



Investing in rural people

Executive Board

President's memorandum
Proposed additional financing to
Republic of Indonesia
Integrated Village Economic Transformation Project
(Transformasi Ekonomi Kampung Terpadu) (TEKAD)

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Action: The Executive Board is invited to approve the recommendation for the proposed additional financing contained in paragraph 47.

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Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Republic of Indonesia
Executing agency:	Ministry of Villages, Development of Disadvantaged Regions and Transmigration
Total project cost:	EUR 106.9 million (equivalent to approximately US\$117.9 million)
Amount of original IFAD loan (performance-based allocation system [PBAS]):	EUR 29.80 million (equivalent to approximately US\$32.9 million)
Terms of original IFAD loan:	Ordinary: 12.5 years including a grace period of 7 years, with an interest rate equal to the IFAD reference interest rate including the variable spread
Amount of IFAD original grant:	EUR 1.36 million (equivalent to approximately US\$1.50 million)
Amount of additional IFAD loan (Borrowed Resource Access Mechanism [BRAM]):	EUR 25.2 million (equivalent to approximately US\$27.8 million)
Terms of additional IFAD financing (BRAM):	Ordinary: Maturity period of up to 27.5 years, including a grace period of up to 8 years, and an average maturity period of up to 18 years, with an interest rate equal to the reference interest rate per annum as determined by the Fund semi-annually
Contribution of borrower/recipient:	EUR 48.9 million (equivalent to approximately US\$54.0 million)
Contribution of beneficiaries:	EUR 1.6 million (equivalent to approximately US\$1.8 million)
Amount of original IFAD climate finance:	EUR 0.46 million (equivalent to approximately US\$0.56 million)
Cooperating institution:	IFAD

I. Background and project description

A. Background

1. [The Integrated Village Economic Transformation \(TEKAD\)](#) project was approved by the IFAD Executive Board on 30 October 2019. The project was approved with total financing of EUR 636.06 million (equivalent to approximately US\$702.02 million),¹ consisting of: (i) an IFAD loan of EUR 29.8 million (equivalent to approximately US\$32.9 million); (ii) an IFAD grant of EUR 1.36 million (equivalent to approximately US\$1.5 million); (iii) a borrower/recipient contribution of EUR 17.2 million (equivalent to approximately US\$18.9 million); (iv) an expected contribution from the Village Fund of EUR 490.2 million (equivalent to approximately US\$541.6 million); (v) a beneficiary contribution of EUR 24.5 million (equivalent to approximately US\$27 million); and (vi) a financing gap in the amount of EUR 73 million (equivalent to approximately US\$80 million). The IFAD financing agreement entered into force on 23 December 2019. The current project completion date is 31 December 2025, and the financing closing date is 30 June 2026.
2. In August 2024, the Government of the Republic of Indonesia formally requested additional financing from IFAD in the amount of EUR 25.2 million (US\$27.8 million) to partially fill the EUR 73 million financing gap. The Government requested the additional financing on the same lending terms and financing conditions applied to the original loan approved in 2019 (category 2 ordinary terms).
3. While the lending terms for Indonesia changed at the beginning of 2024, from category 2 to category 3 ordinary terms following Indonesia's graduation from lower-middle-income country to upper-middle-income country, IFAD has subsequently approved the Government's request to maintain the same terms and conditions as the original loan. The requested EUR 25.2 million financing, with category 2 ordinary terms, will be allocated under the 2022–2024 cycle of the Borrowed Resource Access Mechanism (BRAM).

B. Original project description

4. TEKAD's overall goal is to empower village communities in eastern Indonesia to foster rural transformation and inclusive growth by leveraging the potential of the Village Law and the Village Fund. The development objective of the project is to enable rural households to establish sustainable livelihoods through enhanced village and district governance.
5. The project focuses on improving village governance by ensuring effective and inclusive planning processes that increase the villages' focus on economic development and lead to efficient utilization of village funds provided by the Ministry of Villages, Development of Disadvantaged Regions and Transmigration (MoV).

II. Rationale for additional financing

A. Rationale

6. The project was designed with a financing gap of EUR 73 million (US\$80 million). Receiving additional financing for TEKAD from the Twelfth Replenishment of IFAD's Resources (IFAD12) cycle is critical, as almost all of the remaining IFAD loan funds will be used under the project's 2024 annual workplan and budget (AWPB). As the project has nearly reached 100 per cent disbursement, it will come to a halt if additional financing is not received.
7. Regarding programme implementation, the project has accelerated implementation with the introduction of investment funds to support business development, as recommended by the midterm review, and the increased establishment of

¹ Based on the original cost tables.

demonstration plots. With an enhanced emphasis on business investment and rural development, the project made significant progress in 2023 and has influenced villagers to prioritize investing for economic gain. The number of households reached increased by 57 per cent during 2023, rising from 29,861 to 46,797. The capacity-building activities for all district project implementation units were successfully conducted, using updated training modules. Community participation in village planning has increased, and there is improved awareness of TEKAD activities in the targeted villages. A strategic policy unit has been established and is operational at the national level, which is contributing to TEKAD's sustainability.

8. Despite the high momentum and enhanced capacity of the implementing agency (MoV), project implementation had to be scaled down in 2024 in line with the available remaining budget and the internal clearance processes required mainly as a result of the change in lending terms for Indonesia under the IFAD12 cycle. Nevertheless, TEKAD's interventions have become increasingly important, as it supports communities in the most remote, vulnerable and politically sensitive areas of the country. With the additional financing, the project will be able to resume the activities put on hold in 2024 and accelerate implementation.

