



**Document of the
International Fund for Agricultural Development**

**Republic of Indonesia
Country Programme Evaluation
Evaluation Report**

**July 2004
Report No. 1523-ID**

Photo on Cover page: Eastern Islands Smallholder Cashew Development Project
Farmer Haji Abdurrahman prunes cashew trees in Lombok. With assistance from the project, he planted 250 trees. Other members of the community will help him harvest in October and November.
IFAD photo by Robert Grossman

Republic of Indonesia
Country Programme Evaluation

Table of Contents

| | |
|--|------------|
| Abbreviations and Acronyms | iii |
| Map | v |
| Acknowledgements | vii |
| Agreement at Completion Point | ix |
| Executive Summary | xv |
| | |
| I. INTRODUCTION | 1 |
| A. Background of the Evaluation | 1 |
| B. Approach and Methodology | 1 |
| C. The Country Programme Evaluation Workshop | 3 |
| | |
| II. THE DEVELOPMENT CONTEXT: POVERTY, AGRICULTURE AND DECENTRALIZATION IN INDONESIA | 4 |
| A. Poverty | 4 |
| B. Agriculture | 5 |
| C. Decentralization | 7 |
| | |
| III. IFAD’S STRATEGY IN INDONESIA | 10 |
| | |
| IV. PROGRAMME PERFORMANCE | 15 |
| A. Policy Effects | 15 |
| B. Project Effects | 17 |
| C. Partner Performance | 29 |
| | |
| V. PROGRAMME CONTRIBUTION TO INSTITUTIONAL DEVELOPMENT | 38 |
| A. Mandate and Innovation | 38 |
| B. Relevance | 40 |
| C. Effectiveness | 41 |
| D. Impact | 47 |
| E. Sustainability | 49 |
| | |
| VI. PROGRAMME CONTRIBUTION TO RURAL FINANCE | 50 |
| A. Relevance | 51 |
| B. Effectiveness | 53 |
| C. Institutional Development | 55 |
| D. Sustainability | 56 |
| E. Impact | 57 |
| F. A Policy Perspective | 58 |
| | |
| VII. CONCLUSIONS AND RECOMMENDATIONS | 60 |
| A. Principal Conclusions | 60 |
| B. Recommendations | 66 |

APPENDICES

| | | |
|-------------|---|-----------|
| I. | IFAD-Supported Projects and Programmes in Indonesia | 71 |
| II. | Bibliography | 72 |
| III. | IFAD-Indonesia Country Programme Evaluation (CPE) – comments of Prof. M.S. Swaminathan | 76 |

ANNEXES*

A. CPE Thematic Working Papers

- I. Rural Finance**
- II. Agriculture Technologies**
- III. Institutional Development and Portfolio Management**
- IV. Community Development (including participation, gender, targeting)**
- V. Country Strategy and Policy Issues**

B. Project Management Self-Assessments

- VI. Eastern Islands Smallholder Cashew Development Project**
- VII. Eastern Islands Smallholder Farming Systems and Livestock Development Project**
- VIII. Income-Generating Project for Marginal Farmers and Landless – Phase III (P4K III)**
- IX. Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas**

C. Beneficiary Self-Assessments (facilitated by the University of Gaja Mada)

An overview report and individual beneficiary self-assessment reports are available on each of the four projects mentioned in section B.

***All annexes are available from IFAD's Office of Evaluation (evaluation@ifad.org)**

Exchange Rate

Local Currency = Indonesian Rupiahs
USD 1,00 = IDR 9200

Abbreviations and Acronyms

| | |
|----------|---|
| AsDB | Asian Development Bank |
| BAPPENAS | Badan Perancan Pembangunan Nasional (National Development Planning Agency) |
| BIMAS | Direcorate for Human Resources (Ministry of Agriculture) |
| BPR | Bank Perkreditan Rakyat |
| BRI | Bank Rakyat Indonesia |
| CARE | Cooperative for Assistance and Relief Everywhere |
| CGI | Consultative Group on Indonesia |
| COSOP | Country Strategic Opportunities Paper |
| CPE | Country Programme Evaluation |
| CPM | Country Programme Manager |
| DFID | Department for International Development (United Kingdom) |
| EISFSLDP | Eastern Islands Smallholder Farming Systems and Livestock Development Project |
| EISCDP | Eastern Islands Smallholder Cashew Development Project |
| EJIP | Seventeenth Irrigation (East Java Province) Project |
| EJRAP | East Java Rainfed Agriculture Project |
| EKLCEP | East Kalimantan Local Communities Empowerment Programme |
| FAO | Food and Agriculture Organization of the United Nations |
| FEW | Field Extension Worker |
| FLM | Flexible Lending Mechanism |
| GIM | General Identification Mission (IFAD) |
| GTZ | German Agency for Technical Cooperation |
| ICRAF | World Agroforestry Centre |
| IERR | Internal Economic Rate of Return |
| IFI | International Financial Institution |
| LKM | Microfinance Institution (<i>Lembaga Keuangan Mikro</i>) |
| MFI | Microfinance Institution |
| MOA | Ministry of Agriculture |
| MoU | Memorandum of Understanding |
| MTR | Mid-Term Review |
| M&E | Monitoring and Evaluation |
| NGO | Non-Governmental Organization |
| NTB | Nusa Tenggara Barat (West) |
| NTT | Nusa Tenggara Timur (East) |
| OE | Office of Evaluation (IFAD) |
| OECD | Overseas Economic Cooperation Fund |
| PI | Asia and the Pacific Division (IFAD) |
| PIDRA | Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas |
| P4K II | Income-Generating Project for Marginal Farmers and Landless |
| P4K III | Income-Generating Project for Marginal Farmers and Landless – Phase III |
| PMD | Programme Management Department (IFAD) |
| PRSP | Poverty Reduction Strategy Paper |
| PUTKATI | Eastern Islands Smallholder Farming Systems and Livestock Development Project |
| SCDP I | Smallholder Cattle Development Project |
| SCDP II | Second Smallholder Cattle Development Project |
| SHG | Self-Help Group |
| SPLDP | Sulawesi Paddy Land Development Project |
| SPM | Special Programming Mission (IFAD) |
| SSSTCDP | South Sumatera Smallholder Tree Crops Development Project |

| | |
|-------|--|
| UNDP | United Nations Development Programme |
| UNOPS | United Nations Office for Project Services |
| USAID | United States Agency for International Development |

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 IFAAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Acknowledgements

The Office of Evaluation was given unstinting support by the Ministry of Agriculture in Jakarta and by central, provincial and district staff in the several directorates of the ministry in conducting this Country Programme Evaluation.

The team individually and collectively held intensive discussions with many staff in the Ministry of Agriculture, Ministry of Finance, and Ministry of Home Affairs and Bappenas (National Development Planning Agency). Similarly, representatives from the Asian Development Bank, Food and Agriculture Organization of the United Nations, United Nations Development Programme and the World Bank were met on several occasions during the Country Programme Evaluation process. In addition, discussions were held with the Cooperative for Assistance and Relief Everywhere (CARE) International, the United Kingdom's Department for International Development, the German Agency for Technical Cooperation and the United States Agency for International Development, as well as with the Center for International Forestry Research, the World Agroforestry Centre and the Centre for Agro-Socio-Economic Research. Discussions were held with the staff in IFAD's Programme Management Department in Rome, Italy, and the United Nations Office for Project Services' regional office in Kuala Lumpur, Malaysia. Many thanks are due to all concerned for their invaluable collaboration and time.

For this first time, the Office of Evaluation invited an external reviewer to provide his/her independent perspective on a Country Programme Evaluation and its overall findings. In light of his expertise and experience in agriculture and rural development, as well as his knowledge of IFAD's mandate and operations, OE selected Professor M.S. Swaminathan from India as the external reviewer for the Indonesia Country Programme Evaluation. The Office would like to convey its appreciation to Professor Swaminathan for the time and attention he devoted to reviewing the report. His comments are to be found in Annex III.

Republic of Indonesia
Country Programme Evaluation
Agreement at Completion Point¹

A. The Core Learning Partnership (CLP) and the Users of the Evaluation

1. The members of the CLP constituted representatives from the Government of Indonesia (represented by the Ministry of Agriculture and the National Development Planning Agency), the NGO community (represented by NGOs PPSW and Bina Swadaya), four IFAD-supported projects², AsDB and IFAD (represented by the Asia and Pacific Division and the Office of Evaluation). Some of the most important stages in the interaction among some CLP members included exchanges on the approach paper as well as discussions at the outset of the evaluation mission, the wrap-up meeting at the end of the Country Programme Evaluation (CPE) mission on 1 September 2003, the stakeholders' workshop on 14 January 2004 in Indonesia to discuss the draft CPE report, and the CPE national roundtable workshop on 11-12 March 2004. The CLP is a vital part of the evaluation process and needs to be strengthened.

B. Some of the Main Evaluation Findings

2. The CPE concluded that IFAD should continue and strengthen its role in Indonesia as a promoter of innovation in policy, institutional and operational terms. One of IFAD's comparative advantages lies in introducing and testing innovative ideas and approaches that can be expanded nationwide. IFAD's small size and flexibility should be used as an advantage in Indonesia to take up new models of rural development and to make them work and to abandon them if they don't. It has already enhanced flexibility in its lending instruments well suited to this task. By building on existing evidence from the ground, IFAD could further increase and deepen its contribution to policy change and assume a position of knowledge and influence in councils such as the Donors' Group for Indonesia giving vibrancy and vitality to its arguments. IFAD's unique mandate provides a powerful imperative for it to take a leading role in showing how rural development reduces poverty.

3. One of the most important findings of the CPE relates to IFAD's strategic choice for rural poverty alleviation in Indonesia. In this regard, the CPE has highlighted that the 1998 country strategy and the projects that followed put significant emphasis on the formation of social capital as a prelude to economic empowerment and a means for rural poverty reduction. The evaluation acknowledges the importance of social mobilisation and building social capital as a key dimension of IFAD's work in Indonesia. The evaluation also argues that the formation of social capital is a necessary but not sufficient condition for successful rural poverty reduction, and that the next country strategic opportunities paper (COSOP) and consequent operations should have a balance between the promotion of social capital on one side and the economic empowerment of the rural poor through, but not limited to, agricultural development as well as the promotion of sustainable off-farm opportunities.

4. In terms of impact on rural poverty, five of the ten projects³ had substantial impact on poverty, in particular in terms of income effects. Evidence of impact on the poor, beyond increased incomes, is limited partly because this was not explicitly sought in early projects. Impact on women and institutional development was limited in earlier projects but is improving in recent operations. The portfolio does not score well on sustainability (only 5 of the 11 past and current projects rated are likely to be sustainable). The lack of sustainability in the portfolio is regarded as a major concern by the CPE.

5. Another finding relates to policy dialogue. Although IFAD had committed to promoting policy dialogue in several areas with a variety of partners in Indonesia, the CPE notes that due to various

factors, the Fund has not been in a position to contribute sufficiently to key policy dialogue processes established by both the government and donor community, especially at the national and sectoral levels. The CPE further illustrates the importance of articulating up front the need for clear, measurable objectives for policy dialogue, with allocation of resources and the definition of work plans that includes prioritisation of activities and indicators for outcome assessment.

6. The CPE highlights the need for strong partnerships at various levels with different partners, as diverse partnerships with different institutions serve specific purposes. Overall, IFAD's partnerships within GOI especially those in the MOA have been productive. However, some would like to see IFAD widening its partners at the national level in the Government. Partnerships with NGOs are important. They have grown and are improving, whereas those with co-operating institutions and with co-financiers need enhancement. Among other issues, the CPE identified the need for continuous engagement and timely communication as necessary ingredients for successful partnerships.

7. Corruption is widespread in Indonesia. The CPE assessed the tendering procedures in selected IFAD-supported and noted that some of their financial procedures have been tightened. Nevertheless, the CPE argues that the Fund needs to be forthright in recognising that corruption is a disruptive phenomenon, especially in Indonesia, and take sterner and more consistent anti-corruption steps.

C. Recommendations Agreed upon by All Partners

8. **Overarching Recommendations.** There are two broad strategic recommendations that IFAD and its partners agree to include in the next Indonesia COSOP and subsequent operations:

- (i) **Ensure that the IFAD strategy to empower the poor includes efforts to raise farm and non-farm productivity in a sustainable manner. This may require, *inter-alia*, stronger** linkages with formal and non-formal agriculture research systems and promoting the development of rural micro enterprises, markets and other aspects of market-linkages to capture benefits from production increases, such as rural infrastructure, market information and agro-processing; and
- (ii) **Increase inputs devoted to knowledge generation, advocacy and policy dialogue.** In this regard, attention should be paid to documenting what works, which would help carry the policy and advocacy dialogue forward. Moreover, it should use networking (both real and virtual) and experimentation on the ground as key instruments in knowledge generation.

9. To give effect to these recommendations, three lines of actions should be considered:

- (i) **IFAD and its partners should continue to establish and nourish strategic partnerships.** First, would come partnerships to find new and workable solutions to raising incomes and empowering the rural poor. Second, would be partnerships to identify and introduce new ways of building capacity of the enablers for effective rural poverty reduction. And third, would be to enhance partnerships to provide an audience for new policies and ideas and tested poverty reduction projects in the rural economy. Such partnerships can be established with NGOs and CBOs, government agencies as well as other aid agencies;
- (ii) **IFAD should provide greater support during implementation, and secure better supervision of and better monitoring and evaluation in the operations it supports.** Implementing agencies require clear accountabilities and project staff need more support during project execution possibly through a highly competent, well resourced and well mandated in-country group of mainly local staff who will also be required to ensure proactive and preventive anti-corruption measures. To capture the knowledge generated by learning whilst doing requires appropriate and participatory project monitoring and

evaluation and more intensive implementation support (see paragraph 9iii & 9v). Similarly, logframes need to be revised and updated to help improve strategic management and more attention must be given to outcome monitoring and impact evaluation; and

- (iii) **IFAD and its partners should define objectives in its next COSOP for Indonesia in accordance with the resources that can be allocated.** The COSOP should include a coherent hierarchy of objectives, for both lending and non-lending operations, which should be time-bound. It should contain performance indicators to monitor the implementation of the strategy, which will serve eventually to measure performance and outcomes of the COSOP. The preparation of the COSOP should be based on a thorough analysis of the inputs, processes, and activities required to achieve its objectives, as well as include a prioritisation and a time plan for the delivery of its expected outputs.

10. **Other Recommendations.** In addition to the above, this section includes recommendations that were developed during the CPE national roundtable workshop in Yogyakarta on 11-12 March 2004, attended by various partners including representatives of the Government of Indonesia, (11) members of the IFAD Evaluation Committee and the Executive Board, the NGO community, research institutes and universities, project staff, international development organisations and IFAD management and staff (from the operations and evaluation divisions, as well as the Vice President's Office). The recommendations have been grouped according to the three CPE workshop themes (i.e., Strategic Mix of IFAD Operations, Policy Dialogue and Portfolio Management):

11. **Strategic Mix of IFAD Operations.** The discussions under this theme explored how IFAD, working with GOI, NGOs and other partners, can identify and pursue the most effective and efficient route(s) to reducing rural poverty in Indonesia. The following recommendations should be taken into account in the preparation of the forthcoming COSOP:

- (i) The COSOP should articulate IFAD's comparative advantage in Indonesia and its complementarities with other International Financial Institutions and UN agencies working in agriculture and rural development;
- (ii) IFAD activities should also cover the rural poor in coastal areas engaged in agriculture and fisheries;
- (iii) The Fund should allocate greater resources to agriculture to ensure increased productivity that would lead to increased income. Agriculture and off farm economic activities should be given at least equal emphasis as social capital formation;
- (iv) There is need to devote greater attention in IFAD operations to promoting pro-poor, low-cost technical change in on and off farm activities using local knowledge and as identified by the poor;
- (v) Forestry and promoting access to forest lands should be included as part of IFAD's natural resources management agenda in the next COSOP; and
- (vi) IFAD's lending and non-lending (e.g., policy dialogue, research funded through grants, and knowledge management) activities should be linked in a mutually reinforcing and strategic manner.

12. **Policy Dialogue.** This theme explored the objectives and nature of IFAD's policy dialogue and advocacy work, the *modus operandi* of policy dialogue in light of the absence of IFAD staff permanently present in the field, the platforms and processes in which the Fund must engage actively, as well as the human and financial resources implications to effectively achieve the established

objectives. The following recommendations should be taken into account in the development of the COSOP:

- (i) IFAD should seek national stakeholders' contribution to the identification of policy dialogue objectives and commitment to their achievement during the next COSOP formulation. The next COSOP should consider policy dialogue as an integral dimension of IFAD activities in Indonesia. Policy dialogue activities should have measurable objectives, components and activities, outputs, resource allocation and performance indicators;
- (ii) Resources need to be earmarked to identify, document and communicate local policy changes promoted in the context of IFAD operations that could have potential for upscaling and replication at a higher level beyond the operation under consideration;
- (iii) IFAD should improve its efforts in promoting dialogue among national stakeholders on policy changes identified in IFAD operations. In this regard, IFAD should strengthen further its partnership with the National Development Planning Agency (*Bappenas*), to promote the discussion on policy issues of mutual concern with IFAD;
- (iv) The Fund should review and intensify its engagement and participation in selected national and thematic policy dialogue fora on rural and agriculture development; and
- (v) The preparation of the next Indonesia COSOP should be used as an opportunity for engaging the government, the donor community and other national stakeholders in policy dialogue on issues of pressing concern.

13. **Portfolio Management.** Various aspects of portfolio management are fundamental for impact achievement. For example, the issue of partnerships and institutional choices are important including the role of NGOs, as are issues related to project design, co-financing, implementation-support, direct supervision and supervision through co-operating institutions, as well as monitoring and evaluation. Moreover, problems associated with corruption cannot be ignored. If IFAD-assisted projects are to optimise their effectiveness and maximise their impact, improvements in the institutional processes and management actions bearing on these and other dimensions of portfolio management are of central importance. The following key recommendations on this topic should be given attention in the preparation of the COSOP:

(i) **Partnership with NGOs, IFIs and UN Agencies.**

- There is need to promote a stronger partnership between government and NGOs at the project level. This can be achieved, *inter-alia*, by a clearer definition of the objectives, roles and responsibilities of NGOs in project design and implementation, and clarity about the resources allocated and funding mechanisms to NGOs for implementation purposes;
- Priority should be given to working with committed NGO partners with a good track record and adequate institutional capacity. Moreover, NGOs should be entrusted responsibilities commensurate with their capacities and outreach; and
- IFAD should proactively engage and intensify its co-operation and co-ordination with AsDB, FAO, UNDP, World Bank and other international development organisations in developing and implementing projects and programmes, policy dialogue, knowledge sharing and other activities.

(ii) **Project quality at entry.**

- Within a programme-oriented approach, there is need to focus on smaller geographic areas in future operations and ensure appropriate integration between different project sub-activities; and
- The need to strengthen multi-stakeholder participation in project design and institute discussion fora (virtual and non-virtual) during design as a means to stimulate debate is important.

(iii) **Supervision and implementation-support.**

- The benefits of direct supervision work by IFAD was highlighted;
- Better supervision in general is essential for improving implementation performance. In this regard, supervision (particularly processes related to performance assessment and improvement as well as learning) needs to be adapted to the evolving nature of IFAD operations. For this purpose, additional resources are required to enhance supervision quality;
- More use of local experts should be made in direct supervision and supervision through co-operating institutions;
- Co-ordination, synergies and feedback between the IFAD-led implementation support activities and the supervision exercises should be clearly defined; and
- There is need to streamline and improve co-ordination, communication and follow-up between supervising institutions and agencies responsible for project audits.

(iv) **Corruption.**

- In close co-operation with concerned stakeholders including the GOI and NGOs, the new COSOP should appropriately analyse and pay due attention to the issue of corruption, *inter-alia*, in the selection of partner institutions and programme provinces/districts;
- There is need to establish a dialogue with national counterparts on how to incorporate proactive and preventive anti-corruption measures in all future projects and programmes;
- It is recommended to strengthen NGO capacity as partners who could play a greater role in monitoring and reporting on financial matters; and
- Provide more responsibility for implementation and management of corresponding resources to community based organisations as a means to combating corruption.

(v) **Monitoring & Evaluation.**

- Ensure baseline surveys are undertaken systematically at the beginning of each project;
- Systematize the introduction of the IFAD M&E Practical Guide in all operations; and

- Document and share the experiences in PIDRA in using participatory monitoring and evaluation.

Republic of Indonesia
Country Programme Evaluation

Executive Summary⁴

I. COUNTRY PROGRAMME EVALUATION PROCESS

1. The Indonesia Country Programme Evaluation (CPE) was undertaken by the Office of Evaluation (OE) at the request of the Government of Indonesia to take stock of past experiences and contribute to the future directions of IFAD's strategy in Indonesia. The main objective of the CPE is to assess the results and impact of IFAD's (lending and non-lending) operations and provide building blocks for a new Indonesia Country Strategic Opportunities Paper (COSOP).

