



# Project Information Document (PID)

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Concept Stage | Date Prepared/Updated: 26-Jun-2020 | Report No: PIDC28654

**BASIC INFORMATION****A. Basic Project Data**

Country Indonesia	Project ID P173487	Parent Project ID (if any)	Project Name Agriculture Value Chain Development Project (PASAR-M) (P173487)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date Jan 11, 2021	Estimated Board Date Mar 31, 2021	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Agriculture	

**Proposed Development Objective(s)**

The project will promote sustainable, inclusive and diversified agriculture production systems and value chain development in the selected project areas.

**PROJECT FINANCING DATA (US\$, Millions)****SUMMARY**

<b>Total Project Cost</b>	220.00
<b>Total Financing</b>	220.00
<b>of which IBRD/IDA</b>	200.00
<b>Financing Gap</b>	0.00

**DETAILS****World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	200.00
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**Non-World Bank Group Financing**

Counterpart Funding	20.00
Borrower/Recipient	20.00



Environmental and Social Risk Classification

Substantial

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

## B. Introduction and Context

### Country Context

**1. Indonesia continues to make progress in reducing poverty, although the pace of decline has been slowing down in recent years, and will be severely affected by the ongoing COVID-19 crisis.** Based on the internationally comparable benchmark of USD1.9 a day (2011 PPP), Indonesia is among countries that have made the fastest gains in poverty reduction in the last two decades. Between 2000-2015, the USD1.9 poverty rate in Indonesia declined by 2.1 percentage points a year. Based on the national poverty line, poverty has also continued to decline registering 9.4 percent in March 2019. However, the pace of poverty reduction post-2010 was about half of what it used to be between 2003 and 2010 (0.6 percentage points per year).

**2. The COVID-19 epidemic is progressing fast with community transmission already appearing to be widespread.** The Government of Indonesia (GOI) announced its first positive COVID-19 case in early March – 8 weeks after the epidemic first became known. Indonesia reported its biggest daily jump in coronavirus infections at the end of April after identifying 436 new cases, taking the total to 8,211; forty-two more people who had tested positive for the virus died, taking the total number of deaths to 689<sup>1</sup>. The consequences of the epidemic in Indonesia will be severe and are likely to affect rural communities, agriculture production and the food supply system. It is also expected that Indonesia’s poverty rate will increase further during and after the pandemic as millions of households are expected to fall back into poverty due to the economic slowdown. Especially in this time of crisis, GOI has recognized the importance of functioning supply chains and food markets, and efficient crop production systems that respond to market demand and provide income for farm households.

### Sectoral and Institutional Context

**3. Indonesia is a complex, rapidly urbanizing middle-income country which has ambitious goals for green economic growth, rising prosperity, and international competitiveness.** While the process of structural transformation will lead the share of primary agriculture in national GDP and employment to decline over time, a modernizing food system— comprised of farmers, service providers, food manufacturers, and distribution companies—has much to contribute to Indonesia’s higher-level development objectives.

**4. While market potential may present a significant opportunity for producers, processors, and other value chain actors, various binding constraints need to be addressed.** Labor productivity in Indonesian agriculture is low, and is lowest in the staple food crops sub-sector. Factors affecting low productivity and profitability in the agriculture sector

<sup>1</sup> Data updated till 27-April



include a lack of market access by producers, limited uptake of improved technologies, limited extension services, infrastructure bottlenecks (including water and irrigation availability), aggregation and product quality deficiencies, downstream logistics bottlenecks, food safety issues (especially for perishable products), inadequate value chain financing, and lack of technical capacity and entrepreneurship.

**5. Unsustainable practices in lowlands undercut current and longer-term productive potential.** While the government intends to expand food production as well as the production of export crops in lowlands, large parts of the low-lying areas in Sumatra and Kalimantan currently suffer from land subsidence and flooding problems due to peatland drainage and land degradation. These are sensitive ecosystems that are becoming less productive for plantations and smallholders alike, and large peat and forest fires are causing further damage. Further land degradation can be avoided by using a landscape planning approach that considers the interactions between water, land, and other natural resources.

**6. The proposed project approach considers the following key challenges that the agriculture sector in Indonesia faces and that need to be addressed:**

- a. **Low productivity and productivity growth, especially in the small farm sector.** Not only does low productivity depress agricultural growth, it holds smallholders and dependent agricultural labor in a poverty trap by holding down the growth in their incomes.
- b. **Insufficient private investment in the development of off-farm food system, comprising agro-enterprises, trading, markets, input-supply services.** In mature agriculture economies, value generated by the off-farm food system is multiple times more than the value of crops grown. This is despite one of the world's most favorable endowment of land, soil and climate resources, testifying to insufficient institutional and market development to attract domestic investments and FDI into the sector.
- c. **A mis-match of food supply and demand:** Changing demand patterns arising from a larger, wealthier, urbanized and more food quality/safety conscious Indonesian population is increasingly mis-matched with the current locked-in legacy structure of agriculture production in Indonesia (i.e., insufficiently responsive to market demand signals). As such, the long-term food security interests of the country are at stake in terms of supply of adequate dietary sources of an appropriate kind, variety and quality.
- d. **Environment, climate change and landscape management challenges:** Natural resource degradation puts at risk the sustainability of the agriculture production base and rural livelihoods, and landscape-level planning and investment is not common practice. Climate-related shocks and other shocks put rural communities at risk, and the promotion of climate resilient technologies is not prioritized.