Special aspects relating to IFAD's corporate mainstreaming priorities

9. In line with IFAD's mainstreaming commitments, the project has been validated as:
 - Youth-sensitive

B. Description of geographical area and target groups

10. Originally, TEKAD activities were implemented in five provinces in eastern Indonesia: Papua, West Papua, Maluku, North Maluku and East Nusa Tenggara. Following the division of Papua into five regions in 2022, the project now operates in nine provinces: Maluku, North Maluku, East Nusa Tenggara, West Papua, Papua, Central Papua, Highland Papua, South Papua and Southwest Papua.
11. TEKAD targets the areas with the highest poverty levels in the country. These areas are characterized by low literacy and high malnutrition rates and are among the areas in Indonesia most at risk from climate change. Papua and East Nusa Tenggara are two of the three poorest regions in the nation. The poverty rate in Papua is 26 per cent.
12. **Indigenous Peoples.** Indonesia's Indigenous population is estimated to comprise between 50 and 70 million people. The Papua region, which is the TEKAD project area, is home to numerous Indigenous groups.
13. **Changes in outreach.** It is proposed to revise the original outreach number as a result of (i) a more accurate calculation of the number of households per village, and (ii) the decreased project financing, as detailed below.
 - (i) **Correction of the number of households estimated at design.** The average number of households per village as initially estimated was not representative and has been reduced from 240 to 180, based on the midterm review survey. The initial assumption that the project would reach 100 per cent of the households in the targeted villages was unrealistic and has been adjusted downward to 75 per cent. While the original design targeted 412,300 households in 1,720 villages, the number of households that the project could realistically reach is 232,200. Taking into account the remaining project duration, and using the correct household calculation, the midterm review proposed reducing the village outreach target from 1,720 to 1,110. With this adjustment, the number of households reached would be 149,850. This household outreach figure will be revised upward (from the midterm review target) to 165,370 with the additional financing, which will increase the project's impacts in surrounding villages within the targeted project areas.

- (ii) **Reduced project financing.** The overall project cost has been reduced with the partial filling of the financing gap. Although the design envisaged a financing gap of EUR 73 million (US\$80 million), the Government requested additional financing to fill only part of the gap (EUR 25.2 million, or US\$27.8 million), resulting in a 47 per cent reduction in total IFAD financing. Nevertheless, the reduction in overall outreach will be minimal: a 29 per cent reduction, from 232,200 to 165,370 households, using the corrected household calculation for household outreach.
14. With the additional financing, TEKAD will thus reach 165,370 households in 1,110 villages.

C. Components, outcomes and activities

15. The project's interventions under the following three components will remain the same as for the original loan.
- **Component 1: Village economic empowerment**, encompassing all activities that take place at the village level and that are aimed at improving local-level capacity to promote and implement inclusive and sustainable village economic development by leveraging village funds and other resources.
 - **Component 2: Partnerships for village economic development**, which comprises activities at district and provincial level aimed at creating an enabling environment in which villages and village economic organizations are better connected and have better access to services, markets and financing.
 - **Component 3: Innovation, learning and policy development**, which focuses on national-level activities designed to support evidence-based learning, policy development and institutional strengthening to support village economic development in eastern Indonesia.
16. The table below summarizes the expected outcomes of the three components of TEKAD.

<i>Component</i>	<i>Outcome</i>
1. Village economic empowerment	<ul style="list-style-type: none"> • Village communities implement profitable economic initiatives, prioritized through participatory planning to ensure that strategic choices rest on broad participation of social and economic groups
2. Partnerships for village economic development	<ul style="list-style-type: none"> • Districts and subdistricts have strengthened capacity to provide support services to village governments and better integrate village needs into district economic development planning • Villagers' access to qualified technical and business development services promoted
3. Innovation, learning and policy development	<ul style="list-style-type: none"> • Enabling policy and institutional environment created to facilitate village economic development • Efficiently and effectively managed project achieving results, with communication and knowledge management integrated into all aspects of operations

D. Costs, benefits and financing

Project costs

17. The combined TEKAD incremental investment and recurrent costs, for both the original and the additional financing, are estimated at EUR 106.9 million (US\$117.9 million), comprising: (i) the original approved IFAD loan of EUR 29.8 million (US\$32.9 million); (ii) the original approved IFAD grant of EUR 1.3 million (US\$1.5 million); (iii) the additional financing of EUR 25.2 million (US\$27.8 million); (iv) the expected government contribution of EUR 11.4 million (US\$12.6 million); (v) the expected beneficiary contribution of EUR 1.6 million (US\$ 1.8 million); and (vi) expected village funds of EUR 37.5 million (US\$41.4 million).

18. With the additional financing, the IFAD loan amounts to EUR 55 million (US\$60.7 million), or 53 per cent of the total project financing. The COSTAB data have been updated as a result of the changes in additional financing and counterpart funding.