2. The CPE took place in 2003 and followed the general provisions contained in IFAD's Evaluation Policy. The evaluation uses three conventional information sources that allow evidence and results to be triangulated. The sources of evidence were: (i) a desk review of relevant documents; (ii) self-assessments by the management of four IFAD-supported projects and four corresponding beneficiary self-assessments facilitated by the University of Gaja Mada; and (iii) detailed field investigations and interactions with various stakeholders including visits to eight of the 12 projects in nine provinces and 21 districts where discussions were held, inter alia, with 95 project groups in 49 villages and with provincial, district and subdistrict level staff in the line agencies concerned.

3. The evaluation includes assessments of all IFAD-financed projects in Indonesia using OE's Methodological Framework for Project Evaluation as well as the internationally established evaluation criteria of relevance, effectiveness, efficiency, outcome and sustainability. The draft of this report was discussed in a stakeholders' workshop in Indonesia on 14 January 2004, where the Government and other participants expressed their appreciation and satisfaction with the findings and conclusions of the CPE. The Evaluation Committee of IFAD's Executive Board discussed the report for the first time on 20 February 2004. A more intensive debate on key issues raised by the evaluation followed at the national roundtable CPE workshop in Yogyakarta on 11-12 March 2004.

II. DEVELOPMENT CONTEXT

4. For 25 years prior to the financial crisis of 1997, Indonesia was a development success story. Rapid growth between 1970 and 1996 moved Indonesia from low to middle income status, social indicators improved and the incidence of poverty fell from 60% in 1970 to 11% in 1996. With the economic crisis in 1997, unemployment and poverty rose sharply, the latter reaching 27% nationally in 1999 and 51% in Eastern Indonesia. However, marked urban-rural disparities continue to exist with inherent differences in agricultural potential: rainfall and soil quality declines markedly from west to east and some remote eastern islands have very poor communications with islands to their west. Agriculture drives Indonesia's rural economy and provides over 60% of the country's jobs (two thirds of the population is rural). In the sixties, agriculture accounted for over 55% of gross domestic product (GDP) but that share had fallen to 17% by 2000. Agricultural growth rates from 1960 to 2000 averaged 3.7% per year. However, problems survive from before the financial crisis of 1996-98 including an unfavourable policy environment, slow technological progress, a lack of agribusiness development and deteriorating infrastructure.

5. In January 2001, central government powers and responsibilities were devolved to local government so as to bring government closer to the people, increase efficiency and strengthen accountability. This massive change, not yet fully completed, has profound implications for all sectors. According to the World Bank, devolution is producing new grass-roots leadership and is bringing the Government closer to the people. But, challenges remain: the division of labour among levels of government remains unclear, the intergovernmental fiscal system is far from equal and

mechanisms to bring external financing to the regions are not yet established. The old agricultural order has been turned on its head. District governors now allocate resources as they see fit. One result is that agricultural, financial and human resources are being reassigned to other departments with negative knock-on effects on farming and development projects. For the Ministry of Agriculture, and other departments, the adjustment to the direct loss of control over resources and the shift at the provincial and district levels from an executive to an advisory role is proving difficult.

III. IFAD STRATEGY IN INDONESIA

6. Although IFAD provided its first loan to Indonesia in 1980, and undertook a general identification mission in 1982, it was not until 1988 that IFAD developed its first workable strategy for Indonesia. The strategy, written in the late eighties was heavily descriptive, resource endowment driven and insufficiently analytical. It did however for the first time lay particular emphasis on the rural poor and women. Given that Indonesia was self-sufficient in rice, the strategy saw the main challenge as raising the living standards of the rural poor by expanding rural employment through commodity and regional diversification. Overall, the strategy was relevant, well argued and an effective guide for IFAD for much of the next decade.

7. The Fund prepared its next strategy (the COSOP) in 1998. The COSOP focused on the Government's rural poverty reduction strategy, but resisted the temptation to adopt social safety nets, arguing that IFAD should continue to work on long-term solutions to chronic rural poverty. It was also opportunistic, seizing the chance presented by the new political climate to carry forward an agenda of empowering the rural poor. The COSOP included a clear definition of the target group and appropriately defined the Fund's corresponding geographic and sectoral priorities.

8. The COSOP stressed the need for intensive policy dialogue with the Indonesian government and other international and national development partners on issues such as indigenous rights, transparency, decentralization, land rights, the role of non-governmental organizations (NGOs) and civil society. It promised to address issues such as inadequate intragovernment coordination and information-sharing, transparency and corruption, better collaboration with NGOs, and the lack of beneficiary input into design. Overall, the COSOP gives clear directions for IFAD that reflect heightened international attention to poverty reduction in the nineties and the view that many past agricultural interventions foundered because they were too technocratic and had not first built strong social and community foundations. However, the COSOP was not as consonant with the Government's central push for rural growth based in higher crop and livestock production and greater value added in the rural economy as it might have been. The CPE acknowledges the importance of social mobilization and building social capital as a key dimension of IFAD's work in Indonesia. However, it argues that the formation of social capital is a necessary but not sufficient condition for successful rural poverty reduction, and that the COSOP would have gained by taking a more balanced approach and by paying more attention to the economic empowerment of the rural poor through agriculture development.

9. Although the COSOP was developed before both the regional strategy for Asia and the Pacific and IFAD's strategic framework, it is to a large extent consistent with the central elements of both these strategies. However, there are important areas that were not given sufficient attention. For example, as mentioned above, the COSOP does not pay enough attention to activities that would increase agriculture production and productivity through improved access to productive natural resources and technology, even though these are core objectives of the regional strategy and strategic framework. Like the 1988 strategy, the COSOP underplays the development of market linkages, off-farm opportunities and agro-processing. The COSOP is however in tune with the regional strategy and strategic framework in emphasizing IFAD's catalytic impact, especially through policy dialogue and partnership-building.

10. Moreover, it would have been useful had the COSOP included a more crisply defined hierarchy of objectives, especially for the non-lending activities, and performance indicators to assist in

monitoring the implementation of the strategy and ultimately measuring its results and outcomes. The COSOP would also have benefited from a thorough analysis of the inputs, processes and activities required to achieve its multiple objectives and outputs, as well as from a prioritization or time plan for the delivery of its outputs. The evaluation noted that although the Indonesia COSOP included aspects relating to lending and non-lending activities, the document was designed primarily as a vehicle for implementing an IFAD lending programme in the country. On the whole, IFAD should have paid greater attention to the policy and portfolio management aspects of its strategies.

11. To sum up, IFAD has pursued strategies broadly in line with government ambitions and international thinking of 20 years. It has neither led nor lagged and has remained broadly relevant to Indonesia's needs. The Fund's evolving strategies in Indonesia have found fairly full expression in the poverty, geographic and subsectoral focus of IFAD-supported projects. Specifically, the 1998 COSOP is satisfactory in terms of poverty targeting, emphasis on gender, community development and local institution-building. It is not in line, however, with the Government's push for rural growth based on higher production and the growing number of voices worldwide calling for more attention to be paid to agricultural growth.

IV. PROGRAMME PERFORMANCE

12. **Policy dialogue.** The CPE found that IFAD has not materially engaged in policy dialogue with the Government of Indonesia, the United Nations, international financial institutions (IFIs), and other development agencies on issues of significance to rural development and poverty reduction in Indonesia. This lack of engagement represents an important missed opportunity for IFAD. It is not making, in an active and direct manner, the case among its peers for a major reduction in Indonesian poverty based on rapid rural and agriculture development. There are various issues that the CPE raises on this topic. For example, it is not clear whether IFAD has the ability to undertake detailed policy analysis that builds on its operational experiences, thus equipping staff with substantive and well-researched issues for dialogue. The Fund's small size, lack of country presence and modest lending programme (compared to other IFIs), may also constrain its ability to make itself heard among the larger players in the country and the Government. In short, IFAD may not have the capacity to gain credibility and ensure the requisite continuity in dialogue, which is fundamental if it is to contribute effectively to policy reform. Equally, changes in the role of cooperating institutions and other major IFAD partners in supporting IFAD policy dialogue efforts with the Government may be useful. For example, the Fund could enhance its strategy for partnership (with for example, cooperating institutions, cofinanciers, research institutions and selected NGOs) to make its policy dialogue more effective. In the context of its current strategy, IFAD's lack of attention to policy analysis and policy dialogue in Indonesia is a cause for concern, and in future should have high priority among the Fund's non-lending activities in the country.

13. **Project effects.** All 12 projects in Indonesia had broadly or partly relevant objectives, so taken as a whole the relevance of the portfolio is substantial. The projects were or are consistent with Indonesia's development priorities (at the time of design) and IFAD's country strategy. How far projects have been entirely relevant to the rural poor is harder to determine. In so far as they have been aimed at helping small farmers, the landless, women and the otherwise marginalized, they have clearly been relevant. To the extent that they have covered rainfed areas and other places of low potential or environmental stress, they have been relevant to the goal of reducing poverty and reducing inequity – at least regionally. But, the extent to which they address the needs of the poor, as defined by the poor themselves, is less certain. Only in the Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA) and the East Kalimantan Local Communities Empowerment Programme (EKLCEP) have efforts been made at the outset and during implementation to listen to the people.

14. In terms of effectiveness, none of the projects were judged highly effective. Four are rated substantially effective in achieving all or most objectives (the Eastern Islands Smallholder Cashew Development Project (EISCDP), Income-Generating Project for Marginal Farmers and Landless

(P4K) II, and the two early livestock projects). The cashew project was effective as it achieved its central goal of introducing a new technology among small and marginal farmers. Among projects with modest ratings, the East Java Rainfed Agriculture Project (EJRAP) used conservational technologies rejected by most farmers on grounds of cost and efficacy. The technical projects supported by IFAD were not very effective – the cashew project being a clear exception. This shortcoming is mainly attributable to poor project design. The technical projects did not establish strong links with Indonesia's agricultural research system to ensure that technologies were suitably adapted to where they were being used. The PIDRA and EKLCEP are likely to be substantially effective but are still in the initial stages of implementation. Moreover, the effectiveness of IFAD-supported projects in general has not been sufficiently driven by innovation. Much of the effectiveness of IFAD's projects can be traced to the successful formation of self-help groups as the central organizing device in nearly all operations. Placing the onus on the people themselves has been effective.

15. It was difficult to assess efficiency in almost all projects given the lack of usable empirical data concerning outcomes. The exception is the EISCDP where the internal economic rate of return was estimated at 16%. However, P4K III and EKLCEP have a good chance of producing substantial positive economic benefits. The internal economic rates of return of the EJRAP and Eastern Islands Smallholder Farming Systems and Livestock Development Project (PUTKATI) are likely to be modest. A less rigorous method of gaining an insight into efficiency is to compare project costs per household across projects, with similar projects funded by other development organizations. The comparative data of more recent projects suggest that IFAD projects are more cost-effective than similar Asian Development Bank (AsDB) projects, about the same as similar World Bank projects, but may not be as cost-effective as the famously successful Aga Khan Rural Support Programme in Pakistan.

16. **Institutional development** was not an objective in earlier IFAD operations. It has however been a clear objective in more recent IFAD interventions. There has been noticeable impact on institutional development at the grass-roots level, in particular by promoting the participation of NGOs in project activities and in contributing to the development of around 100 000 self-help groups. The CPE however points to the need to ensure that these groups are able to sustain themselves by creating ways for them to grow into more advanced institutions. Without such opportunities, the impact so far accomplished will be undermined. Little impact has been achieved on institutions at the national level, be it in terms of influencing institutional policies and mind-sets, or their capacities and priorities. Overall, achievements in institutional development are modest, due to limitations in project design and implementation, inadequate monitoring and evaluation (M&E) systems that do not contribute enough to learning and the continuing survival of top-down project management. The lack of institutional impact at the national level in Indonesia is also a direct result of IFAD's lack of engagement with the Government and other partners in policy exchange.

17. IFAD's early projects paid scant attention to **gender issues**. Even in the nineties, three out of the five projects launched did not have gender-related goals and thus had negligible impact on women. In the late nineties gender was incorporated successfully into IFAD operations. The EJRAP was the first to target women by forming women's groups and providing equipment and training: impact was small but significant. In the PIDRA, the impact on women is impressive. The attempt to address women and men in their own right is having positive results and should be strengthened. Yet, as programme activities expand, extension services may not be able to maintain the same intensity of community interaction; economic improvement is being sought by women and men, but the programme has yet to respond. Self-help groups of women or men and women are an effective instrument for enhancing the role of women. Although, increased income in the hands of women does have positive effects on their status, health and education (and that of their daughters) much depends on the intrahousehold distribution of power and income. Gender relations in Indonesia strongly favour men, so if women are to improve their status, more than the ability to earn extra income is required. In this regard, there is almost no evidence that IFAD-supported projects, even the most recent one, are taking a progressive, let alone an aggressive, posture. Lastly, there is a residual concern that implementation is still focused on achieving targets, such as the number of women's groups

established and training sessions imparted, rather than on outcomes and the qualitative aspects of women's development.

18. **Impact** can be more accurately assessed if pre and post-project data regarding welfare levels are available. However, due to weak or non-existent baseline surveys and inadequate M&E systems, impact assessment has been a major challenge for the CPE. But by using the triangulation methodology, it has been possible to draw conclusions. Of the nine projects completed or nearly completed by mid-2003, four had positive income effects. Evidence of impact on the poor, beyond increased incomes, is limited partly because this was not explicitly sought in early projects. Only the PIDRA has so far made progress with this kind of impact. Even there, the most empowering effect on the poor so far has been learning how to save money and bridge crisis situations. The EKLCEP is also likely have impact on non-income aspects of poverty. The CPE argues that the search for success in non-income areas of rural poverty reduction has lead to insufficient attention to increasing the incomes of the poor. The field evidence points clearly to the need for a better balance between the income and non-income dimensions of poverty reduction in IFAD operations. Getting this balance right partly depends on better M&E systems, which have been weak throughout the portfolio, although in the last three years efforts (especially in the PIDRA) have been made to improve this function.

19. The portfolio does not score well on **sustainability**. Two completed projects are likely to be sustainable while in two others, this is highly unlikely. Of the four ongoing projects, only two are likely to be sustainable – P4K III and EKLCEP. In the PIDRA, eventual sustainability is judged unlikely due to the imbalance between the successful formation of social capital and the inadequate formation of economic capital in the form of sustained increases in income. Lack of sustainability can be attributed to failed or unsuitable technology, a lack of robustness in the social and institutional apparatus, poor physical implementation, and weak government and farmer institutions. Sustainability strategies are not embedded in project designs and project staff cannot explain how they will tackle the phase-out of project support or how benefits will be sustained beyond the project's lifetime. Group formation has provided a means of change (increased awareness, knowledge and capacity) for individuals, yet the sustainability of groups is not assured. The lack of sustainability in the portfolio must be regarded as its greatest weakness.

20. **Project supervision.** The CPE finds that both supervision intensity and continuity have declined in the last few years due to resource limitations and high turnover of staff in the cooperating institutions. Moreover, the proportion of cooperating institution staff and consultants on a given supervision mission participating in successive missions has declined. This has led, inter alia, to inadequate follow-up on previous supervision issues and recommendations. The cost of supervision is an issue. The United Nations Office for Project Services (UNOPS) informed the CPE that IFAD provides an annual per project cost of around USD 47 000, whereas its real costs are between USD 56 000 and 62 000 per project, depending on how overheads are handled. The CPE also underscores the need for the supervision function to evolve with the changing nature of IFAD operations. Most of the Fund's recent operations have a much higher community development aspect than earlier projects. Moreover, the fiduciary aspects of supervision need to be better balanced with the learning and performance enhancement dimensions of supervision.

21. The PIDRA is directly supervised by IFAD. There is support for the concept of direct supervision. Direct supervision has brought IFAD directly in touch with stakeholders, but it has encountered difficulties. So far it is seen as being unbalanced. It must be more supportive and participatory, and help projects overcome difficulties, inter alia, with procurement, and monitoring and evaluation processes.

22. Although direct supervision from Rome reduces the 'distance' between IFAD and project stakeholders, it is not the same as supervision from a country office. In the latter situation, communication, depth of supervision and quality of follow-up are likely to be better. Finally, IFAD also undertakes implementation-support missions from Rome to provide inputs and advice to project

partners in Indonesia. Coordination, synergies and feedback between the IFAD-led implementation support activities and the supervision exercises by cooperating institutions need to be improved.

23. **Performance of partners.** Overall government performance has been just satisfactory. In earlier projects, project implementation arrangements responded to the relatively simple project designs and were satisfactory. However, government performance in more recent projects where designs have called for stronger skills in social mobilization has faltered at all levels. At the local level, where decentralization is taking hold, government performance is mixed. Some district governments are strongly supportive of IFAD-supported projects while others are more concerned with control over resources and implementation authority. Finally, the Government of Indonesia needs to take sterner measures to combat corruption and enhance its partnership with NGOs and civil society at large.

24. The performance of NGOs has varied depending on the NGO involved and their institutional capacities and area of operation, but on the whole they have provided a new dimension to the partnership and made a useful contribution. In some instances, NGOs have been asked to undertake tasks beyond their abilities and scope of activities. There is need for IFAD to actively facilitate the building of a more equal partnership between government agencies and NGOs.

25. On balance, IFAD's performance needs significant improvement. On the positive side, IFAD developed well-focused strategies (both in 1988 and 1998) in Indonesia that were largely in line with IFAD's and the Government's priorities for rural poverty reduction, although the CPE argues that building social capital is overemphasized in the COSOP. IFAD has also built productive relations with the Ministry of Agriculture and NGOs. However, there are a number of areas where its performance needs measurable improvement, for example, in: policy dialogue and partnership-building, particularly with the international development community in Indonesia; in finding and deploying innovative solutions to poverty reduction; in stimulating higher agricultural production and productivity and better marketing opportunities; in project supervision; in combating corruption; in M&E; and in learning from past operations.

26. **Corruption** is widespread in Indonesia. The CPE was mandated to review generally the issue of corruption, although it did not undertake detailed financial investigations to assess transparency and identify possible financial irregularities. Nevertheless, tendering procedures were reviewed in each project. During the enquiries and at other times, there were frequent allusions to benefits leakage and shortcomings in procurement. Beneficiary self-assessments cited various cases of expected inputs being diverted and infrastructure being constructed at a lower level of quality than agreed. Collusion in procurement is evident and mostly ignored or even condoned by project management: one set of tender documents showed less than USD 500 difference between the three lowest bidders in a tender worth nearly USD 1.0 million; NGOs openly admit to agreeing who would bid and at what rate to ensure competition does not lower prices. IFAD does not have a policy on corruption and strong measures are needed to ensure project resources are not misappropriated.

V. RECOMMENDATIONS

27. IFAD needs to rethink its strategy in Indonesia. IFAD's comparative advantage does not lie in competing with the AsDB or the World Bank, but in being a progenitor of well-tested innovative approaches that can be scaled up by those with greater resources. IFAD's small size and flexibility should be exploited to instigate new models of rural development. By building on evidence from on the ground, IFAD could substantially increase and deepen its contribution to policy change and assume a position of knowledge and influence in councils such as the Consultative Group on Indonesia. IFAD's unique mandate is a powerful imperative for IFAD to take a leading role in showing how agriculture and rural development reduces poverty. For this to happen, IFAD needs to:

- **adjust its Indonesia country strategy to better balance the current focus on empowering the poor with efforts to raise farm and non-farm productivity.** This will

require, inter alia, stonger linkages with formal and non-formal agriculture research systems and promoting the development of markets and other aspects of market-linkages, such as rural infrastructure, market information and agro-processing; and

- **increase its staff and other inputs devoted to knowledge generation, advocacy and policy dialogue.** In this regard, attention should be paid to generating evidence of what works, preferably of new things that work, to help carry the policy and advocacy dialogue forward. Moreover, it should use networking (both real and virtual) and experimentation on the ground as key instruments in knowledge generation.
28. To give effect, this shift in strategy requires at least three lines of action should be considered:
- **IFAD should establish and nourish strategic partnerships** with: NGOs and community-based organizations working with the poor to find new and workable solutions to raising incomes and empowering all people; all levels of the administration to build capacity for effective poverty reduction; and other aid agencies to provide an audience and a market for new policies and ideas;
 - **IFAD should provide greater support to its operations during implementation, better supervise and better monitor and evaluate its operations:** improved supervision and implementation support is needed – possibly through in-country local staff. Such support must be knowledgeable about and effective in anti-corruption activities. Better quality M&E systems are essential if learning and knowledge are to be captured; and
 - **IFAD should allocate adequate resources to implementing all objectives in its next COSOP for Indonesia.** In addition, the COSOP should include a coherent hierarchy of objectives, for both lending and non-lending operations. It should contain performance indicators to monitor the implementation of the strategy, which will serve eventually to measure the performance and outcomes of the COSOP. The preparation of the COSOP should be based on a thorough analysis of the inputs, processes and activities required to achieve its objectives, as well as include a prioritization or a time plan for the delivery of its outputs.

Republic of Indonesia
Country Programme Evaluation
Main Report

I. INTRODUCTION

A. Background of the Evaluation

1. In 2001, the Government of Indonesia wrote to IFAD's Office of Evaluation (OE) asking for a Country Programme Evaluation (CPE) in Indonesia in order to "take stock of past experience but also contribute in formulating the future directions of IFAD's strategy in assisting Indonesia in agriculture development and rural poverty alleviation". However, following further dialogue with government representatives and IFAD's Asia and the Pacific Division (PI), it was decided to undertake the CPE in 2003. Consequently, OE included the Indonesia CPE in its 2003 annual work programme and budget.