**7. The proposed project responds to the priorities of the Government of Indonesia – the focus of the agriculture sector in the 2020-24 medium-term development plan (RPJMN) is on the development of high value agriculture, export markets, nutrition, food supply, rural incomes and entrepreneurship.** The project is also aligned with its objectives of protecting the environment, enhancing disaster and climate change resilience; irrigation development and rehabilitation; restoration and conservation of natural infrastructure (swamp); and peatland restoration and rehabilitation. In addition, the new administration's focus areas as highlighted in the "Strategic Agricultural Program" also intends to address these issues by 1) increasing production and productivity; 2) decreasing agriculture cost to be more efficient; 3) development and implementation of agricultural mechanization, and 4) acceleration of agricultural technology utilization.



#### Relationship to CPF

8. This project is aligned with the recently completed update of the Systematic Country Diagnostic in which agriculture transformation and sustainability were identified as being important. The CPF for the next period is currently under preparation.

### C. Proposed Development Objective(s)

The project will promote sustainable, inclusive and diversified agriculture production systems and value chain development in the selected project areas.

#### Key Results (From PCN)

9. The key performance indicators of the project include:

- Increase in adoption of advanced production technology
- Agriculture diversification to horticulture
- Improved access to markets by producers
- Number of farmers beneficiaries, gender disaggregated

### D. Concept Description

10. The overall approach of the proposed project is anchored in four pillars:

- Strengthen drivers of productivity growth in project areas:** This component will aim to strengthen the technical, physical and human capital base for enhancing productivity in Indonesian agriculture, especially at the small farm level.
  - Stimulate growth of agriculture enterprises:** This component aims to accelerate growth of agro-enterprises – for their critical contribution to agricultural jobs, value addition and diversification – through the provision of technical and business development services, support for value chain development and facilitation of market access.
  - Institutional strengthening for market and policy reforms:** This component aims to promote (agricultural) system-wide efficiency and equity through more robust and competitive agricultural markets, more effective monitoring and regulation and an appropriate policy mix, as well as more effective forms of public support to enable agricultural transformation.
  - Sustainable agriculture development:** This component aims to support sustainable development of agriculture value chains with a specific focus on managing landscapes with sensitive ecosystems such as lowland areas.
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Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

The overall environmental and social risk rating is substantial. The project will bring positive environmental and social benefits through integrated public investments that support sustainable agriculture practices and fire prevention efforts that divert agriculture systems away from environmentally damaging crops and support the livelihoods of farmers and the community. The landscape planning and management approach (interactions between land, water and other natural resources) will also positively contribute to lowland/peatland conservation and reduction of carbon emissions.

The substantial environmental risk is informed by consideration of potential risks associated with specific implications of primary production activities and post-harvest operations that pose risks of occupational and community health and safety through exposure to chemical and biological hazards, pesticides, animal disease-causing agents/pathogens (bacteria, fungi, mites, viruses), as well as due to the unknown number, type, and precise locations of each investments (respective to each other), which may warrant cumulative impact assessments for a large number of small procedures within a collective watershed, and given the limited capacity and commitment of local governments and farmer groups on environmental risk management.

The social risk rating is moderate in consideration of the small-medium scale land acquisition and rehabilitation activities executed on existing public land plots and/or within existing facility premises. Risks of expropriation of property, physical displacement, and restriction on land use is not envisaged. Risks associated with labor influx and Gender-Based Violence are considered low as construction will mostly employ local labor. There is indication that Indigenous Peoples (IPs) reside in the targeted provinces but they are not usually involved in commercial farming activities and it is unlikely they would be present in the exact locations of the sub-projects. Further assessment will be conducted during project appraisal when locations have been identified along with IPs presence to reassess the social risk rating. There is risk of elite capture from better politically connected farmers, excluding sharing of project benefits to the poor and vulnerable groups, and there is also risk of child labor as children could be found working in plantations in Indonesia.

Through ongoing and past projects, Ministry of Agriculture (MoA) is demonstrating that it is fully committed to implement safeguards requirements. Continued support for MoA and the PMU will be required to ensure budget and resources are provided for managing and mitigating the environmental risks and impacts, provide guidance, mentorship, supervision, and capacity building on introducing and applying the new ESF requirements.

Potential risks and impacts will be mitigated through a project level Environmental and Social Management Framework (ESMF) that provides a framework in accordance with ESSs requirements. The ESMF will screen subprojects and exclude high risk activities, identify requirements and TORs to prepare environmental and social assessments, cumulative impact assessments and/or management plans commensurate to the risks, as well as guidelines and frameworks for resettlement policy and Indigenous Peoples, land donation protocol and willing buyer – willing seller protocol, grievance redress mechanisms, and labor procedures to address risks on occupational health and safety, labor influx, and measures to prevent child labor and sexual exploitation and abuse/sexual harassment. The ESMF will also provide guidance on institutional arrangements, roles and responsibilities, assignment of dedicated environmental and social teams, capacity



building requirements, and budget allocation to effectively implement ESMF and will be disclosed and consulted with all project stakeholders.

**CONTACT POINT**

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**APPROVAL**

Task Team Leader(s):	Jan Joost Nijhoff
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**Approved By**

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