Table 1
Original and additional financing summary
(Millions of United State dollars)

	<i>Original financing</i>	<i>Change in financing</i>	<i>Additional financing</i>	<i>Total</i>
IFAD loan	32.9	0.0	27.8	60.7
IFAD grant	1.5	0.0	0.0	1.5
Financing gap	80.0	(80.0)	0.0	0.0
Government contribution	18.99	(6.4)	0.0	12.6
Beneficiary	27.08	(25.28)	0.0	1.8
Village Fund	541.6	(500.2)	0.0	41.4
Total	702.07	(611.88)	27.8	117.9

* See tables 1, 2 and 3 in document EB 2019/LOT/P.13 for a detailed breakdown.

Table 2
Additional financing: project costs by component (and subcomponent) and financier
(Thousands of United States dollars)

<i>Component/subcomponents</i>	<i>IFAD loan 2 (additional financing)</i>	
	<i>Amount</i>	<i>%</i>
1. Village economic empowerment		
1.1. Village governance	2 926	11
1.2. Village economic initiatives	14 838	53
Subtotal	17 763	64
2. Partnerships for village economic development		
2.1. District support for village economic development	5 627	20
2.2. Financial services	826	3
Subtotal	6 453	23
3. Innovation, learning and policy development		
3.1. Innovation, learning and inspiration	1 242	4
3.2. Policy development and institution-building	486	2
3.3. Project management	1 865	7
Subtotal	3 592	13
Total	27 809	100

Table 3
Project financing: project costs by expenditure category and financier
(Thousands of United States dollars)

<i>Expenditure category</i>	<i>IFAD loan 1</i>		<i>IFAD grant</i>		<i>Additional IFAD loan 2</i>		<i>Government</i>		<i>Beneficiary</i>		<i>Village Fund</i>		<i>Total</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
1. Civil works	689	2	-	0	4 591	17	528	4	-	0	41 436	100	47 244	40
2. Goods, services and inputs	4 565	14	-	0	6 246	22	1 081	9	1 805	100	-	0	13 696	12
3. Consulting services	17 302	53	1 500	100	6 654	24	2 418	19	-	0	-	0	27 873	24
4. Training	5 314	16	-	0	8 165	29	1 348	11	-	0	-	0	14 827	13
5. Operating costs	4 985	15	-	0	2 154	8	727	6	-	0	-	0	7 866	7
6. Recurrent costs	-	0	-	0	-	0	6 488	52	-	0	-	0	6 488	5
Total	32 855	100	1 500	100	27 809	100	12 590	100	1 805	100	41 436	100	117 994	100

Table 4

Project costs by component (original and additional financing)

(Thousands of United States dollars)

Component/subcomponent	IFAD loan 1		IFAD grant		Additional IFAD loan 2		Government		Beneficiary		Village Fund		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Village economic empowerment														
1.1. Village governance	4 736	52.6	584	6.5	2 926	32.5	766	8.5	-	-	-	-	9 012	7.6
1.2. Village economic initiatives	5 149	7.9	-	-	14 838	22.7	1 999	3.1	1 805	2.8	41 436	63.5	65 226	55.3
Subtotal	9 886	13.3	584	0.8	17 763	23.9	2 765	3.7	1 805	2.4	41 436	55.8	74 238	62.9
2. Partnerships for village economic development														
2.1. District support for village economic development	16 380	66.0	-	-	5 627	22.7	2 805	11.3	-	-	-	-	24 812	21.0
2.2. Financial services	608	35.7	126	7.4	826	48.5	143	8.4	-	-	-	-	1 704	1.4
Subtotal	16 988	64.1	126	0.5	6 453	24.3	2 948	11.1	-	-	-	-	26 515	22.5
3. Innovation, learning and policy development														
3.1. Innovation, learning and inspiration	88	5.6	86	5.5	1 242	79.7	142	9.1	-	-	-	-	1 557	1.3
3.2. Policy development and institution-building	276	18.0	684	44.5	486	31.6	90	5.8	-	-	-	-	1 536	1.3
3.3. Project management	5 618	39.7	19	0.1	1 865	13.2	6 645	47.0	-	-	-	-	14 146	12.0
Subtotal	5 982	34.7	789	4.6	3 592	20.8	6 876	39.9	-	-	-	-	17 240	14.6
Total	32 855	27.8	1 500	1.3	27 809	23.6	12 590	10.7	1 805	1.5	41 436	35.1	117 994	100.0

Table 5

Project costs by component and project year (original and additional financing)

(Thousands of United States dollars)

Component/subcomponent	2020	2021	2022	2023	2024	2025	2026	Total
1. Village economic empowerment								
1.1. Village governance	-	768.9	336.3	2 272.8	2 416.1	3 218.1	-	9 012.1
1.2. Village economic initiatives	-	270.9	16 582.6	19 346.3	12 705.1	16 321.3	-	65 226.1
Subtotal	-	1 039.7	16 918.9	21 619.1	15 121.2	19 539.4	-	74 238.3
2. Partnerships for village economic development								
2.1. District support for village economic development	-	4 354.5	2 247.4	7 136.2	4 490.4	6 583.4	-	24 811.9
2.2. Financial services	-	-	126.1	200.0	468.4	909.0	-	1 703.5
Subtotal	-	4 354.5	2 373.5	7 336.2	4 958.8	7 492.4	-	26 515.5
3. Innovation, learning and policy development								
3.1. Innovation, learning and inspiration	-	-	-	70.6	120.7	1 250.4	115.5	1 557.2
3.2. Policy development and institution-building	-	253.1	-	373.1	375.3	534.7	-	1 536.3
3.3. Programme Management	277.4	2 498.1	4 063.1	3 870.8	1 224.4	1 093.3	1 119.3	14 146.4
Subtotal	277.4	2 751.2	4 063.1	4 314.6	1 720.4	2 878.4	1 234.8	17 239.9
Total	277.4	8 145.5	23 355.5	33 269.9	21 800.4	29 910.1	1 234.8	117 993.6