2. The CPE is timely because PI plans to update the Indonesia country strategic opportunities paper (COSOP) in 2004. This conforms to IFAD's Evaluation Policy of undertaking, to the extent possible, CPEs in countries with large portfolios before the preparation of a new, or revision of an existing, COSOP. Therefore, in addition to providing building blocks for the Indonesia COSOP, the CPE's objectives (as captured in the evaluation approach paper) are to: (i) analyse the approaches, impact and sustainability of IFAD's evolving strategies and operations in Indonesia, taking into consideration PI's regional strategy and IFAD's strategic framework; (ii) assess national strategies for inclusive development and the role of IFAD in influencing policies and development strategies for improving the welfare of the rural poor and the vulnerable on a lasting basis; (iii) review the compatibility, synergies and cooperation between IFAD and its partner institutions and other development actors, particularly those working in the area of rural poverty eradication; and (iv) based on the above, generate a series of insights and recommendations for the design and implementation of new development activities, as well as areas that might be explored in further strategy and partnership development.

B. Approach and Methodology

3. The CPE was undertaken in 2003. It followed the provisions contained in the IFAD Evaluation Policy, which includes the preparation of an approach paper at the outset of the activity. To initiate the process, OE undertook a reconnaissance mission to Indonesia in January 2003 to discuss the draft approach paper with a wide range of partners. In addition to in-depth discussions with key governmental and institutional partners, the mission had discussions with representatives of several multilateral and bilateral development organizations in Indonesia. It also met with project coordinators of several IFAD-supported projects, representatives of selected research institutions and non-governmental organizations (NGOs), and other resource persons.

4. The CPE uses three conventional information sources that allow evidence and results to be triangulated. First, an extensive documentary analysis was undertaken, including a thorough review of reports and material published by IFAD, the United Nations Office for Project Services (UNOPS), the Government of Indonesia (especially the Ministry of Agriculture but also other government departments), and by various development organizations working in Indonesia and selected research institutions. Annex II provides a complete bibliography.

5. Second, to gain qualitative and quantitative evidence, four IFAD-funded projects⁵ in Indonesia were requested to prepare self-assessment studies before the arrival of the CPE mission. OE prepared detailed guidelines for this process and fielded a consultant to provide guidance and training to project staff on how to conduct the self-assessments. In parallel, following a quick review of several local NGOs and other research institutions, OE selected the Center for Rural and Regional Development

Studies in the University of Gajah Mada to facilitate the self-assessment by beneficiaries in the same four projects. OE prepared separate guidelines for the latter exercise and the same consultant provided training to the centre for conducting the beneficiary self-assessment. A simplified version of the Methodological Framework for Project Evaluation (MFE) developed by OE was used as a basis for both the self- assessments. This allowed for consistency in the analysis and facilitated comparisons across projects. The outputs from both the activities were discussed with concerned project staff and the centre during the main CPE mission⁶ in August 2003. The corresponding reports, which are available in OE, were extremely useful in capturing the perspectives of project staff and beneficiaries, and provided valuable information for the evaluation.

6. Third, wide-ranging field investigations and interactions with beneficiaries and other partners at the grass-roots level constituted the remaining element in the CPE's triangulation process. The CPE mission visited eight of the twelve IFAD-funded project areas including the Income-Generating Project for Marginal Farmers and Landless (P4K II), East Java Rainfed Agriculture Project, South Sumatera Smallholder Tree Crops Development Project, Eastern Islands Smallholder Cashew Development Project, Eastern Islands Smallholder Farming Systems and Livestock Development Project, Income-Generating Project for Marginal Farmers and Landless – Phase III (P4K III), Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas and the East Kalimantan Local Communities Empowerment Programme. In all, project sites in nine provinces⁷ and 21 districts⁸ were visited. The team individually and collectively held discussions in 49 villages and with more than 95 project participant groups, the common organizing instrument in all projects. In addition, the team held discussions with provincial, district and subdistrict staff in the line agencies concerned. In a few districts, the team had the opportunity to meet the *Bupati* (district governor) and engage in discussion of broader issues such as the relationship between the project and the decentralized structure of government.

7. Furthermore, each project was subjected to an assessment (consistent with the time and resources available), with the greatest attention being given to ongoing and recently closed operations. The project assessments, which are also available in OE, followed the key criteria set out in the MFE. The criteria include: (i) rural poverty impact; (ii) performance of the project, including an assessment of the relevance of project objectives, its efficiency and effectiveness; and (iii) performance of all key partners. Context for the project assessments was provided by brief reviews of Indonesia's agriculture sector, the incidence and character of poverty, and the recent political and administrative decentralization as well as the evolution of IFAD's strategy for Indonesia. Throughout, close attention was paid to IFAD's contribution to policy dialogue in Indonesia. Lastly, two key cross-cutting issues, institutional development and rural finance, were evaluated in more detail across the entire portfolio, given their importance to rural poverty reduction in Indonesia

8. At the end of the CPE mission (26 July to 1 September 2003), a wrap-up meeting was held in Jakarta at the beginning of September and attended by some 45 stakeholders. The CPE mission presented its initial findings in the form of an 11-page debriefing note. The key analysis, conclusions and recommendations of the CPE report are built upon the core elements that appear in the debriefing note. The conclusions and overall directions contained in the note were generally found satisfactory by the participants. However, OE invited the participants to provide any additional comments in writing for its consideration after the meeting. Written comments were received from PI and the Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA), which the CPE mission considered in preparing its thematic working papers⁹ and draft CPE report.

9. A workshop was held at the Ministry of Agriculture on 14 January 2004 to discuss the draft CPE report. Around 40 stakeholders were present representing the Government, IFAD, NGOs, project authorities, international organizations, research institutions and universities. The Government and other partners present commended OE for the high quality evaluation findings and transparency of the draft CPE report. The Government has formally expressed its broad agreement and satisfaction with the findings and conclusions contained in the draft CPE report. The Government elaborated by saying that the CPE has provided them with an opportunity to reflect on the overall IFAD-Indonesia partnership, and to identify key lessons learned that would serve to enhance the performance of IFAD-

funded activities in the country. Various comments provided during the workshop and PI's written comments on the draft report have been analysed and taken into account, as deemed appropriate by OE, in this version of the CPE report. An initial discussion on the CPE was finally held by the Evaluation Committee of IFAD's Executive Board on 20 February 2004.

C. The Country Programme Evaluation Workshop

10. The final step in the process was to engage partners in a process of reflection and discussion on the findings and insights emerging from the CPE, leading up to the formulation of the CPE's Agreement at Completion Point (ACP). For this purpose, in close cooperation with the Government and PI, OE organized a national CPE roundtable workshop in Yogyakarta on 11-12 March 2004. Members of IFAD's Evaluation Committee and other Executive Board directors also participated in the workshop, which was organized around three key themes that emerged from the CPE, namely: (i) the strategic mix of IFAD operations; (ii) portfolio management; and (iii) policy dialogue. An issues paper was prepared on the three themes that served as a background document for discussion at the workshop. The Agreement at Completion Point of the CPE will serve as a critical input for the formulation of the new Indonesia COSOP.

II. THE DEVELOPMENT CONTEXT: POVERTY, AGRICULTURE AND DECENTRALIZATION IN INDONESIA

11. This chapter selectively reviews the evolution of three dimensions of Indonesia – poverty, agriculture and decentralization – so as to provide a backdrop against which IFAD's goals and achievements can be assessed. Comprehensiveness is eschewed in favour of highlighting aspects of these subjects that bear directly on IFAD's ambitions and relate closely to the detailed examination in subsequent chapters of IFAD's country programme and the projects that it comprises.

A. Poverty

12. For the quarter century preceding the crisis of 1997, Indonesia was a development success story. Rapid growth between 1970 and 1996 moved Indonesia from low to middle income status, social indicators improved markedly and the incidence of poverty fell sharply from 60% in 1970 to 11% in 1996. Economic growth was broad based and labour intensive. In the seventies and early eighties growth was driven by a strong performance by agriculture. Economic and financial liberalization in the eighties was accompanied by a shift in the main source of growth from agriculture to labour-intensive manufacturing. In the social sectors, universal primary school enrolment was achieved in the eighties and secondary enrolment increased sharply. Life expectancy at birth and adult literacy improved steadily throughout the eighties and nineties. But the growth in these indicators was not fully commensurate with the country's overall economic performance, nor was it evenly distributed across the country. Inequality did not decline. As agricultural growth slowed, poverty became increasingly concentrated in the rural economy. These factors left many people acutely vulnerable to economic downturn.



Photo 1: Sulawesi Paddy Land Development Project

Men collect rice seedlings to plant them in rows in Toili.
IFAD photo by German Mintapradja

13. Economic downturn came in the form of the financial crisis of 1997-98. This crisis had its roots in excessive short-term foreign borrowing, weak supervision of banking and finance, corruption and speculative domestic investment which left the economy open to a loss of confidence by overseas investors. The depreciation of the rupiah was fast and furious¹⁰ and matched by an acute inflationary spiral. The financial crisis precipitated a political crisis that led to Indonesia's first democratically elected government. It also drew attention to fundamental weaknesses in Indonesia's governance and institutional apparatus and to the widespread nepotism and corruption.¹¹

14. The economic dislocation resulting from the crisis caused employment to fall sharply and poverty to rise sharply. The head count ratio of poverty reached 27% nationally in 1999 and as much as 51% in Eastern Indonesia. By 2002 these figures had fallen to 16% and 37%, driven by moderate economic growth nationally, increasing real wages, recovery in small-scale, informal and labour-intensive manufacturing, rising agricultural employment (which also held back productivity gains) and especially by the falling price of rice.¹² These broad figures mask wide inter and intraregional variation. For example, Kalimantan had poverty rates in 1999 ranging from around 14-15% in the South and Central Regencies to 20-26% in the East and West Regencies. In Sulawesi the poverty rates for individual districts ranged from 3-38% (UNDP 2002). These variations commonly reflect strong urban-rural disparities and inherent differences in agricultural potential and ethnic and cultural make-up. For example rainfall and, in general, soil quality decline from west to east across Indonesia and eastern islands such as Sulawesi, Kalimantan and Papua contain many culturally and ethnically diverse peoples living in remote areas with poor or non-existent communications.

15. The recent decline in poverty cannot be sustained by a policy centrally focused on further reducing food prices or weakly targeted social safety net programmes. The emphasis must now turn to driving down poverty by pushing up growth. Pro-poor growth will create more jobs and income for those near the poverty line while still protecting the poorest by ensuring that food prices, especially rice, do not rise. Thus the agricultural policy regime should seek to enhance rural welfare mostly by increasing productivity and avoiding actions that raise the price of food for consumers. Raising agricultural productivity would both expand employment and raise the real rural wage in agriculture and non-agriculture alike and thereby reduce the absolute level of rural poverty. It would also reduce the high vulnerability to labour market shocks of many rural wage earners, especially women who remain among the most vulnerable.

16. Thus, as mentioned in the following paragraphs, tackling poverty in Indonesia is very much a matter of rural growth. Increased farm output is the engine of rural growth as rising farm incomes raise the demand for other (largely non-tradable) rural goods and services, boosting rural employment and welfare. Moreover, there is abundant evidence to show that the incidence of poverty in Indonesia has fallen fastest when agriculture has grown most strongly.¹³

B. Agriculture¹⁴

17. In Indonesia agriculture matters. It matters because it drives Indonesia's rural economy which provides over 60% of the country's jobs. Because two thirds of the archipelago's population are rural dwellers. And because eight in every ten of Indonesia's 37 million poor people live in the countryside.¹⁵ The incidence of poverty is regionally unevenly distributed being more than twice as high in Eastern Indonesia as in Sumatra, Java, and Bali.

18. In the sixties, agriculture accounted for over 55% of gross domestic product (GDP) and its share was still over 25% in the eighties. By 2000 that share had fallen to 17% but, reflecting inherently low labour productivity, agriculture remained the country's largest employer. Such declines are typical of the development trajectory in many developing countries and reflect changing relative prices, differential rates of technological change, and changing relative factor supplies. They also reflect policy shifts. Nominally there were numerous policy shifts in Indonesia but in reality they were changes in instrumentation delivery and degree of subsidy. Underlying weaknesses in agricultural support services, rural infrastructure and human resources were not addressed until the seventies when, helped by the World Bank in particular, substantial investment in building all aspects of agricultural research, extension, irrigation, infrastructure and rural credit took place. Coupled with price reform and green revolution technologies, the agriculture sector in Indonesia went through its golden age.

Table 1: Deconstruction of Agricultural Growth¹⁶ (percentage per year)

| | Consolidation | Rapid Growth | Deconstruction | Crisis years 1997- |
|--|---------------|--------------|----------------|--------------------|
|--|---------------|--------------|----------------|--------------------|

| | 1967-78 | 1978-86 | 1986-97 | 2000 |
|-------------------------------|---------|---------|---------|-------|
| Agricultural GDP | 3.39 | 5.72 | 3.38 | 1.57 |
| Food crops | 3.58 | 4.95 | 1.90 | 1.62 |
| Estate crops | 4.53 | 5.85 | 6.23 | 1.29 |
| Livestock | 2.02 | 6.99 | 5.78 | 1.92 |
| Fisheries | 3.44 | 5.15 | 5.36 | 5.45 |
| Agricultural production | 3.57 | 6.76 | 3.99 | -0.47 |
| Change in labour productivity | 2.08 | 4.13 | 1.83 | -1.45 |
| Change in land productivity | 2.32 | 5.57 | 2.03 | -0.47 |

Source: USAID 2003 Table 3.1.

19. Since the mid-eighties, industrial development in Indonesia has been heavily protected at the expense of agricultural sector growth causing income disparities that have increased existing regional disparities. Promoting manufacturing through unbalanced growth has serious regressive effects, as development tends to polarize in favour of the richer regions.¹⁷ “Such development patterns and policy bias in the manufacturing sectors, hence urban sectors, have caused losses to the outer islands and stifled their development. Relative decline in agriculture while it grows in absolute terms is desirable and a sign of progress. But artificially speeding that process through neglect of agriculture by donors and government and by artificially funneling resources to suburban industry slow overall growth and have unfortunate interpersonal and interregional equity implications” (USAID 2003, p. 23).

20. Indonesia experienced a rapid and steady expansion of agricultural production from the early seventies to the mid-eighties. In part, this was a result of expanded resource endowments and higher yields brought about by advances in production technology – especially the spread of new and improved varieties of seed and the increased use of inorganic fertilizer. These biochemical inputs significantly affected the rate of agricultural growth. The average annual rate of growth in agricultural output from 1960 to 2000 was 3.7%, but there were large differences between sub-periods and between sub-sectors (see Table 1). In the sixties when the new ‘green revolution’ technology was not available, the growth rate was very low. In the seventies when the intensification of land use, area expansion and crop diversification spread widely across the country, agriculture grew strongly allowing Indonesia to achieve rice self-sufficiency in the mid-eighties.

21. However, this high growth rate did not continue in the nineties owing to an unconducive policy environment, the slow pace of research, reduced technological progress and a lack of agribusiness development. Indonesian agriculture has not significantly increased rice yields since the early nineties. Structural and institutional problems with estate crops, droughts in 1987-88 and 1992-1993, and pest incidents in major production centres caused growth to slow in the period before the peak of the 1997-98 economic crisis. More importantly, deteriorating infrastructure (e.g. irrigation canals, roads, bridges, ports, power supplies, etc.) in many parts of the country exacerbated the decline in agricultural growth. Public expenditure on agricultural development dropped significantly in the nineties (not least because of worldwide disillusion with the past performance of agricultural investment by big donors such as the World Bank) even though the Government, faced with rising food imports, launched a new drive for self-sufficiency in rice, corn and soybean.¹⁸ This exacerbated the difficulties faced by the Indonesian agricultural research system in maintaining technological progress (especially in rice) and the performance of Indonesian agriculture plummeted.

22. Slow growth in agricultural production continued until the 1997-98 economic crisis. During the crisis, the agricultural sector gained a temporary respite from the Rupiah’s heavy devaluation that delivered higher prices for estate and cash crops, fisheries, and other high value products that were exported. But, seemingly, these gains were captured by the larger farmers and traders. Moreover, smaller farmers were much less able to absorb sharply rising input prices. During the crisis, the agricultural sector was the only sector to have a positive, but small, growth rate and on balance

performed better than the rest of the economy. For a short period, the agricultural sector and the rural economy were able to absorb the flow of unemployed labour from the industrial and service sectors but soon ran into an absorptive capacity constraint.

23. The best means of relaxing this constraint, and returning to high growth rates in agriculture, is a policy stance that (i) seeks productivity by increasing technological change rather than price rises (e.g. tariffs on rice imports)¹⁹ and (ii) strives to increase value added through technical and organizational change in agro-industry and related rural enterprise. In part, this is now the central thrust of government agricultural policy but there is pressure for more import protection for key agricultural commodities and insufficient attention to technological change.²⁰ Of importance is the need for practical knowledge of what technologies and institutional changes work on the ground to improve smallholder productivity. Experience shows that such knowledge most often derives from experimentation and cross-country experience.

C. Decentralization²¹

24. Attempts to grapple with decentralization in Indonesia were made as early as 1974, but it was the 1997-98 crisis that in 1999 produced two crucial laws – Law No. 22/99 and Law no.25/99.²² Combined, these laws devolve central government powers and responsibilities to local governments in most areas of government.²³ The devolution to local governments of public services in agriculture, public works, trade and industry, and education seeks to bring government closer to the people and increase efficiency and accountability. These radical and far-reaching changes were introduced in Indonesia's 'Big Bang' on 1 January 2001. Power was effectively devolved without significant interruptions in public service delivery and throughout the country some two million civil servants were reassigned from central to regional agencies. This was a striking achievement and surpassed the expectations of most commentators.

25. These massive changes have profound implications for agriculture and for other sectors. Already some early effects can be discerned even though it is only three years since the Big Bang. At this early stage, it is not surprising that most of these effects have a negative rather than a positive ring. The overall position has been well summarized by the World Bank (2002).

26. "These changes are already ushering in a new grass-roots leadership and have brought governments closer to the people. There are, however, many challenges: the division of labour among levels of government remains unclear, the inter-governmental fiscal system is far from equal, and mechanisms to get external development financing to the regions through new on-lending and grant windows are yet to be put in place.²⁴ Central government ministries, most still searching for their post decentralization "calling" have an important role to play in providing local governments with incentives to reform, govern well and reduce poverty, including through setting standards for service delivery, monitoring and evaluating local progress and helping to build local capacity." (p. 2)

27. Already, some early studies have sought to examine the effects of decentralization on agriculture and the rural community. These studies²⁵ suggest mixed effects on agricultural trade. In some parts of the country positive effects are reported as many local levies have been abolished, while in other parts the opposite is noted. The revenues of provincial governments have shrunk by around 13% while those of district governments have grown by 16% reflecting an underlying shift in the balance of power.



Photo 2: P4K - Phase III

Vendors prepare eggs for sale in Garung, 12 km south of Mataram, Lombok. They wash the eggs then roll them in salted mud, and cover them with burnt rice as a way to preserve them.

IFAD photo by Robert Grossman

28. What is clear from these reports and from the evaluation mission's field investigations is that the old agricultural order has been turned on its head. Centralized control and technical departments with lines of authority running from Jakarta to the remotest outposts of the archipelago are instruments of the past. Instead, *Bupatis* are exercising their new-found freedoms and unprecedented power to allocate resources for agriculture as they see fit. In places this is having positive effects by focusing resources where they are needed and by enabling greater accountability. But elsewhere, perhaps in the majority of districts, agricultural resources, especially staff, are being reassigned to other departments and given multifarious additional duties with deleterious knock-on effects on the farming community and ongoing development projects. According to the Ministry of Agriculture (MOA) there is evidence of a sharp decline in public expenditure in the rural sector since decentralization.²⁶

29. For the main agricultural directorates adjustment to the direct loss of control over resources and the concomitant shift at the provincial and district levels from an executive to an advisory role is proving difficult. Long-serving officers are finding it hard to give up deeply entrenched bureaucratic traditions and an associated loss of power and status and to adopt instead an advisory role in district administrations and a more enabling posture in rural communities.

III. IFAD'S STRATEGY IN INDONESIA

30. IFAD is charged with the mandate unique among international financial institutions (IFIs) of combating rural poverty. In the words of the *Strategic Framework for IFAD 2002-2006*, its goal now is “to enable the rural poor to overcome their poverty”.

31. Although IFAD provided its first loan²⁷ to Indonesia in 1980 for the first Smallholder Cattle Development Project (SCDP I), it was towards the end of 1982 that the Fund fielded a general identification mission (GIM) to the country. The GIM can be considered IFAD's first attempt to define a strategy and programme of work in Indonesia. The GIM report, although it reviewed production trends in Indonesia and the question of poverty, implicitly took the view that IFAD's strategy should simply be to support the Government's agricultural policies and initiatives wherever that appeared practical. Focusing on IFAD's mandate to address rural poverty, the report argued against further irrigation projects²⁸ on the grounds that such projects were inadequately directed at the poorest. It also suggested that IFAD should mainly be associated with transmigration in the “post-settlement” phase, and that IFAD should seek projects (linked to agricultural research) that would help small and poor farmers in the outer islands and in rainfed areas. It was also cautiously optimistic about the possibility of a rural credit operation. Paradoxically, both of the projects recommended for 1983 were in irrigation and a third was suggested for later years.

