poor policy formulation for the rural sector and for mainstreaming gender within the sector.	<ul style="list-style-type: none"> No. of new or changed pro-poor legislation or regulations enforced. No. of policies and strategies introduced including elements of lessons learned from IFAD projects. No. of polices and strategies introduced in support of gender mainstreaming. 			<ul style="list-style-type: none"> Programme MIS and participatory impact monitoring. Supervision reports. 	<ul style="list-style-type: none"> the Ministry of Agriculture supports the need to develop capacity for policy analysis and formulation.
Inputs					
Category	USD '000	Financier	USD million	<ul style="list-style-type: none"> Financing Agreement. Appraisal Report. 	
Revolving Funds	750	IFAD Loan	21.08		
Infrastructure Funds	16 221	IFAD Grant	0.50		
Training and Workshops	868	Government of Indonesia	2.94		
Professional and Technical Services	4 341	Government of Central Sulawesi	0.52		
Equipment and Materials	487	Districts	3.28		
Vehicles	907				
Salaries	3 717	Total	28.32		
Office Operating Costs	456	(difference due to rounding)			
Vehicle O&M Costs	582				
Total Costs	28 329				

ORGANIGRAMME