Financing and cofinancing strategy and plan

19. The midterm review found that Village Fund resources are meant to support inputs, basic production equipment and consumables for one production season. This is not fully in line with the project's development objectives and activities, which are intended to support villages' business activities for rural transformation and inclusive growth in eastern Indonesia. In addition, the project's interventions will extend beyond one production season. Based on the feasible utilization of Village Fund resources for economic development and in line with TEKAD's development objectives, the midterm review recalculated the total counterpart funds as amounting to EUR 51.5 million (US\$55.8 million) instead of the original EUR 531.9 million (US\$587.67 million). The project should report cofinancing in a timely and transparent manner, as stated in the updated project implementation manual.

Disbursement

20. The withdrawal of resources from IFAD financing will follow the revolving fund disbursement modality. IFAD funds will be disbursed through a designated account denominated in euros and will be processed against duly certified withdrawal applications, in accordance with the updated IFAD disbursement procedures. The need for a separate designated account for the additional financing will be decided by the borrower in accordance with national requirements. Further details concerning disbursement will be provided in the financial management and financial control arrangements letter (FMFCL) and the project financing agreement. The proposed thresholds for direct payments will be outlined in the FMFCL.

Summary of benefits and economic analysis

21. TEKAD's economic and financial analysis was updated to take account of the changes in the overall project costs, incorporating realistic outreach figures, based on accurate household counts for each village (appendix II). The revised economic and financial analysis reflects a total project cost of EUR 106.9 million (US\$117.9 million), targeting 1,110 villages comprising 165,370 households.
22. The results of the economic analysis show that TEKAD has an economic internal rate of return of 20.5 per cent and an economic net present value of US\$262.6 million over the 20-year analysis period. The benefit-cost ratio is 1.80, indicating that for every dollar invested TEKAD will generate US\$1.80 in economic benefits.
23. TEKAD demonstrates strong financial and economic viability across a range of agricultural and livestock enterprises. The project's robust internal rate of return, coupled with significant employment generation and income improvements, highlights its potential to contribute meaningfully to poverty reduction and rural development in eastern Indonesia. Policymakers should consider scaling up similar initiatives while addressing identified risks, such as delays in benefit realization and cost overruns.

Exit strategy and sustainability

24. The project exit strategy foresees that, by the end of project implementation, sustainable mechanisms will be in place to ensure the allocation and implementation of village resources for economic growth. To this end, TEKAD rests on three pillars: (i) building the capacities of village governments and communities to plan the use of Village Fund resources for economic development and to implement profitable economic initiatives; (ii) promoting an ecosystem whereby villagers will be able to access profitable markets, receive support from qualified public and private service providers and use financial services; and (iii) developing evidence-based orientation and capacity-building tools to support village economic development, improve the policy framework and enhance the capacity of the MoV to make use of these new instruments.

III. Risk management

A. Risks and mitigation measures

25. The project's main risks and corresponding mitigation measures have been identified. Following the general election in February 2024 and the inauguration of Indonesia's new President in October 2024, the Government has been implementing a number of exceptional measures to address changes associated with the transition. During the transition period, there may be uncertainties around the new measures for budget allocation under the new Government. These uncertainties are described in the integrated project risk matrix. The national project management unit will maintain close communication with the Ministry of Finance and the Ministry of National Development Planning to ensure the allocation of the budget required for consistent project delivery, and staff of the unit will be trained to refine the risk matrix during implementation and establish a risk log. The risk log will be updated regularly to inform decision-making.
26. **Financial risks.** The financial management inherent risk is rated as substantial. Mitigation actions include: (i) capacity-building and technical assistance at the provincial and district levels; (ii) timely and accurate budgeting and systematic monitoring of budget performance; (iii) finalizing the revision of the project implementation manual to reflect up-to-date financial management provisions, including timely financial reporting and strengthening of project internal controls; and (iv) following audit recommendations and action plans.

B. Environment and social category

27. The environmental and social category for TEKAD is rated as moderate. The environmental impact of micro-scale, rural-level village development activities is considered minimal, and mitigating measures can be put in place.
28. The project area is situated in regions inhabited by Indigenous Peoples that have tangible and intangible cultural heritage. Infrastructure improvements included in the project design are small in scale. The project is designed to avoid negative impacts, such as physical and economic displacement of population and large-scale infrastructure development that might disrupt traffic or alter traffic patterns, and to prevent the use of hazardous materials in project activities. The project will not have adverse effects on Indigenous Peoples or historical, religious or cultural sites.
29. The relevant Social, Environmental and Climate Assessment Procedures (SECAP) have been followed to ensure adequate management of potential environmental and social risks associated with the project activities, including: an Environmental, Social and Climate Management Plan; a stakeholder engagement plan; a grievance redress mechanism; a Free, Prior and Informed Consent instrument; and an Indigenous Peoples plan.