32. Looking back, this report seems not to have found much favour in IFAD, as none of its main project proposals were acted on, giving rise to a gap in new IFAD operations from 1982 to 1985 in Indonesia. In part, this may have been because the GIM report saw IFAD enhancing its collaboration with larger IFIs, such as the Asian Development Bank (AsDB) and the World Bank, and did not clearly identify projects where IFAD might make its own unique contribution.²⁹ Although the GIM's recommendations were not really implemented, it was broadly relevant to Indonesia's needs at the time. However, the point to highlight is that identifying a string of possible future project options does not constitute a strategy. In short, the GIM report did not entirely serve as an effective strategic guide to IFAD's future involvement in the country at the time.

33. It was not until 1988 that IFAD developed its first workable strategy for Indonesia. This strategy is outlined in the report of a special programming mission (SPM) to Indonesia in May 1988. Although written in the late eighties, the 400-page report was, like the strategies of other IFIs at the time, heavily descriptive, resource endowment driven and not sufficiently analytical. Like its predecessor, the SPM report did not pay adequate attention to government policy, neither endorsing nor criticizing it. But, it was on the cutting edge in its straightforward and powerful arguments in favour of helping rural poor women. It was written just at the end of the main period of fast agricultural growth in Indonesia and at the outset of a period when the main source of growth in the economy shifted from agriculture to manufacturing under a strongly pro-urban and pro-industrial policy regime. This shift would not have been entirely evident to the mission, which had to rely on outdated data and evidence. For example, the mission's report contains few references to data after 1985 and often had to use evidence from the early eighties or even late seventies. However, the SPM report did cover a number of aspects of concern to IFAD, as mentioned in the next paragraphs.

34. Given that Indonesia was self-sufficient in rice, the SPM saw the main challenge to be raising the living standards of the rural poor by expanding rural employment through commodity and regional diversification. De-emphasizing rice production and distinguishing between the “inner islands” (mostly Java) and the “outer islands”, and farm and non-farm activities, the SPM split the strategy into two. In Java and especially in upland rainfed areas, secondary food crops were to be encouraged, coupled with the rehabilitation and intensification of rural infrastructure (irrigation systems, roads and natural resource conservation). In the outer islands, crop diversification was to be encouraged in accord with research knowledge, natural comparative advantage (resource endowments) and with special attention to tree crops. It also argued that rural employment be expanded by making all transmigration projects as labour intensive as possible, but did not recommend IFAD's involvement.

35. This diversified approach required a matching diversification in organizational and institutional arrangements. This meant, according to the SPM, the replacement of centralized top-down methods by a big increase in interdepartmental coordination, a greater allocation of resources to well-targeted areas, and the engagement of local communities and farmers through participatory processes. The SPM also called for more effective interaction between provincial and district level managers with clearer roles and responsibilities.

36. Lastly, the report recommended that the strategy be operationalized through five projects: (i) a rural credit operation to provide for the capital requirements of both farm and non-farm activities;³⁰ (ii) a second expanded and enhanced phase of the nearly completed World Bank-funded Yogyakarta Rural Development Project; (iii) a project in the outer islands focusing on the development and rehabilitation of smallholder perennial crops especially rubber, coconuts and coffee; (iv) a third phase of the Smallholder Cattle Development Project (SCDP); and (v) a project focused on rainfed agriculture, specifically *palawija* (non-rice food crops) such as maize, cassava, sweet potatoes, groundnuts and soybean.³¹

37. The SPM strategy and its portfolio of projects were partially realized. Following the SPM, IFAD financed five projects including the rural finance operation already under preparation in 1987, which became effective in 1988. These projects covered rainfed agriculture in Java with a strong focus on soil and water conservation, smallholder tree crops in Sumatra, and in the eastern islands, a project each on cashew development, and farming systems and livestock. On the whole, at least the project portfolio created between 1988 and 1997 reflected the 1988 strategy's concern with rural credit, rainfed agriculture and farming systems, conservation, *palawija* crops, tree crops and livestock. But, it did not address agricultural research, a major weakness in the agriculture sector during the nineties. Generally, the projects financed after the SPM also sought institutional adjustments in delivery and implementation arrangements away from traditional top-down centralized procedures. In summary, the SPM strategy was relevant, well argued and an effective guide for IFAD for much of the next decade.

38. The economic and political fallout from the 1997-98 financial crisis prompted IFAD like many other donors to pause, regroup and rethink. Thus, in 1998, IFAD published a new strategy for Indonesia in the COSOP.³² The quickly prepared COSOP is based on past experience as internalized by IFAD staff and the conclusions of a two-day consultative workshop, which was held in Indonesia and sponsored jointly by IFAD and MOA. Other important inputs included a country strategy mission, an informative study of the impact of the financial crisis on poor people in IFAD-supported projects and a review of the ongoing portfolio. The latter reported that overall the portfolio was satisfactory with some strong successes and a failure (tree crops in Sumatera).³³

39. Although the COSOP does not contain an extensive review of government agricultural policy, it does cast doubt on the likely efficacy of the Government's crash programme in food crops.³⁴ The COSOP, however, paid much more attention to the Government's poverty reduction strategy, but resisted the temptation to embark on social safety net emergency operations, wisely arguing that IFAD should continue to work on long-term solutions to chronic rural poverty. It was also opportunistic, seizing the chance presented by the new political climate to carry forward its agenda of empowering the rural poor. The COSOP restated IFAD's traditional concern with rural poverty and argued that IFAD should tighten its targeting of the poor so that it aimed directly at the poorest of the poor in the most resource-poor areas: "...the dryland/rainfed, both highland and lowland, environmentally degraded and coastal areas where poverty is largely concentrated". In fact, the poorest were defined for the first time to include indigenous, voiceless communities, rural young people and the marginalized ("alienated") poor. Therefore, the COSOP included a clear definition of the target group and appropriately defined the Fund's corresponding geographic and sectoral priority.

40. The COSOP says "IFAD's future strategy should ... pursue a double level poverty alleviation strategy ensuring that sector based, location specific projects are linked up with the more transversal ones, like P4K, in particular, the use of self-help groups to enable an effective institution building of local communities should be a common feature of all IFAD funded projects in Indonesia ... IFAD

should [also] embark on an intensive policy dialogue with government³⁵ on issues like indigenous rights, transparency, decentralized development and project management, land rights, enhancement of the role of civil societies and NGOs, etc. In so doing, IFAD should diversify its partnership with selected donor agencies and above all with representatives of the civil society...” (p. vii). Additionally, COSOP promised follow-up on several cross-cutting portfolio issues, including: dependence on technical assistance and its recurrent poor performance; inadequate intragovernment coordination and information-sharing; procurement processes, transparency and corruption; lack of collaboration with NGOs; indigenous peoples’ rights; lack of beneficiary input into design; and environmental impact. Specific actions on other issues noted in the portfolio review and not adequately addressed in the COSOP included areas such as research and extension linkages, and loan processing and disbursement delays. Overall, the COSOP signals clear directions for IFAD, reflecting the heightened international attention to poverty reduction in the nineties and the view that many past agricultural interventions foundered because they were too technocratic and had not first built strong social and community foundations. But, it is not as consonant with the Government’s central push for rural growth based in higher crop and livestock production and greater value added in the rural economy as it might have been.

41. Even though the COSOP raised new issues and signalled some important changes of direction, its intellectual foundations and broad approach are to be found in the 1988 strategy. However, IFAD’s two most recent projects³⁶ seem to go beyond the COSOP, seeking poverty reduction mainly through empowerment processes rather than higher agricultural productivity and incomes.³⁷ The first (PIDRA) is a group-focused participatory rural development programme in rainfed areas approved in 2000 using the Fund’s loan financing instrument known as the Flexible Lending Mechanism (FLM).³⁸ The second (the East Kalimantan Local Communities Empowerment Programme (EKLCEP)), approved in 2002, is a group-focused rural development programme in Kalimantan which depends largely on NGOs for its implementation. It is framed within the newly decentralized political and administrative system and centrally addresses the development of the indigenous *Dayak* community. It also uses the FLM. The limited attention to agricultural technology and productivity in these two programmes may be somewhat out of step with IFAD’s strategic framework and regional strategy for Asia and the Pacific and the growing number of voices worldwide calling for more attention to the central element of rural development – agricultural growth.³⁹ The CPE acknowledges the importance of social mobilization and building social capital as a key dimension of IFAD’s work in Indonesia. However, it argues that the formation of social capital is a necessary but not sufficient condition for successful rural poverty reduction, and that the COSOP would have gained by taking a more balanced approach and by paying more attention to the economic empowerment of the rural poor through agricultural development.

42. There are two further important strategic documents that set out the current goals and achievements expected of an IFAD country programme in the Asia and the Pacific region. The first document is the *Strategic Framework for IFAD 2002-2006* (March 2002). The second is the *IFAD Strategy for Rural Poverty Reduction in Asia and the Pacific* (also published in March 2002). These papers are two important reference documents that would lay the basis for the new IFAD COSOP for Indonesia, which will be formulated by PI after the completion of this CPE.

43. The strategic framework is set within the broad framework of the Millennium Development Goals and convincingly makes the case for the vital importance of agriculture and rural development in the fight to radically reduce global poverty. It sees IFAD assuming “a catalytic role ... and influencing the direction and content of national and international poverty-reduction efforts”. It also identifies the Fund’s strengths to be flexibility, participation, partnership, innovation and replication as well as a willingness to take the long view and to see things through. It describes IFAD’s strategic objectives.⁴⁰

44. The regional strategy for Asia and the Pacific repeats the need for a catalytic role and selects the development of less favoured areas, women, indigenous peoples and other marginalized minorities; and complementarity with government plans and those of other key donors as the key strategic areas

of concentration. In less favoured areas, the regional strategy sees the need to concentrate on developing and disseminating sustainable regenerative agricultural technologies tailored to the diverse and complex farming systems allied to investments in forestry, agroforestry and the harvesting of forest products. It stresses the need for collaboration with international and national research agencies to ensure that the appropriate technologies are used. Microfinance and rural works are seen as vital enabling devices. Redistributive land reform is to be “placed on the policy agendas of governments”. It includes the need to enhance women’s capabilities in order to promote social transformation and agricultural development. It speaks about enhancing peace for poverty reduction by promoting the development of social capital through the improvement of social justice and human rights, as well as redressing unequal power relations including gender relations. Finally, the strategy identifies core areas for enhancing implementation, including partnership-building, policy dialogue, knowledge management and impact assessment.

45. Although the 1998 COSOP was developed before both the regional strategy for Asia and the Pacific and the IFAD strategic framework, it is to a large extent consistent with the central elements of both (i.e. the regional strategy and the strategic framework). For example, the latter’s focus on indigenous peoples, less favoured areas and enhancing social capital is closely in line with the pillars of the regional strategy. Moreover, the COSOP’s focus on rural finance and social capital are important objectives both in the regional strategy and the strategic framework. However, there are some important areas that were not given sufficient attention in the COSOP. For example, it does not pay attention to activities that would enhance agriculture production and productivity through improving access to productive natural resources and technology, which are core objectives in both the regional strategy and Strategic Framework of IFAD.⁴¹ Like the 1988 strategy, the COSOP underplays the development of market linkages, off-farm opportunities and agro-processing. Finally, in tune with both strategies, the COSOP emphasizes the importance of IFAD’s catalytic impact especially in terms of policy dialogue and partnership-building, but on the whole falls short in these areas.

46. The COSOP would have benefited had it included a more crisply defined hierarchy of objectives, especially for the non-lending activities, and performance indicators to assist in monitoring the implementation of the strategy and ultimately measuring its results and outcomes. Moreover, although COSOPs are not supposed to be fully-fledged planning papers, there is an important limitation of the Indonesia COSOP, which perhaps has wider implications for IFAD regarding COSOP design. That is, although the Indonesia COSOP articulates IFAD’s objectives in the country over a specific time frame, it could have been streamlined by a thorough analysis of the inputs (human and financial), processes, and activities required to effectively achieve its multiple objectives and outputs. Neither did the COSOP include a prioritization or time plan for the delivery of its different objectives and activities. For example, in spite of the attention the COSOP devoted to policy dialogue, partnership-building, strategic linkages with other bilateral and multilateral donors, and knowledge management, the operationalization of these objectives has not been adequately accomplished, due largely to the absence of a realistic assessment and the allocation of resources required as well as the definition of key corresponding processes and platforms. Nevertheless, it should be highlighted that the diversity of objectives and activities in the Indonesia COSOP, which requires a mix of skills and competencies in different areas, were to be met by one IFAD staff member – the country programme manager (CPM) – who has, however, in the past couple of years been supported by an associate professional officer. Finally, as for other COSOPs developed around 1998, and this may still be relevant in today’s context, although the Indonesia COSOP included aspects related to lending and non-lending, it was designed primarily as a vehicle for implementing an IFAD lending programme in the country.

47. To sum up, IFAD’s evolving strategy in Indonesia as presented in the 1988 (SPM) and 1998 (COSOP) strategies has found fairly full expression in the poverty, geographic and subsectoral focus of IFAD’s projects. However, IFAD could have paid greater attention to the policy and portfolio management aspects of its strategies. A review of the overall performance of IFAD’s activities in Indonesia when judged against the expectations of these two strategies, as well as IFAD’s broader strategic goals follows in the next chapter.

IV. PROGRAMME PERFORMANCE

48. A programme is a list of related actions and elements intended to deliver a defined set of outcomes. In this case the programme has two broad outcome groups: policy effects and project effects. Both are mediated by the partners who design and implement them. Accordingly, the evaluation in this chapter is divided into three parts. First, because of its prominence in IFAD's country strategy as well as its institutional goals, the programme's contribution to policy development and policy dialogue is assessed. Second, the projects making up the programme are collectively evaluated distinguishing always between what is history and what is not. Third, the partners' performance in seeking to achieve programme goals is assessed.

49. In assessing the results and impact of the individual projects financed by IFAD in Indonesia, the CPE draws upon the core elements of the methodological framework for evaluation developed by OE in 2002. This requires, *inter alia*, that project/programme performance, including the constituent elements, be assessed in terms of: their relevance to both government and IFAD policies and strategies of the time; effectiveness in achieving originally stated objectives; efficiency as measured by cost-effectiveness or benefit to cost ratios; impact on institutional development, rural poverty and women; and overall sustainability.⁴² In addition, the framework requires that the performance of partners, including IFAD, government institutions, cofinanciers, cooperating institutions, NGOs and others be explicitly assessed.

A. Policy Effects

50. The COSOP identifies areas for policy dialogue, including decentralization for better project management, the participation of community-based organizations (CBOs) in project implementation, the promotion of cooperatives at the grass-roots level and land reform. It underscores the need for IFAD to coordinate with IFIs like the World Bank and AsDB in order to increase the effectiveness of its policy dialogue with the Government. The COSOP sees IFAD engaging in policy dialogue, as a means of creating a favourable pro-poor rural development framework in Indonesia. Moreover, IFAD has come to see itself taking up policy issues of concern to the rural poor in prominent policy forums. It also sees its role as strengthening the capacities of CBOs and NGOs, so that they can become advocates for policy change.

51. Contrary to its strategic objectives, extensive enquiries among aid agencies in Indonesia revealed that IFAD has not engaged sufficiently in such dialogue in the country.⁴³ This is a common opinion shared by the majority of the main bilateral donors (e.g. the United Kingdom's Department for International Development (DFID), the German Agency for Technical Cooperation (GTZ) and the United States Agency for International Development (USAID)) and multilateral organizations (e.g. AsDB, the Food and Agriculture Organization of the United Nations (FAO), the United Nations Development Programme (UNDP) and the World Bank) involved in agriculture and rural development in Indonesia. To take one example, IFAD has not actively participated in the Consultative Group on Indonesia (CGI)⁴⁴ despite being a full member.⁴⁵ This is a key forum of relevance to IFAD for policy debate where important issues are discussed and decisions taken. Similar findings were made among major international NGOs (e.g. the Cooperative for Assistance and Relief Everywhere (CARE) International) that remain active in rural development. Even with a key partner, the AsDB, the Fund seems not to engage in effective policy discussion. Recent interactions have not been productive. This lack of engagement represents an important missed opportunity for IFAD. It is not making, in an active and direct manner, the case among its peers for a major reduction in Indonesian poverty based on rapid rural and agricultural development. Similarly, it is not engaged in intensive ongoing policy and implementation discussions between donors and government about decentralized development at the district level and microfinance at the national level.⁴⁶

52. The Government has a well developed policy framework for agriculture, which it keeps under review through its own work and the work of others. The importance of agriculture to the economy and to poverty reduction is well understood in various quarters, including BAPPENAS (National

Development Planning Agency). IFAD enjoys good relations with both BAPPENAS and the MOA and is aware of the Government's policy framework, but there is no evidence that it has influenced the salient features of this policy landscape.⁴⁷ At a more micro level and through its projects (rather than as a non-lending activity) some influence is discernable, for example, in working with NGOs in project implementation and in helping agricultural line agencies adapt to decentralization.⁴⁸

53. In sum, the CPE notes that IFAD has not materially engaged in policy dialogue with the Government, the United Nations, IFIs and other development agencies on issues of significance to rural development and poverty reduction in Indonesia. This finding may have implications for IFAD operations beyond Indonesia. For example, it is not clear whether IFAD has the ability to undertake detailed policy analysis that builds on its operational experiences, thus equipping staff with substantive and well researched issues for dialogue. The Fund's small size, lack of country presence and modest lending programme (compared to other IFIs), may also constrain its ability to make itself heard among the larger players in the country and the Government. In short, IFAD may not have the capacity to gain credibility and ensure the requisite continuity in dialogue that is fundamental if it is to contribute effectively to policy reform.⁴⁹ Equally, changes in the role of cooperating institutions and other major IFAD partners in supporting IFAD policy dialogue efforts with the Government may be useful. For example, the Fund could enhance its strategy for partnership (with, for example, cooperating institutions, cofinanciers, research institutions⁵⁰, selected NGOs and so on) to make its policy dialogue more effective. In the context of its current strategy, IFAD's lack of attention to policy analysis and policy dialogue in Indonesia is a cause for concern, and in future it must have high priority among the Fund's non-lending activities in the country.

54. On the role of IFAD in policy dialogue, the participants at the January 2004 workshop and other partners (such as AsDB, FAO, GTZ and the World Bank) who were not able to attend the session, stressed the need for IFAD to make concerted efforts to engage in policy dialogue, both formal and informal, especially at the national level through, for example, participation in various government-donor working groups⁵¹ on agriculture and rural development strategies, as well as in the context of the ongoing development of Indonesia's Poverty Reduction Strategy Paper (PRSP).⁵² This remark is consistent with the recent discussions at the management retreat of IFAD's Programme Management Department (PMD), where it was agreed that "if IFAD wants to influence policy change for inclusiveness of the poor, the Fund needs to ensure that its Country Portfolio Managers can relate to national, central and political processes so that the interests of the rural poor are heard".⁵³

B. Project Effects

55. IFAD has funded in whole or in part twelve projects⁵⁴ in Indonesia.⁵⁵ Table 2 shows how each project is rated against the evaluation criteria described above. Six of twelve projects in IFAD's entire portfolio had or are expected to have satisfactory overall outcomes; five had or are expected to have unsatisfactory overall outcomes. One project is not rated owing to the absence of evidence. Making these evaluation judgements for completed projects was often hampered by the lack of data and other project records, but usually sufficient direct and indirect evidence was assembled to permit reasonably reliable assessments to be made. For those projects that are not yet complete, two of which are quite new, the assessments take account of all available information and reach conclusions about *expected outcomes* assuming no material changes in objectives, implementation methods or other key parameters related to performance.