C. Climate risk classification

30. The climate risk for TEKAD has been assessed as high. Some districts in the project area are prone to climate-related natural disasters. Some villages located in the coastal area are at risk of high tidal waves, which cause abrasive effects. Changes in rainfall and prolonged drought have had a significant impact on the agricultural sector, which is crucial for a large portion of the communities' livelihood. The risk from natural disasters caused by volcanoes should also be considered for some provinces, given the country's geographical location on several tectonic plates. While the project is being carried out in areas that are exposed to climate- and disaster-related issues, the MoV and the implementing districts are building capacity to cope with volatility, shocks, stressors and changing climate trends, and the project includes training on climate change adaptation in agribusiness for extension staff. To reduce risks from climatic extremes, the implementing agency is also supporting beneficiaries in complying with the national environmental management statement (*Surat Pernyataan Pengelolaan Lingkungan*), which

identifies impact source, impact type and mitigating/risk management measures, in accordance with Indonesian regulations.

IV. Implementation

A. Compliance with IFAD policies

31. TEKAD is fully aligned with the goals and objectives of the IFAD Strategic Framework 2016–2025 and relevant IFAD policies and strategies, including: (i) the IFAD Poverty Targeting Policy 2023; (ii) the IFAD Rural Youth Action Plan (2019–2021); (iii) the IFAD Private Sector Engagement Strategy 2019–2024; (iv) the IFAD Policy on Gender Equality and Women’s Empowerment (2012); and (v) IFAD’s SECAP.
32. The activities supported by TEKAD are aligned with the current country strategic opportunities programme (COSOP) 2023–2027 and its strategic objective 1: small-scale women and men producers increase their income from diversified, profitable and resilient production that meets their food security and nutrition needs, meets demand from local and international markets, and sustainably manages natural resources; and strategic objective 2: institutions and organizations, from village to national level, strengthen their capacities to respond to the needs of small-scale producers.

B. Organizational framework Management and coordination

33. The original management and coordination framework will remain unchanged. The MoV takes overall leadership for the project and is responsible for overall project management, coordination and oversight. The project implementation structure has strong management foundations at the national and district levels.
34. The organizational structure is as follows:
 - (i) A national steering committee provides overall guidance and oversight and approves AWPBs, progress reports and financial reports;
 - (ii) The MoV is the executing agency and a national project management unit (PMU) under its authority is responsible for the day-to-day project management and implementation; and
 - (iii) Provincial and district management units in every target province and district work under the supervision of the PMU.
35. **Financial management.** The quality of financial management of TEKAD was rated as moderately satisfactory based on the latest supervision mission, conducted in January 2024. The financial management arrangements are properly organized in terms of staffing and systems. The project finance team is equipped to manage the additional financing, with segregation of duties for major functions. The approved AWPB and procurement plan will guide the project activities. The current financial management arrangements will be maintained for this additional financing.
36. **Accounting and reporting.** The existing management information system of TEKAD needs to be updated to record counterpart financing in a timely manner and to generate reports. Interim financial reports will be prepared and submitted through the IFAD Client Portal within 30 days of the end of each quarter, together with the related withdrawal applications for justification and advances when required. The reporting currency will be the euro and the transaction currency, the Indonesian rupiah.
37. **Disbursement and funds flow arrangements.** The designated account in euros in the central treasury will receive the additional financing. The designated account will follow the revolving fund arrangement, informed by the quarterly interim financial reports and cash forecasts. A project account will be maintained at the

Ministry of Finance in Indonesian rupiah for transaction purposes and will be replenished as needed from the designated account. In the event that a separate designated account is opened for the additional financing, its utilization will commence after the original loan has been fully utilized, unless there is strong justification from the Government to use the additional funds in parallel with the original financing.

38. **Internal control.** The current approved project implementation manual, along with the financial management manual for TEKAD, including a number updates, will be maintained for this additional financing.
39. **External audit.** Annual financial statements will be prepared on a cash basis in accordance with International Public Sector Accounting Standards. The additional financing will be incorporated into the project financial statements and will be subject to an annual external audit by a supreme audit institution approved by IFAD. An annual audit report and management letter will be submitted to IFAD within six months of year-end. The audit report will be disclosed in accordance with the IFAD disclosure policy.
40. **Procurement.** Procurement will be carried out in accordance with the provisions of Indonesian Presidential Decree No. 12/2021 and the National Public Procurement Agency regulation, using the e-procurement and e-catalogue systems, in accordance with the most recent IFAD Project Procurement Guidelines.
41. **Anticorruption.** IFAD will not finance expenditures for goods, works or consulting services that have not been procured in accordance with the IFAD Project Procurement Guidelines and the financing agreement. In such cases, IFAD may, in addition, take other remedial action under the financing agreement, including cancelling the amount in question from the loan account by declaring it ineligible. Even if the contract was awarded following a no objection statement from IFAD, the latter may still declare misprocurement if it concludes that this statement was issued on the basis of incomplete, inaccurate or misleading information furnished by the borrower or the recipient.

C. Monitoring and evaluation, learning, knowledge management and strategic communication

42. The monitoring and evaluation (M&E) and the knowledge management systems in place currently for the project will be used for the additional financing. The M&E system is coordinated by the national PMU and includes the logical framework, the M&E framework, the management information system and a web-based monitoring dashboard. IFAD will undertake periodic monitoring, evaluation and supervision missions to assess the status of project implementation and set future directions. In each village targeted by the project, TEKAD has village cadres who will help to collect the M&E data while delivering technical support for the beneficiaries. TEKAD will continue to share knowledge through learning events and stakeholder workshops and through various media.

D. Proposed amendments to the financing agreement

43. The financing agreement will be amended to reflect the following: (i) the additional financing of EUR 25.2 million (US\$27.8 million), maintaining the same terms and conditions as stipulated for IFAD ordinary loans of category 2, with the corresponding amendments to schedule 2 of the agreement; (ii) the adjustment in the amounts of counterpart funds, including the government contribution of EUR 11.4 million (US\$12.6 million), the beneficiary contribution of EUR 1.6 million (US\$1.8 million), and Village Fund resources of EUR 37.5 million (US\$41.4 million); (iii) restructuring in the project targeting and logical framework, reflecting the correct number of households residing in the targeted villages; and (iv) the updated number of project areas, which increased from five to nine provinces following the division of Papua Province in 2022.

V. Legal instruments and authority

44. A financing agreement between the Republic of Indonesia and IFAD will constitute the legal instrument for extending the proposed additional financing to the borrower/recipient. The financing agreement will be amended following approval of the additional financing by the Executive Board.
45. The Republic of Indonesia is empowered under its laws to receive financing from IFAD.
46. I am satisfied that the proposed additional financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

47. I recommend that the Executive Board approve additional financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on ordinary terms to the Republic of Indonesia in an amount of twenty-five million two hundred thousand euros (EUR 25,200,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Alvaro Lario
President

Updated logical framework incorporating the additional financing

Results hierarchy	Indicators			Justifications in changes
	Name	Targets at design (original financing gap)	End target with AF (Actual AF and counterpart amount)	
Outreach	1.b Estimated corresponding number of total households members			Overall outreach adjusted based on the actual available funds and number of villages in each village based on MTR survey. The realistic numbers of households and individuals which could have been reached through 1,720 villages were 232,200 households and 464,400 individuals instead of 412,300 households and 824,640 individuals.
	Household members- Number of people	1 855 350	744 165	
	1.a Corresponding number of households reached			
	Households- households	412 300	165 370	
	1 Persons receiving services promoted or supported by the project			
	Total number of persons receiving services- Number of people	824 640	330 740	
	Villages receiving services supported or promoted by the project			
Number of villages	1 720	1 110		
Programme goal	Percentage of households receiving services promoted by TEKAD increase: Real income in at least 30%; HH asset ownership index (CI1 and COSOP)			
	Households (%)	60	60	
Development Objective	Percentage of villages, where smallholders' farm and off-farm businesses supported by the Village Fund and by the Project are functioning effectively			
	Villages (%)	70	70	
Outcome 1 Village communities plan and implement profitable economic initiatives taking advantage of village resources	At least 30% of Village Fund (DD) and District Village Allocation (ADD) budgeted for economic development			
	Village fund (%)	30	30	
	1.2.4 Households reporting an increase in production			
	Households	70	70	
	1.2.5 Households reporting using rural financial services (New)			
	Households	247 380	68 148	
	Household (%)	60	40	
	Total number of household members	1 113 210	306 666	
	1.2.2 Households reporting adoption of new/improved inputs, technologies or practices (New)			
	Households	288 610	115 759	
Household (%)	70%	70%		

Results hierarchy	Indicators			Justifications in changes
	Name	Targets at design (original financing gap)	End target with AF (Actual AF and counterpart amount)	
	Total number of household members	1 298 745	520 916	
Output 1 Output 1.1 Governance and capacities of village communities to envision, plan and implement village resources improved.	No of village administration staff receiving capacity building to improve service delivery (NEW)			Originally 'Persons engaged in village governance and administration receiving capacity-building for preparing and implementing development plans (COSOP)' made specific to measure admin level, village measure and persons involved in village level meeting.
	Number of staffs		8 880	
	Number of annual village budgets including activities and resources in support to economic activities (New)			
	Number		1 110	
	Number of persons involved in village level meeting (New)			
	Number of persons		90 800	
Output 1 Output 1.2 Village households enabled to develop economic initiatives	Villages receiving capacity-building for economic initiatives			Target changed to 1,110 in line with the village outreach with the actual AF amount.
	Villages receiving capacity building support	1720	1 110	
	CI 1.1.4: Persons trained in production practices and/or technologies (New)			CI 1.1.4 measures people benefitting from investment funds or demplots.
	Total rural producers		23 200	
	Males		11 600	
	Females		11 600	
	Young		5 800	
	Persons benefitting from project competitive investment for economic development (New)			New indicator based on M&E recommendations
	Total persons		22 500	
	Female		11 250	
	Men		11 250	
	Young		5 625	
	CI 1.1.7 Persons in rural areas trained in financial literacy and/ or use of financial products and services			Moved from Output 2.1 as this activity is measured from Component 1.2
	Males - Males		112 450	
	Females - Females		112 450	
Young - Young people		56 225		
Indigenous people - Indigenous people		224 900		
Persons in rural areas trained in FL and/or use of FProd and Services (total) - Number of people		224 900		
Outcome 2 Villages households have sustainable access to markets and to public and private services in support of village economic initiatives	Districts integrating investment financing for target villages in district plans			Participating districts is 25, not 20.
	Participating districts	20	25	
	Households satisfied with the relevance, quality and accessibility of extension services provided by public and private sector (COSOP)			
	Households satisfied with services provided by public and private sector (%)	80	80	