Table 2: Performance Ratings for IFAD-Assisted Projects

| Year and Project | Relevance | Effectiveness | Efficiency | Impact on Institutional Development | Impact on Women | Impact on Poverty | Sustainability | Overall Project Outcome |
|---|-------------|---------------|-------------|-------------------------------------|-----------------|-------------------|-----------------|-------------------------|
| 1980 – Smallholder Cattle Development Project (SCDP I) | Substantial | Substantial | Substantial | Negligible | Negligible | Substantial | Likely | Satisfactory |
| 1981 – Sulawesi Paddy Land Development Project (SPLDP) | Substantial | Modest | Negligible | Negligible | nr | Modest | Highly Unlikely | Highly Unsatisfactory |
| 1982 – Seventeenth Irrigation (East Java Province) Project (EJIP) | Substantial | nr | nr | nr | nr | nr | nr | nr |
| 1985 – Second Smallholder Cattle Development Project (SCDP II) | Substantial | Substantial | Modest | Negligible | Negligible | Substantial | Likely | Satisfactory |
| 1987 – Income-Generating Project for Marginal Farmers and Landless (P4K II) | Substantial | Substantial | Substantial | Substantial | Substantial | Substantial | Unlikely | Satisfactory |
| 1990 – East Java Rainfed Agriculture Project* (EJRAP) | Substantial | Modest | Modest | Modest | Substantial | Modest | Highly Unlikely | Unsatisfactory |
| 1992 – South Sumatera Smallholder Tree Crops Development Project (SSSTCDP) | Substantial | Negligible | Negligible | Modest | Negligible | Modest | Highly Unlikely | Unsatisfactory |
| 1994 – Eastern Islands Smallholder Cashew Development Project (EISCDP) | High | Substantial | Substantial | Modest | Negligible | Substantial | Likely | Satisfactory |
| 1995 – Eastern Islands Smallholder Farming Systems and Livestock Development Project* (PUTKATI or EISFSLDP) | Substantial | Modest | Modest | Modest | Negligible | Modest | Unlikely | Unsatisfactory |
| 1997 – Income-Generating Project for Marginal Farmers and Landless – Phase III (P4K III) | High | Substantial | Substantial | Modest | Substantial | Substantial | Likely | Satisfactory |
| 2000 – Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas* (PIDRA) | Substantial | Substantial | Modest | Modest | Substantial | Modest | Unlikely | Unsatisfactory |
| 2002 – East Kalimantan Local Communities Empowerment Programme** (EKLCEP) | High | Substantial | Modest | Substantial | Substantial | Modest | Likely | Satisfactory |

- Notes: 1. Permitted ratings are High, Substantial, Modest, Negligible for all criteria except Sustainability for which Highly Likely, Likely, Unlikely, and Highly Unlikely are used. Overall Outcome is rated Highly Satisfactory, Satisfactory, Unsatisfactory or Highly Unsatisfactory. nr = not rated.
2. * means the project was accompanied by a technical assistance grant. These are not separately assessed.
3. ** In mid-2003 the East Kalimantan programme had barely commenced. Ratings are therefore based on the project design and its likely performance. PIDRA has been treated in the same way.

56. **Relevance of objectives.** All projects had wholly or partly relevant objectives, so taken as a whole the relevance of the portfolio is substantial. The projects were or are consistent with Indonesia's development priorities (at the time of design), with IFAD's country strategy and with the needs of the poor. Among the more recent projects the Eastern Islands Smallholder Cashew Development Project (EISCDP), P4K III and EKLCEP have highly relevant objectives. The EKLCEP is highly attuned to the development goals of one district and the first IFAD project to work entirely within the new decentralized system. P4K II, the Eastern Islands Smallholder Farming Systems and Livestock Development Project (EISFSLDP or PUTKATI), and PIDRA have satisfactory objectives that could, in some cases, have been improved. For example, in P4K II the project objectives are relevant but, the project design was behind the times and far from innovative, thereby compromising effectiveness.⁵⁶

57. Furthermore, all projects have concentrated on resource-poor districts and small and marginal farmers. Some, such as the EISCDP, are especially well suited to the drier and poorer parts of eastern Indonesia.⁵⁷ Others such as the South Sumatera Smallholder Tree Crop Development Project (SSSTCDP) and Sulawesi Paddy Land Development Project (SPLDP) sought expressly to reinforce government policies such as transmigration. But, in some cases (e.g. PUTKATI), the geographically wide spread of districts included in a given project (for good reasons) has probably created overall difficulties in implementation and coordination. The more recent projects, consistent with the evolution of IFAD's strategic thinking, also target the very poorest and try to reach indigenous communities. The EKLCEP even goes beyond COSOP to address directly some of the goals of the IFAD strategic framework. However, in targeting the poorest, some projects (e.g. PUTKATI) have been deficient and benefits have gone to the moderately wealthy, the socially important and mostly to men.

58. **Effectiveness.** The extent to which projects achieve their main objectives varies. None were judged highly effective, in the sense that they achieved or exceeded all their principal objectives. On the other hand, the effectiveness of the SSSTCDP was negligible mainly because it sought to introduce unsuitable and unworkable technologies. Four projects are rated substantially effective, achieving all or most objectives: the EISCDP, P4K II and the two early livestock projects (SCDP I and II).⁵⁸ The EISCDP was effective mainly because, among all of the projects in the IFAD portfolio, it most clearly achieved its central goal of successfully introducing a new technology to almost its entire target group of small and marginal farmers. Among projects with modest ratings for effectiveness, the EJRAP used conservation technologies that were rejected by most farmers on grounds of cost and efficacy and PUTKATI, although achieving cattle distribution objectives, largely failed in its farming systems, institution-building, distributive and income-raising objectives. In the PIDRA, IFAD transferred technology for micro-watershed development from the NGO MYRADA in India with help from the World Agroforestry Centre (ICRAF), but this has yet to show signs of success.

59. If a project is to be effective, its objectives must be complemented by a design that promises a reasonable chance of the objectives being achieved. It must also be efficiently and imaginatively implemented. In this light, the PIDRA and EKLCEP, both under implementation, are likely to be substantially effective. But this has yet to be determined as both these programmes are in their initial stages of implementation. In the PIDRA, group formation is often proving socially divisive and less successful than in other projects, and inadequate attention is being paid to the productive dimensions of group activities giving rise, as one group said to "boredom", and to high rates of attrition.⁵⁹ The likely effectiveness of EKLCEP could be compromised by the wide range and high level of risks (institutional, infrastructural, technical, economic and organizational) that it confronts given the enormous challenges of operating in a very remote area. These are however the kinds of risk that IFAD must confront and overcome if it is successfully to claim a place at the cutting edge.

60. If IFAD's ongoing operations such as the PIDRA and EKLCEP are to be effective, they must also ensure the efficient delivery of relevant technology to project participants. Such efficient delivery has recently declined nationwide owing to a number of factors including: (i) the transfer of field extension workers (FEWs) from the central and provincial governments to district governments; (ii) the retraining of FEWs to become polyvalent extension workers; (iii) the frequent transfer of FEWs;

(iv) budget shortages; and (v) poor management and low morale.⁶⁰ Although the P4K III and PIDRA have taken steps to reduce the severity of this problem, they still suffer from inadequate links to the research system. Without such links, FEWs are ineffective because extension messages must be regularly updated to remain relevant to the needs of farmers. Agricultural research in Indonesia is the responsibility of the Agency for Agricultural Research and Development (AARD). IFAD operations should be linked to the AARD through the Assessment Institutes for Agricultural Technology (AIATs), which have been established and strengthened in each of the provinces. The AIATs are staffed by researchers and a small number of extension specialists, and can access databases on improved varieties and technologies developed in different parts of Indonesia. However, there is no formal link with AARD/AIAT in any of the ongoing projects (PUTKATI, P4K, PIDRA, and EKLCEP). Nor is there any financial support.

61. IFAD should not restrict its sources of new research knowledge and technology to government establishments alone as there is a rich tapestry of relevant experience, skills and knowledge in other quarters. Domestic as well as international NGOs such as CARE International have been active in providing successful research and extension services to their clients.⁶¹ Strong linkages with grass-roots organizations must also be established in IFAD-funded projects to ensure that the research agenda is driven from the bottom, reflecting the needs and priorities of the rural poor. Likewise, FEWs should be trained in such a way that their mindsets and activities match the requirements of a bottom-up research and extension system.

62. **Efficiency.** In almost all of the projects in IFAD's portfolio the extent to which any one achieved, or is expected to achieve, adequate economic returns or cost-effectiveness (compared to similar well-regarded programs) is impossible to estimate with any certainty owing to an almost complete lack of usable empirical data concerning outcomes. The exception is the EISCDP where at completion the project authorities estimate the internal economic rate of return (IERR) to be a very satisfactory 16%.⁶² Among recent and ongoing projects and despite the general absence of data, P4K III and EKLCEP have a good chance of producing substantial positive economic benefits. However, the actual or likely IERRs of EJRAP and PUTKATI are judged to be no more than modest. This is because in EJRAP project benefits went to only about a third of the farmers intended, and have not been well maintained, while in PUTKATI, for the reasons mentioned above, the economic benefits have been seriously reduced. PIDRA too may not produce a positive balance of benefits over costs unless implementation adjustments are undertaken very soon to offer groups more and better productive activities (farm and non-farm) and markets that will contribute to tangible increases in their incomes and overall livelihoods.

63. Cost-benefit calculations are generally thought to be one of the most comprehensive ways of assessing efficiency. A much less rigorous method is to examine cost-effectiveness by comparing project costs per household across several projects with broadly similar goals and methods (see Table 3).⁶³ Among the more recent projects these comparative data suggest that IFAD projects are more cost-effective than similar projects funded by the AsDB, about the same as similar World Bank projects, but may not be as cost-effective as the famously successful Aga Khan Rural Support Programme (AKRSP) in Pakistan. However, the two more recent IFAD-funded programmes (PIDRA and EKLCEP) have comparable cost-effectiveness to the AKRSP, and PIDRA has the lowest cost per household of all projects in Table 3. Further evidence of IFAD's cost-effectiveness is provided by EISCDP where the development cost of cashew nut was about USD 660 per hectare,⁶⁴ compared to USD 1 000 per hectare for similar projects financed by AsDB and the Overseas Economic Cooperation Fund (OECF). Of course such comparisons can be criticized as being unfair, but this is not a reason for not making them. All the projects seek similar objectives and use tax payers' money. If data on outputs are not available, data on inputs must substitute.

64. Another glimpse of efficiency can be obtained by the incidence in a project portfolio of 'problem projects'. These are projects where the severity and persistence of design and implementation weaknesses are so great that they threaten achievement of the project's development objectives. Based on UNOPS supervision ratings, Table 2 and extensive desk and field studies of the

ongoing IFAD operations two, or 40%, justify problem project status. This may be compared with 21% in the World Bank and 28% in the AsDB portfolios in late 2002.⁶⁵ Of course, different institutions have different approaches to quality control and portfolio management. However, all seek similar results and all are free to choose their business methods. Although interesting at first glance, these comparisons need to be qualified taking into account some of the distinguishing structural institutional features of IFAD as compared to the AsDB and World Bank, such as the absence of an IFAD field presence⁶⁶ in Indonesia or the fact that project supervision and implementation support in IFAD-funded operations is performed through a third party (i.e. cooperating institutions) and so on. Although the CPE did not do an in-depth analysis on this issue, it can be said that the aforementioned factors can be important in determining portfolio performance.

65. One of the reasons for attempting the above comparisons is to underscore the need to ensure that the delivery of IFAD-funded projects and programmes is accomplished in an efficient manner, as compared with those of other multilateral organizations, in particular IFIs. In spite of the specificities of the different institutions involved, it is a way for the Fund to improve its performance, where needed, so that its assistance can have a greater developmental impact on the intended target groups. It is also a demonstration to the development community at large of the transparency in the Fund's quest to improve its overall operations and commitment to its specific mandate of supporting the poorest communities.

Table 3: Comparative Costs per Benefiting Household: Selected IFAD and Other Projects

| Year and Project | Total Project Cost (USD million) | No. Directly Benefiting Households ('000) | Main Donor | Cost per Directly Benefiting Household (current USD) |
|--|----------------------------------|---|------------|--|
| 1994 – Eastern Islands Smallholder Cashew Development Project (EISCDP) | 43.1 | 45 | IFAD | 958 |
| 1995 – Sulawesi Rainfed Agricultural Development Project | 60.7 | 50 | AsDB | 1 214 |
| 1995 – Eastern Islands Smallholder Farming Systems and Livestock Development Project (PUTKATI or EISFSLDP) | 34.4 | 27.8 | IFAD | 1 237 |
| 1996 – Nusa Tenggara Agricultural Area Development Project | 45.0 | 125 | World Bank | 360 |
| 1996 – Sulawesi Agricultural Area Development Project | 42.5 | 90 | World Bank | 472 |
| 1996 – Aga Khan Rural Support Programme – Pakistan* | 36.1 | 93.7 | DFID | 385 |
| 1998 – Bengkulu Regional Development Project | 25.7 | 40 | World Bank | 642 |
| 2000 – Community Empowerment for Rural Development Project | 170.2 | 220 | AsDB | 773 |
| 2000 – Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA) | 27.4 | 100 | IFAD | 274 |
| 2002 – East Kalimantan Local Communities Empowerment Programme (EKLCEP) | 26.5 | 39.2 | IFAD | 676 |

* Included as a comparable example of a widely known and very successful rural development scheme.

66. **Institutional development.** The importance of institutional and social change for development, and especially for rural poverty reduction, is widely recognized. Positive institutional development outcomes are now an integral feature of IFAD operations.

67. Institutional development has multiple dimensions. It may involve policy adjustments, legal reform and organizational change nationally, and changes locally in administrative practice, local government, local regulations and community and village organizations. As already noted, IFAD has not engaged in policy dialogue or other institutional reforms nationally. It has, however, sought to introduce institutional change locally through its projects.

68. In the early projects, institutional development did not figure among the development objectives of IFAD-funded projects. For the most part, institutional development was judged to be mostly a matter of the organizational and staffing arrangements in government for project implementation. Sometimes these arrangements became minor reorganizations, but mostly IFAD and the Government of Indonesia relied on the establishment of project management units (e.g. SPLDP and SSSTCDP) with varying degrees of autonomy. One consequence is that knowledge gained through project implementation often dissipated at project end, when staff were assigned to other duties. Similarly, institutional development in villages and communities was not an objective and if addressed was treated as an incidental or not dealt with at all.⁶⁷ The irrigation projects were exceptions to this rule, encouraging the development of water user associations. However, the latter were generally unsuccessful because they ignored traditional water management institutions such as the *Ulu-ulu* or water master.

69. In ongoing projects (P4K III, PIDRA and EKLCEP) institutional development is an explicit development objective, either in villages and communities or in district administrations. Here, IFAD is mobilizing groups and seeking to empower both individuals and groups. It is engaged in drawing NGOs more fully into the development process and shifting the focus of capacity-building to decentralized district administrations. Preliminary indications point to some success on all of these fronts, coupled with the presence of substantial challenges in terms of engendering real empowerment (PIDRA) and expanding the role of NGOs (EKLCEP). These matters are analysed further in Chapter V.

70. Overall, achievements in institutional development in the IFAD portfolio are modest with an uneven pattern of achievement both across projects and within projects. This is attributable to limitations in project design and implementation, inadequate monitoring and evaluation systems that do not contribute enough to learning, and the continuing survival of top-down input focused project management. Institutional development has also been influenced, both positively and negatively, by decentralization (see, for example, paragraphs 99-101 and 136).

71. **Impact on women.** Explicit attention to gender was not an objective in all IFAD-supported projects, but enhancement of the status of women and their economic empowerment is a matter of human justice so all projects can justifiably be scrutinized from this perspective.⁶⁸ IFAD's early projects paid scant attention to women, concentrating on the family as a whole. This is perhaps understandable in the irrigation projects of the early eighties, which were dominated by the World Bank. But, it is not a feature one would expect in projects after 1985, by which time the crucial role of women in agriculture and the central issues of intrahousehold allocation decisions were becoming well known. Evaluation studies undertaken during the first livestock project showed the changing role of women in the livestock sector, but these findings were not adequately built upon in the second livestock project. Nor were women specifically addressed in the EISCDP approved in 1994 or in the PUTKATI approved in 1995. During much of its implementation, in fact, the latter project actively discriminated against women, in group formation activities and in the allocation of livestock.^{69 70} This is disappointing given the commitment to enhancing the role of women in the SPM report of 1988. In sum, the nineties were little better than the eighties with only the EJRAP and P4K II actively aiding women.

72. The EJRAP, approved in 1990, was probably the first IFAD project to target women. It sought to enable women's development by forming women's groups and providing them with equipment and training. In this way, the project's impact on women was small in scale but significant. About

1 863 women's business groups and 964 women's P4K III groups were formed. After training and, in some cases, the provision of equipment, many of these groups were able to undertake income-generating activities such as trading, weaving, product processing and snack-making. A socio-economic survey conducted in 1998 showed that, on average, these women were able to contribute about 20% to the family's monthly income.

73. In the PIDRA, the impact on women is already quite impressive. For example, even in mixed groups, women express their opinions about the choice of infrastructure projects. Women's groups undertake successful annual planning of their own activities and programmes but, it is not clear whether they are able to ensure that their plans are integrated into the annual village planning exercise, which is dominated by men. In some places women's groups are reaching out to join other development programmes.⁷¹

74. The attempt in PIDRA to address women and men as beneficiaries each in their own right is having positive results and should be further strengthened. But, as programme activities and the number of villages grow, it is doubtful if the extension services will be able to maintain the same intensity of community interaction. Additionally, there is an increasing demand for more than planning activities and modest empowerment. Economic improvement is being sought by women as well as men, but so far the programme has not responded.

75. To conclude, during the stakeholders' workshop to discuss the draft CPE report in Jakarta on 14 January 2004, some participants mentioned that even in more recent projects efforts in gender mainstreaming have not yielded the desired results. In particular, it was noted that project implementers tend to devote most attention to achieving targets with regard to women's empowerment (such as the number of women's groups established or the amount of training provided, etc.), rather than focusing on the end result and qualitative aspects of women's development. This is a constraint in the transformation of women in general and their ability to benefit effectively from project activities in particular.

76. **Impact on rural poverty.** The overall impact of IFAD's programme in Indonesia induced by the projects it comprises and as measured by changes in the total welfare of the poor can only be fully assessed if what would have happened in the absence of the projects is or can be known. Individually and collectively this is not so, as there is little or no appropriate evidence. Impact can sometimes be assessed if there is data on the level of welfare before the project and at completion. Again, such evidence is lacking for almost all projects. These weaknesses can mainly be traced to the absence of baseline surveys and very weak monitoring and evaluation systems in most projects (EJRAP is a notable exception), coupled with limited attention and tools for measuring and assessing outcomes and impact (see the section on monitoring and evaluation in paragraph 142). Even when impact studies have been attempted, the results have been of doubtful value.⁷² One useful source of information is the self-assessment studies undertaken by the four most recent projects in the framework of the CPE. A matching group of beneficiary self-assessments was also commissioned.⁷³ A few socio-economic surveys conducted at the end of some projects have also been useful sources, especially in the EJRAP. In other cases, long recall periods or a lack of information about the pre-project conditions limit utility.

77. Nevertheless, using evidence in the self-assessments, the CPE's field enquiries, appraisal and supervision reports, evaluation reports by OE of individual projects and other varied documentation, it is possible to draw some conclusions. Of the nine projects that were completed or very nearly so by mid-2003, four had positive income effects, the EISCDP being the clearest case. Positive income effects, however, have rarely been accompanied by positive gains in equity partly because the early projects did not have this as a development objective and partly because most projects have been concerned with beneficiaries with access to land and have overlooked the poorer landless.⁷⁴ In some projects, the income gains are uncertain even where basic project goals were achieved.⁷⁵ In cases where project goals were not achieved, there were no income gains and sometimes there were regressive consequences.⁷⁶ In the EJRAP, although project goals were not achieved and most farmers gained little or nothing from the project, farmers in the demonstration areas did well.⁷⁷

78. Evidence of impact on the poor, beyond the evidence of changes in incomes, is limited. Partly this is because a broader agenda of expected changes in the welfare of the poor was only included among project objectives in the two most recent programmes – the PIDRA and EKLCEP. Thus, evidence of such changes has not generally been collected by project monitoring and evaluation (M&E) systems. Broadly speaking, in the PIDRA and EKLCEP, the aim is first to empower the poor through expanding their social capital, increasing their technical or business skills and helping them gain a greater voice in dealing with bureaucracy and second, to improve production and raise incomes. Both of these programmes are too recent to permit much to be said about these aspects.

79. So far, in the PIDRA, the most empowering effect for the poor is learning how to save money (although in small sums) and how to bridge crisis situations through better planning at the household level. Gains in technical knowledge seem confined to the exchange of information among group members, plus some increased understanding of the resource potential and sustainable agricultural management of rainfed areas.⁷⁸ Some groups say they are better able to pay school fees and make more visits to the health clinic. Most groups have started small group or individual enterprises. Together, it could be argued that perhaps the project should have illustrated greater results in its third year of implementation.⁷⁹ The participation and empowerment strategy in the project may need adjustment. In general, project management is still uniform, centralized and somewhat top-down. Progress towards a more decentralized and locally relevant approach based on an in-depth knowledge of the communities and their special traits in each subproject area is slow. The likelihood of achieving impact is also affected by the complexity of the project;⁸⁰ the lack of time allowed for the development of appropriate agricultural activities; the absence of a defined strategy to link groups to sustainable (and larger) sources of financing for economic activities; and a lack of marketing support for group enterprise activities thereby risking enterprise viability. This early experience in the PIDRA provides important lessons for the EKLCEP.

80. **Sustainability.** This criterion assesses the resilience of the projects to the variation of net benefits with time, that is, the extent to which the programme or project has been “risk proofed” and has (or is likely to) set in train an economically and socially (and environmentally) sustainable process.

81. Overall the portfolio does not score well on this account. Only two completed operations are judged as likely to be sustainable and in two others sustainability is judged highly unlikely. Among the four ongoing operations three are likely to be sustainable, but one of these (EKLCEP) is at the very earliest stage of post-approval activity. Even that programme confronts many risks so that sustainability is uncertain. Lack of sustainability is a serious matter. Without the likelihood that most kinds of benefits will be sustained, the programme as a whole cannot reasonably be judged successful.

82. In some cases the lack of sustainability is attributable to failed or unsuitable technology (EJRAP),⁸¹ in others to a lack of robustness in the social and institutional apparatus created by the project (PUTKATI). Some projects suffered from poor physical implementation and weak government and farmer institutions (SPLDP). A narrow view of sustainability can also be damaging, as in the first and second livestock projects. Sustainability is sometimes driven by self-interest. In the cashew project, yields started to decline, so in the absence of continuing support from the Government, farmers are forming groups, associations and even cooperatives to ensure continued supplies of fertilizer and other inputs.⁸² As this last example suggests, effective farmer training also has an important effect on sustainability and needs to be built into project plans from the outset. Sometimes, even when sustainability is judged likely, there may be serious policy or institutional issues that need resolution if sustainability is to be assured. A good example is the need to define a satisfactory evolutionary pathway(s) for P4K groups.⁸³ The prospects for a sustainable outcome in the PIDRA would be considerably better if a few key adjustments were made to the overall design of the project.⁸⁴ Otherwise, the likelihood of sustainability will remain in doubt.

83. Despite the unlikely sustainability of much of the portfolio, there is no evidence to suggest that projects have given rise to unsustainable environmental change. This is because there have been few environmentally sensitive actions.⁸⁵ Most project technologies have simply been extensions or

applications of known and tested technologies without material and negative environmental side-effects. Even where technologies were inappropriate they were not environmentally damaging and did not lead to a measurable increase in environmental degradation.⁸⁶

C. Partner Performance

84. This section reviews the performance of IFAD and its principal partners. First, IFAD's performance is examined and then the performance of cooperating institutions, the Government and its agencies, implementing NGOs and finally the concerned cofinanciers and other aid group partners. These examinations dwell mainly on recent and current activities, as the idea of development partnerships was not prominent in the earlier stages of IFAD's engagement in Indonesia.

85. IFAD's partnerships within the Government, especially those in the MOA, have been productive, those with NGOs have grown and are improving, but those with cooperating institutions and with cofinanciers need enhancement. Overall, the performance of IFAD in developing a productive partnership with institutions involved in the Indonesia programme needs to be ameliorated. A number of causes contribute to the limited relationship of IFAD with some of its partners, but one of the most important factors is the low level of IFAD's engagement with selected institutions (such as the IFIs and other United Nations organizations), leading to insufficient communication and a low level of awareness of key IFAD-supported initiatives within Indonesia.

86. **IFAD.** Partnerships with government institutions have on the whole been successful. The MOA has a strong interest in rural development and poverty reduction. However, there have been difficulties in persuading the ministry to target the poorest as its central focus is on improving agro-processing. Some officials in the Indonesian agricultural establishment have also expressed doubts about the heavy emphasis on empowerment and social capital formation in recent IFAD-funded projects. Given that the MOA has been the main IFAD partner in the Government, several participants at the January 2004 workshop and others suggested IFAD should diversify its institutional partners in the Government.

87. Both the EKLCEP and PIDRA involve numerous partnerships with NGOs. In some circles, notably the MOA, this has brought the charge that IFAD appears to favour the NGO community. Comments made independently by government officials at the field, project management and directorate level suggest that IFAD is unbalanced in its partnerships with NGOs and the Government. Comments such as "IFAD is with the NGOs", "we are always made to be at fault" and "IFAD always believes the NGOs even when we can show that their point is incorrect" suggest that there is a need for a more balanced approach in partnership. At the stakeholders' workshop on 14 January 2004 in Indonesia, the participants argued that IFAD should develop clearer definitions of the roles and responsibilities of the Government and NGOs.

88. The Government and staff in NGOs also report that IFAD has often tended to dominate their partnerships, and that the inputs of 'partners' need to be given enhanced consideration.⁸⁷ They cite, for example, that little follow-up action has yet been taken on their concerns regarding the ineffectiveness of project supervision, including direct supervision by IFAD, and in some cases overly rigid project procedures. Participants in the In-Country Resource Group⁸⁸ were appreciative of being involved in the design of the PIDRA but reported a level of 'one-sidedness' in the relationship.⁸⁹ In sum, the nature of what is expected from partnerships and the set of reciprocal obligations usually involved needs to be more clearly articulated by IFAD.⁹⁰

89. There are few signs in IFAD's partnerships in Indonesia, or in its project work, of the innovative contribution to development that it has challenged itself to make. The technical content of several projects has not appropriately responded to the needs of the rural poor (e.g. in the SPLDP and SSSTCDP).⁹¹ The best known project financed by IFAD, the P4K, developed and scaled up ideas pioneered by FAO and UNDP. Although IFAD is increasingly forming partnerships with NGOs, it is following in the steps of others such as the World Bank, who have themselves been driven by

approaches developed by the NGO community. Moreover, for example, although IFAD has recently focused more on gender, empowerment and other aspects of sustainable livelihoods in its Indonesia portfolio, these were pioneered by other donors, small and large (e.g. DFID). IFAD, however, has used these ideas to good effect in some projects, for example in the EISCDP, where its performance was clearly superior to that of both AsDB and OECF, who attempted similar projects at about the same time. Similarly, there is much promise in the PIDRA and EKLCEP.

90. Similarly, although IFAD's FLM is not an innovation, it is an important departure from IFAD's traditional loan instrument. In Indonesia, it has received support in principle from stakeholders and partners, but there are concerns about its practical implementation. For instance, some consider the time scale of FLM-supported interventions to be too long (normally nine to twelve years of implementation).⁹² Others noted the need for very effective monitoring, supervision and evaluation systems, to deliver data that would enable informed decisions to be taken about whether the 'triggers' for the next stage had really been met and to counterbalance any pressures to stay with an FLM-funded project/programme instead of making an early exit.

91. Partnerships with other government agencies such as the Ministry of Finance (MOF) and BAPPENAS have been satisfactorily productive. Both MOF and BAPPENAS believe there are mutual benefits in partnership with IFAD. Working arrangements have proceeded effectively apart from in the latest programme, EKLCEP, where a new decree from the MOF caused some temporary uncertainty about which authorities were responsible for loan negotiations and loan signing.⁹³ Such problems will diminish, as new working arrangements emerge and the respective roles and responsibilities of national, provincial and district governments become more evident.



Photo 3: Sulawesi Paddy Land Development Project

View of Kota Luwuk village.

IFAD photo by German Mintapradja

92. In conclusion, IFAD's performance has been mixed. For example, participation is prominently included in the conceptual framework of projects, allowing for designs to be based on the preferences, priorities and actual needs of the rural poor. This is praiseworthy. However, this participatory dimension is not adequately reflected in project implementation. Consequently, project institutional frameworks, IFAD and project management tended to be hierarchical in practice.⁹⁴ Alternatively, IFAD's strategy is to be a knowledge-based organization, where feedback loops and internalization of learning are important dimensions of project design and implementation. However, in Indonesia the Fund is not entirely able to be effective as a learning institution because key instruments and processes

(e.g. M&E systems, supervision) need improvement and others need to be developed (e.g. policy dialogue and knowledge exchange with others).

93. **Cooperating institutions and the supervision process.** IFAD has, until very recently, always relied on others, the so-called cooperating institutions, to undertake project supervision on its behalf. In several early projects (e.g. SCDP II cofinanced by the World Bank), the cooperating institution was also the cofinancier and often the dominant party. There is some evidence of a relationship between the frequency of supervision and the accessibility of the supervising institution with the success of the project. For example, earlier projects, such as SCDP I had an average supervision mission (by the World Bank) frequency of 4.8 months (i.e. one mission every 4.8 months) and the completion report notes that support from the Jakarta World Bank office was effective. The project was also successful. The second livestock project was supervised by the World Bank from Washington with a mission frequency of eight months. This project achieved less than the first project and communication with Washington was problematic. Not only has supervision intensity declined with time – so has supervision continuity. That is, the proportion of staff on a given supervision mission participating in successive missions has decreased. A high level of continuity is generally thought to improve the quality of supervision.

94. In 1988 in the framework of the P4K II, for the first time IFAD chose UNOPS as its cooperating institution in Indonesia. The choice of UNOPS was driven mainly by cost considerations. UNOPS promised to provide a “full service” supervision package at much lower cost than the World Bank in non-co-financed projects. This arrangement has recently become problematic, but for many years, judging by the many supervision reports available to the evaluation, delivered a satisfactory product. However, despite the widespread view among project managers that UNOPS supervision missions are helpful, several problems were commonly articulated. Among them, erratic and unpredictable mission timing was said to adversely affect project management plans and schedules for training field staff. Lack of UNOPS continuity in staff and consultants on supervision missions is a concern, as new supervision team members must be extensively briefed on the country context and the project, reducing sharply the time for effective supervision work. Sometimes conflicting or inappropriate advice was given, for example in the PUTKATI, the 2000 supervision mission of UNOPS recommended that groups should not include *arisan*⁹⁵ as a key activity. Accepting the error, UNOPS reversed the recommendation in the next mission. Communication with UNOPS was difficult as relevant staff are often travelling on other duties and not available when needed. Follow-up from supervision missions is seen to be ineffective as issues are not adequately relayed to IFAD and thereafter to the relevant section within IFAD or the Government for action.

95. UNOPS, however, notes that it is providing a full package of supervision and procurement services to IFAD at an annual per project cost of around USD 47 000 whereas its real costs are between USD 56 000 and USD 62 000 per project depending on how overheads are handled. This situation leads UNOPS to place heavier burdens and tighter schedules and budgets on its portfolio managers for IFAD-supported projects than is desirable. The consequence is portfolio managers who are overburdened and very frequently travelling, leading in turn to slow communications and delayed follow-up to supervision missions. UNOPS believes that IFAD is not sufficiently sensitive to these problems and tends to act unilaterally rather than cooperatively.

96. Looking back, the supervision process is judged to have been reasonable in the circumstances. But what may have been acceptable in the past is no longer so.⁹⁶ IFAD’s most recent operations have a much higher ‘community’ dimension than earlier projects coupled with development objectives that place a lower emphasis on increasing crop production than in the past. A similar project is under preparation in central Sulawesi. It follows that supervision is now needed that can effectively support the social empowerment and learning goals of the PIDRA, EKLCEP and possible future interventions. This is likely to require the deployment of a different mix of skills throughout the supervision cycle. These skills should include, inter alia, expertise in gender issues, capacity-building, monitoring systems and the review and use of M&E results, plus a heightened sensitivity to the multiple social dimensions of development.

97. In the direct supervision pilot programme⁹⁷ approved by IFAD's Executive Board in 1997, the Fund has selected the PIDRA to be one of only fifteen projects in its worldwide portfolio to be supervised directly by IFAD staff from its headquarters in Rome.⁹⁸ However, this venture, now little more than a year old, also has encountered communication difficulties and lack of follow-through. During the CPE, there was unanimous concern among stakeholders such as project staff, ministry officials and NGO partners about the effectiveness of this approach. There was support for the concept of direct supervision as it allowed stakeholders at the country level to be directly in contact with IFAD, but the delivery was seen to lack adequate participation. For example, project staff conveyed that training was deleted from a proposed programme, despite strong requests by groups during the supervision mission. Moreover, direct supervision has yet to take a broader look at project objectives and the corresponding activities, and provide wide-ranging implementation support. For example, budgeting aspects have been underemphasized, resulting in delays in downloading project funds, affecting in turn the scheduling of field activities. Direct supervision also has so far not been sufficiently supportive in helping project authorities overcome difficulties with procurement and monitoring processes. Therefore, the CPE believes that IFAD should reconsider its overall approach to direct supervision in Indonesia, in particular to ensure that the concerns, priorities and local knowledge of key stakeholders become integral components of the supervision mission's analysis and proposed follow-up actions.

98. Although direct supervision from Rome reduces the 'distance' between IFAD and project stakeholders, it is not the same as supervision from a country office. In the latter situation, communication, depth of supervision and quality of follow-up are likely to be better. Plus, direct supervision is highly labour-intensive and it is necessary that adequate resources are allocated within IFAD for this purpose if the function is to be discharged effectively. IFAD, as well as many stakeholders, believe the way to provide fully adequate supervision and for it to widen its engagement with other partners is for IFAD to set up a more permanent in-country presence. The evaluation is aware that IFAD's Executive Board has recently approved the Fund's proposal⁹⁹ to establish 15 pilot initiatives worldwide starting in 2004 to enhance IFAD's in-country presence and the capacity for strengthening policy dialogue and partnership-building.

99. **Government of Indonesia.** Overall government performance has been just satisfactory. In the projects of the eighties and early nineties, the project implementation arrangements made by government were fully adequate and responsive to project design. Later, important organizational and technical weaknesses appeared in some projects, such as the SSSTCDP. In more recent projects where designs have called for stronger skills in community mobilization, government's performance has faltered (e.g. EISCDP, PUTKATI), as line departments have struggled to accommodate the change of emphasis. In current projects, being implemented in the post-decentralization period, new tensions have emerged as traditional headquarters-controlled line departments seek to adjust to the cathartic loss of control and resources as well as, in the case of the PIDRA, a geographically widely dispersed operation.¹⁰⁰ Similarly, at both the national and district levels, administrations are struggling to work effectively with NGOs.

100. Corruption continues to be endemic in Indonesia and the country has always been ranked very low by Transparency International. The CPE was mandated to review generally the issue of corruption, although it did not undertake detailed financial investigations to assess transparency and identify possible financial irregularities. The evaluation encountered several instances of apparent collusion and other suspect practices during its field investigations. Such problems seemed to be of little concern to implementing agencies and the CPE found no evidence that special steps are being taken to combat this problem. In this respect, government performance must be assessed as unsatisfactory.



Photo 4: Eastern Islands Smallholder Cashew Development Project

Farmers grow watermelon. They use straw to protect the soil and fertiliser to promote growth. The project promotes watermelon cultivation as an income-generating activity.

IFAD photo by Robert Grossman

101. At the local level, where decentralization is taking hold government performance is mixed. Some district governments are strongly supportive of IFAD-supported programmes while others are more concerned with control over resources and overall implementation authority. Where a high degree of interest and commitment is present much can be accomplished. For example, in the EKLCEP the district administration guided by the *Bupati* has provided advance funding from local resources to get the project moving. The situation in the PIDRA is illustrative. Districts in Java are slowly enhancing their ownership of and commitment to the project as they adapt and start cooperating on an equal level with a third party: the lead NGO and the local implementing NGOs. However, in Nusa Tenggara Barat (NTB) and Nusa Tenggara Timur (NTT), the PIDRA is mainly regarded as a purely national level programme. Thus, nationwide, different sociocultural settings, and the limited capacity of the core working partners – both lead and implementing NGOs – are challenges that have yet to be met.

102. **Non-governmental organizations.**¹⁰¹ There are several NGOs that have been long-term partners of IFAD and have been involved in many initiatives, discussions and more recently the design and implementation of the PIDRA. The latter programme, which makes heavy demands on NGOs, was the major source of evidence about their performance. To its credit, IFAD invited the key NGOs to participate in the negotiations of the PIDRA loan, for the first time for Indonesia.

103. The performance of the NGOs in the three provinces covered by the PIDRA varies, with the most effective being that of the Centre for Women's Resources Development (PPSW), the women's NGO in East Java. This is partly because the geographical location of the districts makes interaction with provincial and national project management relatively easy. Further east, the scattered location of the island districts and difficult transport arrangements greatly reduces the ease of contact, so NGO effectiveness declines rapidly. Differing understandings of roles and expectations by all parties also contributes and has led to a further decline in the quality and effectiveness of programme implementation. Equally, control and supervision are effective in Java districts but elsewhere control diminishes and leakages grow (see Findings of the Independent Auditor in 2002 Supervision Report, p. 13).

104. NGOs and the Government needed a year to find a *modus vivendi* for cooperation. After a difficult first year, all parties agreed on the importance of a cooperative, two-way positive learning

process during programme implementation. In districts where the head of the *dinas* and NGO executive staff/advisers communicate and discuss programme implementation informally (as formal weekly meetings rarely take place), cooperation is effective. But elsewhere, there are frequent collisions between the bottom-up approach of the NGOs and the top-down thinking of the *dinas*. Increasingly, each PIDRA district is being left to find its own accommodation to partnership with NGOs and the process of empowering beneficiaries.

105. In both lead and implementing NGOs, performance is conditioned by available staff and their prior experience. In some cases district branches have been opened specifically for the project. Consequently, overlapping duties and competing programmes for senior NGO staff are common. This causes confusion and operational inefficiencies as the most experienced staff are not always optimally deployed. Moreover, field level staff are often overburdened. Despite their limited experience they are often called on to manage and implement components that could be considered programmes in their own right, for example village infrastructure or watershed management.

106. In sum, and as Bina Swadaya, one of the lead NGOs explained, they “support the overall thrust and objectives of the PIDRA but felt that the detailed design could have been somewhat simpler”. The evaluation is sympathetic to this view and finds NGO performance within the constraints of the project design to be just satisfactory. But, there is scope for improvement in NGO performance, which in turn would lead to improvements in the accomplishment of project objectives.

107. **Cofinanciers and other aid group partners.** IFAD has co-financed operations with several partners, among which the AsDB, the Islamic Development Bank and the World Bank are the most significant. The World Bank was the first of these and was entrusted with supervision in three projects.

108. The World Bank was a co-financier in the Seventeenth Irrigation (East Java Province) Project¹⁰² and in SCDP II. However, after the SCDP II (closed in 1994), IFAD moved away from partnership with the World Bank as the latter reduced considerably its engagement with rural development. Unfortunately, a residual partnership was not maintained and there has been little dialogue with the Bank in recent years. The World Bank recognizes IFAD’s unique mandate and its potential. It would welcome the opportunity to work more closely with IFAD on rural development projects, especially if IFAD could demonstrate improved operational processes as the Bank is planning a substantial re-entry into the sector in Indonesia. In its latest Indonesia Country Assistance Strategy (CAS) released on 3 December 2003, the World Bank has allocated around 25% of all lending (about USD 200 million per year) for rural community development activities in Indonesia. The CAS emphasizes the need, *inter alia*, to make service delivery responsive to the needs of farmers and other poor rural households and to get agriculture moving to reduce rural poverty.

109. The relationship with AsDB started almost at the outset of IFAD’s engagement in Indonesia. It has been the cooperating institution for four IFAD-supported projects, including the SPLDP, EJRAP, SSSTCDP and P4K III. It has cofinanced the latter with USD 60 million. The relationship with AsDB has not been smooth right from the start, and during the CPE, the AsDB signalled reluctance to enter into further partnership (at least in the field of microfinance)¹⁰³ with IFAD. Its concerns arise from communication difficulties with IFAD, unclearly defined roles and responsibilities, and difficulties in professional working relationships¹⁰⁴, particularly in the context of the timing and approach of supervision missions.¹⁰⁵ In the P4K III, the financing partners have paid attention to different, sometimes narrow, aspects of the project, failing to take a more holistic view of the operation. For instance, the AsDB focuses on the delivery of microfinance (implementation), whereas IFAD devotes more attention to qualitative issues such as the development of small groups.¹⁰⁶ The Government on the other hand sees the project in a comprehensive light and has been forging ahead with supporting what it believes to be an integrated approach to empowerment, capacity-building, rural finance and economic development. The Government and P4K III management in particular are aware that the working relationship between AsDB and IFAD is not good and is causing difficulty in project implementation.

110. Both the World Bank and the AsDB Country Strategy and Programme for 2003-2005 foresee increased assistance for rural development, the latter allocating around 30% of its total lending (USD 200-400 million) to agricultural and rural development and natural resources management. The AsDB's sectoral strategy for rural and agricultural development highlights, inter alia, the need to empower rural communities, promote innovations that respond to location-specific technical issues, and develop rural infrastructure. But, there is no acknowledgement in the AsDB country strategy or the World Bank's CAS of IFAD's work in Indonesia and neither makes reference to potential partnerships with the Fund.

111. Nevertheless, among both of these long-standing partners there is an understanding and appreciation of IFAD's unique mandate and a desire for IFAD to take a more proactive role in the pursuit of new and effective ways of tackling poverty through rural and agricultural development. In addition, the UNDP highlighted the need for IFAD's country strategy and investments in Indonesia to be positioned within the United Nations Development Assistance Framework (UNDAF), as this would help ensure greater aid coordination and integration of the Fund's assistance into a broader development framework. The FAO too is eager to work with IFAD as it seeks to take the lead among the multilateral organizations in policy dialogue on agriculture issues with the Government of Indonesia. In particular, the FAO representative has expressed his organization's interest in working closely with IFAD in the context of the field presence pilot programme approved by IFAD's Executive Board in December 2003, should Indonesia be selected as one of the pilot countries. Other potential partners, such as the major bilateral donors and international NGOs involved in rural development lack knowledge of IFAD and its work in Indonesia. This limited familiarity is a challenge that IFAD will need to address for it to fulfil effectively its mandate as documented in its Strategic Framework (see p. 11, Enhancing IFAD's Catalytic Impact).