Results hierarchy	Indicators			Justifications in changes
	Name	Targets at design (original financing gap)	End target with AF (Actual AF and counterpart amount)	
	2.2.6 Households reporting improved physical access to markets, processing and storage facilities (New)			New indicator as requested by Ministry of Planning.
	Households reporting improved physical access to processing (number)		49 611	
	- Households reporting improved physical access to processing (%)		30%	
	Size of Households (number of people)		223 250	
Output 2	District administration receiving capacity-building for supporting economic activities (COSOP)			Number of district administration staff receiving capacity-building to improve service delivery in line with New Indonesia COSOP
Output 2.1 District and sub-district capacity strengthened to extend technical services in support to village economic development	Number of District	25	25	
	Policy 2 Functioning multi-stakeholder platforms supported			Moved from Output level as multi-stakeholder platform will be supported through district capacity building
	No. of platforms	25	25	
Output 2	People receiving services from Business Development Service Providers (BDSPs)			BDSPs are run by district government. Target is reduced due to the availability of BDSPs. Out of 1,110 villages, only 500 villages have access to BDSPs
Output 2.2 Access to markets and business development services	Persons	206 150	5 000	
Output 2.3	M&E system providing reliable and comprehensive data that support management in making decisions at the national level			Changed target from Districts with MIS and KM systems operational (COSOP)
Access to financial services		25	1	

Updated summary of the economic and financial analysis

Table A

Financial cash flow models

Year	Enterprise model's net incremental benefits (in US\$)								
	Seaweed Farming	Sea Cucumber Farming	Black Pepper Replanting	Coffee Replanting	Pig Production	Cocoa Replanting	Bee Honey Production	Sweet Potato Planting	Bamboo Production
PY1	0	0	0	0	0	0	0	0	0
PY2	0	0	0	0	0	0	0	0	0
PY3	0	0	0	0	0	0	0	0	0
PY4	-62	-2,196	-343	-679	-1,161	-189	-1,352	-1,759	-3,336
PY5	-294	-7,099	-1,010	-2,161	-1,679	-576	-1,987	-1,198	-9,577
PY6	-685	-7,330	-2,439	-3,235	-992	-793	-1,163	398	-18,920
PY7	-457	14,946	-1,656	-765	3,199	81	3,048	5,047	-14,902
PY8	-186	22,722	-646	488	2,170	654	4,541	4,925	-386
PY9	473	25,105	1,298	1,332	-78	1,140	4,859	4,885	8,825
PY10	936	25,893	3,467	2,707	-501	1,577	4,859	4,885	15,340
PY11	1,000	25,893	5,373	4,018	608	2,026	4,859	5,047	15,878
PY12	936	25,893	6,183	5,326	3,335	2,338	4,859	5,047	17,794
PY13	1,000	25,893	6,183	7,090	2,068	2,526	4,859	4,925	24,739
PY14	936	25,893	6,183	8,967	-112	2,606	4,859	4,885	26,655
PY15	1,000	25,893	6,183	10,056	-501	2,736	4,859	4,885	25,874
PY16	936	25,893	6,183	10,644	744	2,812	4,859	5,047	24,976
PY17	1,000	25,893	6,183	11,600	3,233	2,799	4,859	5,047	24,976
PY18	936	25,893	6,183	12,602	2,034	2,795	4,859	5,047	28,570
PY19	952	25,893	6,183	12,592	-112	2,795	4,859	5,047	28,570
PY20	873	25,893	6,183	12,592	-365	2,795	4,859	5,047	28,570
IRR	29%	76%	36%	34%	29%	48%	55%	72%	23%
NVP (in '000 US\$)	3,463	143,825	22,702	33,763	4,885	11,168	26,329	29,819	76,510

Table B

Programme costs and logframe targets

PROGRAMME COSTS AND INDICATORS FOR LOGFRAME				
TOTAL PROGRAMME COSTS (in million US\$)			117.99	
Beneficiaries	744,165	people	165,370	households
Cost per Beneficiaries	158.5	US\$/person	629.32	US\$/HH
Components and Costs	US\$ million			
A. Village Economic Empowerment	74.24	Average increase income per HH		US\$
B. Partnerships for Village Economic Development	26.52	• without Programme		336.77
C. Innovation, Learning and Policy Development	17.24	• with Programme		1,865.26
Total	117.99			

Table C
Main assumptions and shadow prices

MAIN ASSUMPTIONS & SHADOW PRICES					
	Output	Unit of Measure	Annual Income		
			WOP	WP	
FINANCIAL	Seaweed Farming	Per Year	292	686	
	Sea Cucumber Farming	Per Year	96	2,283	
	Black Pepper Replanting	Per Year	480	1,696	
	Coffee Replanting	Per Year	234	4,805	
	Pig Production	Per Year	62	372	
	Cocoa Replanting	Per Year	12	2,491	
	Bee Honey Production	Per Year	56	550	
	Annual Planting of Sweet Potato	Per Year	1,240	1,340	
	Bamboo Production	Per Year	560	2,563	
	Financial Discount Rate			9.00%	
Economic	Standard Conversion Factor (SCF)			0.991	
	Shadow Exchange Rate Factor (SERF)			1.01	
	VAT (average) [Deloitte, Indonesian Highlights, 2022-2023]			11%	
	Custom Duty for Imports (Flat Rate on all)			8%	
	Exchange Rate (US\$ to IDR)			15,254	
	Discount Rate for Economic Analysis			6.21%	