112. On the issue of partnership, the CPE's findings appear in line with discussions at the PMD management retreat. The discussions at the recent retreat highlighted that IFAD has evolved beyond classic cofinancing and supervision-focused partnerships. Partnerships must also include knowledge-sharing, operational networking, policy advocacy and joint strategy development. In some cases, IFAD leads the partnership and in others it should support the partnership as a contributing partner.



Photo 5: Sulawesi Paddy Land Development Project

A woman weaves a mat in Toili.

IFAD photo by German Mintapradja

V. PROGRAMME CONTRIBUTION TO INSTITUTIONAL DEVELOPMENT

113. This chapter provides a structured evaluation using IFAD's own criteria for its contribution to institutional development in Indonesia. The chapter is thematic, seeking to highlight strengths, explain areas that require additional enhancement and draw comparative insights across the whole of the IFAD-supported programme.

A. Mandate and Innovation

114. **Mandate.** Throughout the last twenty years, IFAD has maintained a broadly satisfactory partnership with the MOA and its several directorates. However, the MOA sees IFAD's support primarily as a way to expand the implementation capacity of its own initiatives and programmes. That is, empowerment, innovation and extension are important goals for the MOA itself, which would have received MOA attention and resources regardless of the Fund. In respect of its key policies, the CPE did not find evidence that the MOA has been swayed by IFAD's unique mandate and goals.¹⁰⁷ In addition, the IFAD-supported projects are not widely known to other development institutions in Indonesia.¹⁰⁸ A possible exception is the P4K, which has demonstrated that microfinance can reduce poverty. Nevertheless, having said the above, the MOA has moved the project management of recent IFAD-supported projects from the technical directorates to the recently renamed Agency for Community Empowerment and Food Security (previously the Directorate for Human Resources or BIMAS) in response to IFAD's stated policies and objectives. This is an illustration of the good dialogue IFAD has with the MOA in general.

115. There are three main reasons for the limited visibility and policy influence of IFAD activities in the country. First, IFAD has not made a significant contribution to policy discussions and strategic programming initiatives in Indonesia. The reasons for this need to be more profoundly analysed, but in a nutshell, the absence of an in-country presence and the inadequate time and financial resources available to the IFAD CPM must be highlighted as a serious constraint on advancing work in such areas. However, the lack of an articulated approach to policy dialogue with clear objectives, implementation modalities, timeframes and resources must also be underscored. Second, there is limited strategic output from IFAD-supported projects in terms of innovation and learning that could contribute to advocacy and policy debates. Third, mechanisms for documenting, disseminating and promoting good practices or important insights when they are identified need to be systematized and improved.

116. As reported in Chapter III, IFAD does not contribute to the CGI, which has been strongly coordinating the debate on key issues such as poverty reduction, corruption, governance, decentralization and environmental conservation. The preparation of Indonesia's PRSP is another major forum for international agencies, bilateral donors, as well as international NGOs to work in a strategic manner.¹⁰⁹ The forum has acted as a means to ensure a united front among development agencies in pushing forward the agenda on poverty reduction, anti-corruption, good governance and environmental protection, as well as increasing emphasis on equity, empowerment and sustainable economic development. Unfortunately, due to the reasons mentioned in the previous paragraph and other considerations, IFAD has not been participating in the CGI or PRSP processes. Thus, it is not able to benefit from the ongoing dialogue nor is it able to further its own strategic objectives, particularly with regard to enhancing its catalytic impact (see *Strategic Framework for IFAD 2002-2006*, p. 11).

117. How poverty can best be identified and addressed in a country where there is considerable wealth is an important and widely discussed question in Indonesia and should be of special interest to IFAD. However, the CPE noted that IFAD has not participated in the discussions of key relevance to IFAD (e.g. the Donor Consultation Working Group on Agriculture and Rural Development, on Water Resources and so on). Nor has it been actively involved in policy and programming discussions with other aid agencies. Given IFAD's goal of reducing rural poverty, it should have much to offer to this debate, and in principle could take a leadership role. IFAD has clearly made strenuous efforts in the

two most recent programmes, PIDRA and EKLCEP, as well as in P4K III to improve targeting. It also has institutional development experience in agriculture, microfinance and in working with civil society in Indonesia, from which useful experiences will emerge. These are assets that IFAD could capitalize on in Indonesia, by promoting the positive aspects of its own field operations, and learning from other organizations to increase the relevance and effectiveness of its approach.

118. In sum, IFAD's unique mandate and role needs to be more clearly demonstrated in its Indonesia programme. IFAD has had an opportunity to influence positively Indonesia's fast-changing institutional setting, but has not done so. For example, the 1998 COSOP states that "IFAD should embark on an intensive policy dialogue with the Government on issues such as indigenous rights, transparency, decentralized development, project management, and enhancement of the role of civil society and NGOs". IFAD will have to revise its approach if it is to play an effective role in the future. For example, institutional relationships at the national level have not been part of its activities, despite IFAD's aim of contributing to the policy dialogue and institutional development.

119. **Innovation.** In order to develop programmes at the cutting edge of rural development and to fulfil its mandate effectively, IFAD must be more responsive and innovative so that it adds value to the existing stock of knowledge and skills within the country. Stronger analysis of known technologies during project design and critical learning from IFAD's own experience (written and oral) would greatly enhance IFAD's approach, its programme performance and its credibility with development partners.

120. NGOs were clearly using participatory approaches as early as the mid-eighties, and were already skilled in developmental techniques. For example, the 1988 SPM Report (p. 257) notes that group formation is an important element of the NGO approach to targeting. Partnerships between NGOs and the Government have been increasingly frequent since the mid-eighties. Yet the participatory group approach was not fully integrated into IFAD projects until 2000 when the PIDRA was appraised. Through the PIDRA and now the EKLCEP, IFAD provided an opportunity to increase the scale of NGO/Government partnerships and explore ways of making them more effective.

121. Why a more proactive approach to participatory development was not introduced earlier in IFAD-supported projects in Indonesia is not known. For example, there was opportunity to do so in the third livestock project (i.e. PUTKATI), in response to the evaluations of two earlier projects that highlighted a need for a stronger and more sustainable approach to the involvement of the rural poor in programme design, implementation and monitoring and evaluation, as well as institutional development at the grass-roots level. The EJRAP project completion report also noted how the project could have been far more effective if known improvements in organizational development and in agricultural technologies had been used. NGOs in East Kalimantan highlighted participatory mapping and economic development work that had been successfully carried out by other projects in the same region, saying that such work and achievements (by them) can be beneficial in the implementation of the EKLCEP.

122. At the field level, P4K III participants affirmed that it was the first time that they had had access to finance for their activities and had had money to save. This microfinance success is being continued in the PIDRA where the savings and credit activities are seen as a major 'first' for groups in building self-reliance. Such innovation was not evident in other projects. The livestock projects provided training that participants reported not to be entirely relevant. The SSSTCDP did not achieve results either in terms of agriculture technology introduction or institutional development. For IFAD, the EKLCEP is undoubtedly innovative, but it is being placed on a stage that already has many players, including the Government, local NGOs, national NGOs, international NGOs and bilateral and international donors, all focused on helping indigenous communities and supporting public decentralized institutions.¹¹⁰ The challenge for IFAD in East Kalimantan will be to reach out and learn from the work that has already been tried and tested, draw on the most successful practices in ongoing operations through networking and then find a way to add value and innovation through the EKLCEP.

B. Relevance

123. The overall relevance of IFAD's projects in Indonesia is high as Chapter III has shown. In institutional development terms, relevance is not so easy to ascertain. IFAD's strategic documents have little to say on the matter. The 1988 SPM report noted the success of the livestock projects in strengthening the Directorate-General of Livestock in MOA but focused on technical support to the MOA and the continued training and development of the field extension network. However, the report did suggest increasing institutional relationships with NGOs and strongly supported developing a relationship with Bank Rakyat Indonesia (BRI). The partnership with MOA has been broadly relevant to the Ministry's organizational strategy.

124. The 1998 COSOP called for IFAD to enter the policy debate, and presumably to induce policy change. It also called for IFAD to work for change in key rules and regulations mediating the life of the rural poor such as land tenure. But in both of these areas, IFAD has yet to provide a meaningful contribution. The COSOP placed little emphasis on other aspects of institutional development, such as supporting change management of government institutions or building local institutions. Instead, it focused largely on improving relationships with NGOs. More recently, IFAD has begun to increase its efforts to build local institutions. For example, the PIDRA, mirroring the decentralization and democratization efforts of the Government is forming *barangay* (village) committees to try and ensure that the priorities of the poorest are incorporated into local planning. In the EKLCEP, processes are being put in place that will confirm indigenous rights to land and draw on *adat* (customary) law. If successful, such initiatives may have important demonstration effects, but they are far removed from the goal of inducing policy change.

125. Institutional arrangements in project designs have focused on internal project operations to ensure project efficiency instead of sustainable institutional strengthening. For example, in all three livestock projects, most field staff are contract employees whose skills and the associated institutional capacity tend to be lost at project completion. The second livestock project (SCDP II) did attempt to work with local cooperatives, but there was no designated institutional framework for this proposed interaction and the initiative lapsed. More recent projects, such as the EJRAP, P4K III, PIDRA and EKLCEP have a stronger institutional focus, seeking to link project participants to existing institutions such as MOA or BRI, and to encourage small group formation.

126. There is debate about the relevance of forming many new groups when existing groups might have been developed.¹¹¹ This is not a simple question as the institutional context for group formation is highly area and culture-specific. The beneficiary self-assessments done for the CPE support the relevance of forming new small groups with participants in all projects stating that the groups have been useful, particularly for accessing resources, learning and sharing with others. However, there are indications of attrition in group formation in all projects for reasons such as lack of support by field workers (PUTKATI, P4K III), lack of continuing interest in group activities (PIDRA) and misappropriation of funds by members (P4K III, PIDRA and EJRAP). These indicators illustrate an absence of internal cohesion and drive by local institutions, possibly arising from lack of clarity of objectives and skills in institutional development, but also from a lack of relevance for local participants.¹¹² Whether working mainly with existing groups would have yielded better results is not known.

127. There is some evidence that IFAD's programme contributed to institutional development. A few project interventions and practices have become deeply embedded in participating government institutions and staff indicate a significant increase in their abilities through project actions. The technical capability developed in the EISCDP was a positive gain for the Directorate for Tree Crops. The Directorate for Mass Guidance (now Human Resources) reports a major increase in capacity and better orientation of staff through the P4K III, particularly towards empowerment processes and local resource mobilization as tools for poverty reduction. Government and NGO staff in the PIDRA noted an increase in the capacity to understand each other's roles and responsibilities, and a notable improvement in monitoring and evaluation systems. The formation of interagency committees in the

PIDRA has also been a positive institutional initiative that is changing institutional working relationships in line with MOA moves towards a more cooperative style. Therefore, there is relevance in IFAD's support to institutional strengthening in Indonesia, but it is small in scale and small in scope, falling short of IFAD's own objectives in this area.¹¹³ In sum, the institutional development relevance of IFAD's programme in Indonesia is only partial.

C. Effectiveness

128. Effective implementing organizations are more likely to be responsive to target groups and to operate in a cost-effective manner. Organizational effectiveness, however, is especially affected by logistical, organizational, managerial and participatory behaviour and above all by corruption.

129. The spread of projects across many different and widely dispersed localities (such as in PUTKATI and PIDRA) affects institutional effectiveness by reducing supervision owing to high transportation costs. Consequently, in projects where there is a more focused, concentrated approach such as in P4K III and EISCDP, effectiveness is greater. More locally, in districts and sub-districts, project field officers are finding their effectiveness is compromised by the wide geographic spread of their duties and unrealistic timetables. This problem also applies to NGO staff in the PIDRA, where both NGOs and programme management consider programme contracting and management systems to be complex and ineffective.

130. Nevertheless, most projects are nominally effective in so far as they have achieved their targets for numbers of groups formed. For example, EJRAP formed 1 863 women's groups in comparison to a targeted 1 866.¹¹⁴ The PIDRA had formed 643 groups by the end of 2003¹¹⁵ in line with provincial targets. However, the concern has been raised in all projects about the quality of the groups and therefore their effectiveness. For example, the P4K II mid-term evaluation carried out by OE in 1994 states that "limited attention has been paid to the qualitative aspects, for example, strengthening of self-help groups".¹¹⁶

131. **Participation and group development.** Greater participation has achieved positive results and in some areas marked changes in the status and well-being of poor people (e.g. P4K III and PIDRA in East Java). However, participation is tending to become an end in itself rather than a means to realize sustainable change in accordance with the interests of poor people. Participation is not sufficiently meaningful to many groups at present and is sometimes seen as a means to gain benefits rather than empowerment. For example, the 2002 PIDRA Mid-Term Report cited losing group members due to boredom as one of the main challenges to be addressed. Similarly, in the Beneficiary Self-Assessment for PIDRA, the lack of direction in group meetings was noted by a number of respondents. Occasionally, efforts by groups to undertake self-initiated activities have been blocked by project staff, for example, groups wishing to expand by admitting new members (P4K III and PIDRA are examples). The result is a 'shadow' membership where group members take loans to on-lend to outsiders.

132. IFAD's current strategic framework seeks to 'enable the enablers',¹¹⁷ increasing the collective capacity of government, the private sector, civil society and development institutions to put the rural poor at the centre of their development efforts. Thus, the institutional choices made by IFAD in Indonesia have evolved from viewing institutional development as organizational strengthening of the implementing partner in projects in the eighties, to decentralized institution-building involving small groups, civil society, and government institutions twenty years later. Accordingly, the formation of small groups has been a common feature of most projects since the early nineties, but the degree of success in ensuring that these groups are sustainable is variable. In the early years of the IFAD programme, group formation was mainly a delivery mechanism with sustainable institutions arising as a secondary consequence rather than a direct outcome of project interventions. More recent projects, particularly the PIDRA and EKLCEP see groups as a mode of targeting and the central element in the process of empowering the poorest within a community.

133. Although there has been a valuable evolution, as yet incomplete, in institution-building from top-down processes to bottom-up capacity-building, leadership development and participatory decision-making processes at the village level, secondary institution-building has received insufficient support and this is affecting the potential sustainability of project initiatives in all recent projects.¹¹⁸ Table 4 illustrates the progression of institution-building at the community level. It is ordered by age of project with the oldest at the top. It does not imply that all groups in a project mature. Instead, it shows whether there is potential for, and identified pathways to, maturity in the project. With time there has been a steady movement from passive to active group formation. But, Table 4 also highlights how far there is still to go to achieve formal institutional sustainability. P4K III and EJRAP are the only projects that have opened paths towards more formal processes and networks. EKLCEP may have the potential to generate a more sustainable process.¹¹⁹

Table 4: Institutional Development Processes in IFAD-Supported Projects

| | Passive Group | Active Group | | | | | | Independent Group | | Association | Formal Framework | | |
|---------|------------------|----------------------|--|--|------------------------------|--|--|-------------------|--|--------------|----------------------------|--------------------|------------------------------------|
| | Formed by Agency | Self-Initiated Group | | | Reliant-Dependent on Support | | | Maturing | | Simple Group | Mature Group with Networks | Intergroup Network | Within Formal Regulatory Framework |
| SCDPI | | | | | | | | | | | | | |
| SPLDP | | | | | | | | | | | | | |
| EJIP | | | | | | | | | | | | | |
| SCDP II | | | | | | | | | | | | | |
| P4K II | | | | | | | | | | | | | |
| EJRAP | | | | | | | | | | | | | |
| SSSTCDP | | | | | | | | | | | | | |
| EISCDP | | | | | | | | | | | | | |
| PUTKATI | | | | | | | | | | | | | |
| PIDRA | | | | | | | | | | | | | |
| P4K III | | | | | | | | | | | | | |
| EKLCEP | | | | | | | | | | | | | |

Note: Maturing means independently identifying and conducting activities with modest external help.

134. Table 4 shows low levels of institutional networking. This is a matter of concern for three reasons. First, external supporting institutions have the skills to increase the effectiveness and efficiency of projects during implementation. Second, links fostered between supporting institutions and local communities have the potential to provide support networks and to help build sustainable pathways after the end of the project. This point was made strongly by participating NGOs in the PIDRA and EKLCEP. Third, there is an emerging trend for groups in both P4K III and PIDRA to seek paths towards sustainability on their own initiative, yet IFAD has constrained this natural institutional evolution.

135. For example, in IFAD's P4K III Mid-Term Review (p. 3), association building and the formation of microfinance institutions or *Lembaga Keuangan Mikro* (LKM) were judged to be "disempowering". Progress was halted pending an institutional review. The corresponding AsDB Mid-Term Review supported the formation of associations. Subsequently, the institutional review demonstrated that the trend towards institutional maturity was generally extremely positive and did not go far enough as an effective exit strategy. During the CPE a number of groups in different projects complained about project-induced barriers to their own institutional growth.¹²⁰ Yet IFAD has rejected such moves. It is not clear whether IFAD's posture of rejecting such moves is an overly precautionary or an ideological objection.¹²¹ What is clear is that IFAD's position is confusing for project partners, project staff, and group members. It has led to suboptimal institution-building, and has affected IFAD's credibility with its partners in Indonesia, especially the AsDB. In contrast, the MOA supports institutional evolution in P4K III and has committed its own resources to the process.

136. The PIDRA is pursuing broader institutional development initiatives, linked to decentralization. It is working to build the institutional capacity of individual groups, NGOs and the Government and also to build links and partnerships between them. This process is fraught with difficulties, for example, budget allocations and how to make role and responsibility adjustments to avoid duplication in some cases and gaps in others. But haltingly, real synergy is emerging.¹²² Local group development is progressing well in most cases but there is a drop out rate of between 5 and 20%. Nevertheless, there are limitations to the PIDRA approach in that the programme area is widely spread, and there are multiple levels of NGOs involved. The local NGOs in NTB and NTT, and the lead NGOs think the two-tiered relationship in the PIDRA is understandable in theory but challenging to operationalize.

137. **Corruption** is widespread in Indonesia¹²³ and inter alia, reduces the effectiveness of development projects. The World Bank has identified corruption as the “single greatest obstacle to economic and social development”.¹²⁴ Assuming that the figure of 20-30% leakage informally reported by both AsDB and the World Bank during this evaluation is realistic, corruption is the equivalent of a full-scale, but hidden, component in each project. This implies a huge reduction in project effectiveness and is a major barrier to ensuring that benefits reach those intended.¹²⁵

138. This evaluation was not mandated to undertake detailed financial investigations or audits to assess transparency. Nevertheless, tendering procedures were reviewed in each project and detailed examples of actual tenders were discussed in the PIDRA, EISCDP and PUTKATI. Elsewhere, there were frequent allusions to benefits leakage by beneficiaries and ample references to shortcomings in procurement. Examples abound: the purchase of large numbers of computers at the national level when most activities are at the district level (for example in the PIDRA); the purchase of expensive multimedia training equipment for the PUTKATI when the project training approach is focused on farmer field schools and only one major provincial-based training programme required such equipment; and new, well-equipped offices for the PUTKATI despite adequate existing premises which were subsequently rented to the election committee. Funds intended for the capacity-building of field-level staff were diverted to overseas study tours for middle and senior staff (in SPLDP). Beneficiary self-assessment respondents also cited cases of expected inputs that had been diverted, for example, infrastructure that had been constructed at a lower quality than agreed. Other sources mention livestock being sold immediately after being provided by the project – particularly stud animals provided to village heads.¹²⁶

139. Collusion in procurement is evident and mostly ignored or even condoned by project management. For example, one set of tender documents in the PUTKATI showed that there was less than USD 500 difference among the three lowest bidders in a tender that was worth nearly USD 1 million.¹²⁷ In another case, project village roads were built without justification to very high standards and macadamized, thus increasing unit costs and reducing the total length of road that might have been built by half if lower specifications had been used. Had this longer length of road been constructed all hamlets would have been joined to the main village instead of just three or four. In another example, NGOs in the PIDRA openly admitted to contacting each other when tenders are advertised to agree who would bid and at what rate to ensure that competition did not lower prices. It is often difficult to distinguish between cases of allowable business practice such as a “fee for service” when used to improve operational efficiency¹²⁸ and situations where processes are not transparent and hard-core corruption and collusion occur. The answer is to encourage all transactions to be open but there is still resistance to a process that should be standard operating procedure.

140. IFAD has not taken the same level of measures to combat corruption as the other multilaterals.¹²⁹ IFAD does not have an articulated policy on corruption and transparency and there is no evidence as yet of a stronger emphasis on adapting project financial management to combat corruption.¹³⁰ IFAD’s relatively low level of procurement compared to other IFIs is sometimes cited as a reason. So is the statement made by IFAD at the United Nations: “In many countries, the biggest challenge to improving performance and governance is fighting corruption. Again, IFAD’s role is not

to address this sensitive issue [corruption] at the national level, for example, by helping countries to introduce institutions and regulations to enhance the transparency and accountability of the administration. But IFAD's decentralized approach and its increasing efforts to help governments implement decentralization policies for the benefit of the rural poor do contribute to making government services at the local level more efficient and transparent.”¹³¹ True as this may be, in Indonesia sterner measures are needed if the efficacy of IFAD's operations is not to be vitiated. Project staff in several places suggested IFAD copy other IFIs and use the media to expose such activities. There is also a national NGO called Indonesia Corruption Watch that might be used. It aims to investigate claims of corruption within government agencies and to circulate its findings widely.