Table D Beneficiary adoption rates and phasing**No. of Beneficiaries of Original & Additional Financing: 165,374 HHs****Adoption rate: 70%****No. of Beneficiaries after applying adoption rate: 115,759 HHs**

Province	PY 2	PY 3	PY 4	PY 5	PY 6	Total uptake during programme period	PY 7	PY 8	PY 9	PY 10	Total continued uptake after programme	Total
Phasing	0%	0%	15%	20%	20%	55%	20%	20%	5%	0%	45%	100%
Papua	0	0	0	3,682	4,909	8,591	4,909	4,909	4,909	1,227	15,954	24,545
West Papua	0	0	3,843	5,125	5,125	14,092	5,125	5,125	1,281	0	11,530	25,623
Maluku	0	0	4,131	5,508	5,508	15,146	5,508	5,508	1,377	0	12,392	27,538
North Maluku	0	0	3,882	5,177	5,177	14,236	5,177	5,177	1,294	0	11,647	25,883
NTT	0	0	4,149	5,532	5,532	15,212	5,532	5,532	1,383	0	12,446	27,658
Total Uptake of HH	0	0	16,005	25,022	26,249	67,277	26,249	26,249	10,244	1,227	63,970	131,247

Table E
Economic cash flow (Original + AF)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	
Seaweed Farming	0	0	0	-62	-294	-685	-457	-186	473	936	1,000	936	1,000	936	1,000	936	1,000	936	952	873	
Sea Cucumber Farming	0	0	0	-2,196	-7,099	-7,330	14,946	22,722	25,105	25,893	25,893	25,893	25,893	25,893	25,893	25,893	25,893	25,893	25,893	25,893	25,893
Black Pepper Replanting	0	0	0	-343	-1,010	-2,439	-1,656	-646	1,298	3,467	5,373	6,183	6,183	6,183	6,183	6,183	6,183	6,183	6,183	6,183	6,183
Coffee Replanting	0	0	0	-679	-2,161	-3,235	-765	488	1,332	2,707	4,018	5,326	7,090	8,967	10,056	10,644	11,600	12,602	12,592	12,592	
Pig Production Model: Traditional Pig Herd with Improved Pen, Nutrition and Husbandry	0	0	0	-1,161	-1,679	-992	3,199	2,170	-78	-501	608	3,335	2,068	-112	-501	744	3,233	2,034	-112	-365	
Cocoa Replanting	0	0	0	-189	-576	-793	81	654	1,140	1,577	2,026	2,338	2,526	2,606	2,736	2,812	2,799	2,795	2,795	2,795	2,795
Bee Honey Production	0	0	0	-1,352	-1,987	-1,163	3,048	4,541	4,859	4,859	4,859	4,859	4,859	4,859	4,859	4,859	4,859	4,859	4,859	4,859	4,859
Annual Planting of Sweet Potato	0	0	0	-1,759	-1,198	398	5,047	4,925	4,885	4,885	5,047	5,047	4,925	4,885	4,885	5,047	5,047	5,047	5,047	5,047	5,047
Bamboo Production	0	0	0	-3,336	-9,577	-18,920	-14,902	-386	8,825	15,340	15,878	17,794	24,739	26,655	25,874	24,976	24,976	28,570	28,570	28,570	28,570
Total Incremental Benefits	0	0	0	-11,077	-25,580	-35,160	8,540	34,283	47,839	59,164	64,702	71,710	79,285	80,872	80,986	82,093	85,590	88,919	86,778	86,446	
Total Incremental Cost	0	0	0	11,063	31,957	55,939	30,020	22,725	22,727	26,410	28,334	28,307	24,408	23,900	27,066	28,773	28,742	24,648	24,027	24,359	
TEKAD Project Cost	253	7,631	21,300	30,660	19,941	27,300	1,127	0	0	0	0	0	0	0	0	0	0	0	0	0	
Overhead Cost of Implementing Agencies	0	0	0	0	0	0	0	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127	1,127	
Grand Total Economic Cost	253	7,631	21,300	41,723	51,899	83,239	31,147	23,852	23,854	27,537	29,461	29,434	25,535	25,027	28,193	29,900	29,869	25,775	25,154	25,486	
Project Net Benefit Flow	-253	-7,631	-	-41,737	-45,521	-62,460	7,413	33,156	46,712	58,037	63,575	70,583	78,157	79,745	79,859	80,966	84,463	87,792	85,651	85,319	
	0	0	21,300	-62	-294	-685	-457	-186	473	936	1,000	936	1,000	936	1,000	936	1,000	936	952	873	
EIRR	20.5%																				
NPV @ 6.2% discount rate (million US\$)	262.611																				
NPV @ 6.2% discount rate (million IDR)	3,691,003																				
B/C Ratio	1.80																				

Table F
Sensitivity analysis

Scenario	EIRR	NPV (Million US\$)	B/C Ratio
Original & Additional Financing			
All cost increase by 10%	18%	230	1.64
All cost increase by 20%	16%	197	1.50
All benefits decrease by 10%	18%	204	1.62
All benefits decrease by 20%	15%	145	1.44
Cost increase by 10% and benefits decrease by 10%	16%	171	1.47
1 year delay in getting benefits	16%	197	1.70