141. Although IFAD has tightened some of its financial procedures (and in some circumstances is willing to suspend disbursements), for instance, official receipts are now required at each stage of procurement and frequent audit checks are undertaken, civil society is being given a larger role in project design and implementation, but more needs to be done to prevent corruption.^{132 133} IFAD can learn from the experiences and mechanisms used by other IFIs. The Fund needs to be forthright in recognizing that corruption is a disruptive phenomenon, especially in Indonesia, and to take a number of specific steps. These include ensuring transparent recruitment and promotion processes for project staff, providing adequate compensation, and making arrangements for the rotation of project staff to minimize the chance of capture by corrupt players, encouraging an anticorruption culture by protecting whistle-blowers from violence and other kinds of discrimination, and lastly, by involving NGOs and other community-based organizations in the review and monitoring of the project's financial activities.

142. **Monitoring and Evaluation.** The standard of monitoring and evaluation systems within the older IFAD projects has been, and still is extremely low, and this has had an adverse impact on the effectiveness of institutional development. Management information systems in earlier projects were rudimentary with heavy emphasis on physical achievement. In the past, there was no systematic impact monitoring. This is still true apart from one or two special surveys and the use of some impact performance data in completion reports (such as in the EJRAP, P4K II).

143. The obvious difficulties of collecting reliable data at the field level have not been overcome as there has been little commitment by the projects to accurate and verifiable reporting. Data collected by field extension workers is open to doubt in terms of accuracy. The P4K III openly admits that data from the field cannot be relied upon until it is verified. There are similar difficulties in the EISCDP and PUTKATI, as verification processes are *ad hoc*. There are no consistent processes for ensuring that progress reports are regularly submitted. Data is collated and 'analysed' reactively whenever received, often long after targeted dates. Monitoring data is often inadequately analysed due to insufficient training of staff and the rapid turnover of staff during decentralization has amplified this difficulty.

144. Few projects have a valid baseline study. Recently, in the PIDRA and EKLCEP the tide has begun to turn and there have been strenuous efforts to ensure that valid baseline data is available. The process of generating baseline data is extremely valuable for all partners. In the PIDRA and EKLCEP, staff from the programme, Government and NGOs have produced baseline data providing valuable new knowledge. In the EKLCEP, the process has been instrumental in identifying significant discrepancies in earlier data and therefore greatly improved the planning base. Such data also provides the base for more effective monitoring of outcomes, both at the end of the programme and as it goes along, so enabling informed mid-course corrections. However, recommendations from evaluations have not always been acted upon. For example, in the SSSTCDP problems of poor soil were identified but there was no adjustment to project strategy and in the SPLDP the evaluation by OE in 1992 was ignored as it was considered too late.

145. So far, projects have not been able to undertake management in a strategic manner, which has also created difficulties for M&E work. Part of the problem, especially in older projects, is due to the absence of coherently formulated logical frameworks or to poorly developed logical frameworks, in those cases where they were available. In the older projects, the CPE also noted an ambiguity about

project objectives. That is, the objectives in the appraisal report were often not the same as those perceived by project staff, leading to incoherence in monitoring, supervision and evaluation activities. For instance, the PUTKATI appraisal report articulates four key objectives but the project Self-Assessment has seven differently defined objectives. Such differences also cause conflict during supervision, because project staff think they are performing well according to management's objectives, whereas supervision teams work to appraisal objectives. A common understanding of project goals and purposes among all key stakeholders, including the cooperating institution, would contribute to more accurate implementation and hopefully lead to better results and impact.

146. Significant weaknesses in information monitoring and in reporting have commonly hindered project management in taking timely action in all but the most recent projects. Collection of data for M&E purposes is often incomplete, especially on outcomes and impact. Data collected is often not completely analysed due to insufficient staff training. Rapid staff turnover during decentralization has amplified this aspect in project M&E work.

147. However, there has been a commendable re-focusing on monitoring and evaluation systems in Indonesia within the last few years, especially in the PIDRA. There, the system is sound with clearly defined indicators and data collection methods. Staff have made good overall efforts to apply the new M&E Guide developed by IFAD and are reasonably well-informed and trained, and interim progress reporting is good. A participatory institutional performance assessment is planned for this year where both the Government and NGOs will conduct mutual performance reviews. The district and provincial coordinating committees in the PIDRA have also helped to produce their effective management information system by providing authoritative demand beyond local project management. In the EKLCEP too, the design of the M&E system appears promising.

D. Impact

148. The projects in IFAD's portfolio have had differential impact in institutional terms. In almost all projects there have been positive gains for the implementing agency through the additional resources made available, increased training and technical support, and improved mobility. Ministry staff generally appreciate the projects and the benefits that have accrued to project participants. But, increased knowledge and skills for themselves have also been generated through staff training, exposure visits and field experience. Supervision visits are a learning process for many of the project staff, but only when they can interact with skilled consultants and are given time to reflect on project processes. Staff and other participants in training courses (such as NGO staff and group leaders) are discerning consumers of training. Some training is considered highly useful, whereas some not entirely appropriate.¹³⁴

149. In institutional terms the community-based institutions are the focus of project impact. There are many examples of positive impact. The design of small groups has generally been appropriate and in line with cultural patterns of behaviour. Groups received training and technical support in earlier projects and have gained from empowerment processes in later projects. In all circumstances where the groups have been active, this has led to positive impact on social processes and in many cases, economic benefits. The project self-assessments, beneficiary self-assessments and project completion reports all point to positive impact on village-level institutions ranging from increased access to political processes, improved skills, better confidence, stronger leadership and membership, higher level of initiatives through collective action, joint problem solving, higher level of resources, increased assistance from other agencies and personal development goals achieved.

150. There are also examples of institutional development processes at the community level where positive impact is not entirely evident. The SSSTCDP in fact illustrates negative impact. Groups were formed and members co-guaranteed credit. Crop failure led to group failure. Interestingly, some groups in the less isolated areas mobilized themselves to solve the problems created by the project, survived and generated supplementary benefits through alternative initiatives. There are also many cases of group failure due to poor supervision, misuse of village funds and personality conflicts within

groups. There is a particularly high and not fully explained failure rate in P4K III (see Chapter VI). However, such weaknesses are universal, and some failures are to be expected. Unfortunately, inadequate monitoring systems in most projects make it difficult to assess the true extent of both failure and success.

151. IFAD's strategic papers set down several overarching goals and cross-cutting objectives related to institutional development. These include: (i) the development of human and social assets as undertaken through personal development and empowerment processes, particularly in support to community organizations; (ii) the development of productive assets and technology through training and appropriate technical transfer; (iii) the development of financial assets and markets through linkages with financial institutions and markets; (iv) improvement in the status of women through formation of, and support to women's groups; (v) strengthening policy dialogue and advocacy of appropriate institutional development; (vi) increasing resilience of existing institutions; and (vii) developing sustainable research and knowledge management particularly related to IFAD 'specificity' within partner organizations. Programme performance against these goals (criteria) is summarized in Table 5.

152. Table 5 shows that institutional impact with respect to human and social assets is positive and rising. The increasing investment in group formation is clearly paying off. There is also a positive impact on increasing the resilience of the poor. Impact on the status of women has been low, but may be rising in more recent projects, particularly the PIDRA. However, there are significant gaps in IFAD's institutional development performance. There is a low and static trend for institutional development related to productive assets and technology and a declining trend for research and knowledge management. But, the most important gap is in the area of policy dialogue and advocacy as IFAD has not contributed significantly to any policy, legal or procedural change.

Table 5: Institutional Development Performance Against IFAD Strategic Objectives¹³⁵

| Project | IFAD Strategic Objectives | | | | Cross-Cutting Objectives | | |
|-------------------|---------------------------|----------------------------------|------------------------------|-----------------|------------------------------|-----------------------|-----------------------------------|
| | Human and Social Assets | Productive Assets and Technology | Financial Assets and Markets | Status of Women | Policy Dialogue and Advocacy | Increasing Resilience | Research and Knowledge Management |
| SCDP I | Negligible | Substantial | Substantial | Negligible | Not relevant | Substantial | Substantial |
| SPLDP | Modest | Modest | Modest | Modest | Not relevant | Substantial | Negligible |
| EJIP | Modest | Substantial | Modest | Modest | Not relevant | Substantial | Substantial |
| SCDP II | Modest | Modest | Negligible | Negligible | Not relevant | Modest | Modest |
| P4K II | Substantial | Substantial | Substantial | Substantial | Not relevant | High | Substantial |
| EJRAP | Modest | Modest | Modest | Modest | Not relevant | Modest | Modest |
| SSSCDP | Negligible | Negligible | Negligible | Negligible | Not relevant | Negligible | Negligible |
| EISCDP | Modest | Substantial | Modest | Modest | Not relevant | Substantial | Substantial |
| PUTKATI | Modest | Modest | Modest | Negligible | Not relevant | Modest | Modest |
| P4K III | Substantial | Substantial | Substantial | Substantial | Negligible | High | Substantial |
| PIDRA | Substantial | Modest | Modest | Substantial | Not relevant | Substantial | Modest |
| EKLCEP* | Substantial | Negligible | Modest | Modest | Modest | Substantial | Modest |
| Overall Programme | Substantial | Modest | Modest | Modest | Negligible | Substantial | Modest |
| Trend | Rising | Static | Static | Rising | Declining | Static | Declining |

Notes: Permissible ratings are: High, Substantial, Modest and Negligible.

* EKLCEP rated on potential.

E. Sustainability

153. Sustainability of project impact is of concern to project management. Yet, clear sustainability strategies are not embedded in project designs and project staff cannot adequately explain how they

are tackling the phase-out of project support (or will do so) and how benefits will be sustained in the future. There is little or no evidence that the Government is committed to or planning for the continuity of project activities – with the possible exception of the P4K III and some elements of the PUTKATI.

154. The gains in the institutional development of partners can be considered to be sustainable as in most cases resources provided by the project will remain within the partner institution although no instance was found of an asset replacement policy for project-provided inputs. Staff training and development activities have provided incremental skill development with mostly lasting benefits. Whether benefits will last in the PUTKATI and PIDRA is uncertain as contract staff may well move on.

155. Gains in human and social capital can be considered to be a sustainable impact. Once project participants have increased their awareness, knowledge and capacity, it is generally considered to be a catalyst in an ongoing process of empowerment unless there are countervailing factors that lead to disempowerment. There are a few examples among the Beneficiary Self-Assessments where cynicism and discouragement are noted (PUTKATI and PIDRA), but in general, group formation has so far provided a sustainable means of change for individuals.

156. However, the sustainability of groups is not assured. It is impossible to get a clear picture of the proportion of groups that remain operational beyond the end of a project (or that are likely to do so) but the number may be low. For example, in the EJRAP and EISCDP, both recently closed, the numbers that have survived are small compared to the large number formed during the project. No support to groups beyond the end of the project period is planned and options on sustainable institutional development pathways are not included in institutional development training for groups. Ongoing financing for groups through formal credit, NGO support, government support and fund self-generation is not given much prominence in annual reporting or planning.

157. Taken as a whole the institutional development impact of IFAD's programme is mixed. There are some achievements, together with various areas that need improvement. A fair assessment is that while the Fund has been trying to promote institutional development, particularly at the grass-roots level, there is scope for wider assistance at different institutional levels. In formal evaluation terms, overall performance is rated modest.

VI. PROGRAMME CONTRIBUTION TO RURAL FINANCE

158. Indonesia has one of the most differentiated rural financial sectors of any developing country. According to a recent AsDB study¹³⁶, the sector now includes some 6 000 formal and 48 000 semiformal microfinance institutions (MFIs), serving about 45 million depositors¹³⁷ and around 32 million borrowers. Among them, the BRI units (formerly *unit desa*) – the developing world’s most successful rural microfinance providers – account for 74% of microsavings and 39% of microloans. Outside the formal and semiformal institutions are some 800 000 channelling groups and millions of traditional rotating savings and loan groups or *arisan*.

159. In the seventies Indonesia was a heavy user of directed credit as a development tool. The rural finance policy environment evolved rapidly during the eighties and nineties and involved substantial liberalization, including:

- full interest rate deregulation and elimination of credit ceilings in 1983 which gave birth to the market-oriented BRI unit system in 1984;
- institutional liberalization in 1988 which led to the rise of rural banks (Bank Perkreditan Rakyat (BPR)) as part of the formal financial sector;
- the phasing out of 32 out of 36 subsidized credit programmes in 1990;
- a new banking law in 1992, defining two types of banks: commercial banks and rural banks; and
- financial sector crisis management since 1997 geared to prudential regulation, effective supervision, recapitalization and privatization processes that are not yet complete.

160. The core problem of rural finance in Indonesia is not an overall lack of institutions or a lack of domestic resources,¹³⁸ but inadequate outreach to remote and marginal areas and the poorer sections of the population, plus an inadequate depth of financial services. A related problem is the inefficiency of large numbers of very small financial institutions and groups in remote and marginal areas that lack integration with and access to formal and semiformal institutions. In that respect, “there is enormous scope for IFAD to focus its operations in the most remote and neglected areas.” (COSOP p. 6).

161. In IFAD’s first loans to Indonesia, there were no credit or rural finance components in the projects; it was assumed that the existing delivery channels for subsidized production credit, particularly through BRI under BIMAS (one of the worst programmes according to the 1988 SPM) were adequate. In November 1982, IFAD’s General Identification Mission (GIM) to Indonesia emphasized “the building up of the institutional base for organizing the disadvantaged rural poor into small farmers’ groups.”¹³⁹ The mission noted constraints on rural coverage of the existing rural financial institutions, among them BRI. Two project options were discussed: (i) a second phase of the International Development Association-financed Rural Credit Project for medium-scale farmers that would extend BRI rural coverage by linking up with other credit structures; and (ii) a second phase of the P4K, a small farmer project started in 1979 by UNDP/FAO, which combined credit with the promotion of income-generating activities.

162. The 1988 SPM dealt with the institutional credit option in more detail. It endorsed the P4K, which was to be executed by MOA and BRI. The SPM noted the P4K’s special focus on the landless, and recommended that “the extension services of the MOA and MOI [Ministry of Irrigation] may be called on to provide this group with vocational and technical skills useful in non-agricultural activities” (pp. 294-5). Thus the mission endorsed a design of 1979, ignoring the fundamental changes in the policy environment enacted between 1983 and 1988. In particular, it failed to discuss the relevance of the BRI’s highly successful commercial rural microsavings and microcredit scheme that strongly opposed group credit, and endorsed instead the P4K as a subsidized credit programme. It also ignored the implications of the 1988 law on rural banks on the development of financial products suited to IFAD’s target group.

163. The P4K is IFAD's most important rural finance intervention in Indonesia. In the EJRAP, bank credit was provided under the P4K. In many IFAD-financed projects in Indonesia, there is no specific rural finance component. Yet rural finance is frequently part of the project, as grants and credit in money, or in kind provided by the project or as the savings and credit activities of farmer groups.

A. Relevance

164. The P4K is IFAD's oldest continuous lending operation in Indonesia. Like most other projects, it revolves around small groups of the rural poor. The P4K I was an action research project started by FAO/UNDP, which initially covered six and then eleven provinces. In the P4K II, running from 1988-98 and covering eighteen provinces, IFAD was the main donor. The P4K III, running from 1998-2005, covers twelve provinces, is ongoing and co-financed by AsDB (48% of total project cost) and IFAD (12%).

165. In the broadest sense of grappling with rural poverty and seeking to increase the incomes of the poorest, both phases of the P4K are very relevant. However, this favourable judgement pales in the light of project designs (and later implementation) that were daringly oblivious of ongoing debates and developments. For example, the P4K II reverted to credit channelling through small farmer groups, despite the BRI's negative experience; ignored the BRI's expressed preference for commercial operations through its units; introduced a programme credit approach through BRI branches, despite their distance from the target groups; adopted interest rates below the benchmark rates of Kredit Umum Pedesaan; ignored voluntary savings (the basis of self-reliance in financial institutions and in self-help groups throughout Indonesia); endorsed compulsory savings as collateral; and provided unnecessary liquidity through the BRI.

166. The core strategy was the development of small farmer groups as small business enterprises. Each group was and still is required to prepare a Group Business Plan, despite the well-known negative experience with group enterprises of NGOs such as Bina Swadaya's *Usaha Bersama*. The project design emphasized investments in crop agriculture and livestock despite their low productivity, and selected MOA field extension workers to deliver the system instead of staff with skills in microenterprise development.

167. Indonesia has a highly developed culture of self-help groups, permeating every village (*desa*) and community (*dusun, banjar*). Some are indigenous, others established by the Government or NGOs. Many engage in financial activities. There is virtually no adult person who is not a member of at least one such group. Yet, the appraisal report of the P4K II did not discuss the wisdom of establishing new groups versus working through existing groups. It also did not discuss the issue of groups as financial intermediaries versus channelling groups and ignored the BRI's established programme of linking banks and self-help groups.

168. The design of the P4K III followed closely that of the P4K II although a graduation strategy for groups (not individuals) that have accessed four or more loans was introduced as well as loan disbursement and repayment either at BRI branches or at units. Nevertheless, many of the earlier deficiencies were not entirely addressed. Although the thrust of the P4K system is relevant to the needs of the poor and is consistent with IFAD strategy, it could have been even more relevant.

169. In the EJIP co-financed with the World Bank, rural finance was ignored. It was argued that the existing delivery channels for subsidized production credit, particularly through the BRI under the BIMAS programme, were adequate. The SPLDP did not have a credit component. Yet, farmers' groups received credit for land clearing from project funds in the form of collateralized medium-term loans channelled through the BRI. This did not work satisfactorily and the Government, dissatisfied with the slow progress in irrigated rice field development, abandoned the credit programme.

170. The SSSTCDP provided grants to individual farmers for the establishment of coconut farms and for inputs for improved food crops as well as credit in cash and kind for the maintenance of coconuts

for four years. Credit was treated as an input. No financial institution was involved; no effort was made at local financial institution-building at any level including that of small groups; there is no indication of sound credit delivery and recovery practices. At a time when rural finance had already reached a high standard of institutional differentiation and good practices in Indonesia, the project failed to incorporate any of that experience. Due to severe shortcomings in project design and implementation, the project was prematurely closed. Its relevance in rural finance terms was low.

171. In the PUTKATI, without any reference to other options, the appraisal report recommended a loans-in-kind scheme, turning a potential credit component into a cattle distribution mechanism. In contrast to institutionalized rice banks (*lumbung desa*), which have a long history in Indonesia, and cattle banks, which have also existed in some parts of Indonesia, this project did not follow any of the principles of finance-in-kind institutions. Nor were any lessons learned from Indonesia's experience in this field or from previous livestock projects. The need for savings mobilization and a greater focus on sustainable village institutions was overlooked. There was no concern for financial viability or for risk management. Local initiatives in rural finance were either ignored or discouraged. Some of the standardized farmers' groups formed to manage cattle distribution commenced savings and credit activities, but received no capacity-building support; hence there was no evolution to anything like self-reliant self-help groups. No attempt was made to build on or enhance local practices of savings accumulation through the ubiquitous rotating savings associations (*arisan*).

172. In the PIDRA, IFAD's approach to microcredit changed for the better in several respects. Greater emphasis is being given to the sustainability and self-reliance of financial intermediation at the village level and groups are treated as largely self-reliant financial intermediaries mobilizing their own savings and transforming them into loans. The PIDRA also respects the autonomy of the groups with respect to determining the terms and conditions of their financial contracts with members (instead of imposing standardized terms on them). It is also replacing loan channelling by portfolio refinancing (i.e. on-lending bank credit for purposes and at terms and conditions determined by the groups themselves).

173. These gains partially offset a number of weaknesses. Forming new groups rather than working with existing groups, limiting group size to twenty-five; arbitrarily distinguishing between mixed farmers groups and women's savings and credit groups, even though both function as financial intermediaries; mixing several sources of funds such as voluntary savings, grants to group common funds and grants for infrastructure;¹⁴⁰ giving subsidies for participating in training thereby risking adverse selection; and ignoring association formation and financial networking at the village level. Some of these deficiencies are likely to be corrected in the EKLCEP.

174. Taken as a whole, the relevance of IFAD rural finance activities has been and remains mixed. They are relevant to the poor and are consistent with IFAD's strategy, but hard-won knowledge from others as well as from its own experience is less than fully reflected. In sum, IFAD's rural finance work is relevant, but could be further enhanced.

B. Effectiveness

175. The effectiveness of the P4K I and II and the early stages of P4K III have generally been assessed as satisfactory. According to an AsDB report of 2001 "the project has been successful in establishing SHGs and SHG associations and enabling them to access credit through BRI at a subsidized interest rate [and] has been able to guide potential SHGs to establish businesses based on the desire of individual members to gain self-confidence, become more independent, and to feel a sense of pride in themselves and their community. It has also taught them the value of savings and the importance of credit..." But, the report also noted weaknesses in skill and asset formation and in the volume of savings. Satisfaction with the overall physical and financial progress of the project was

also expressed in the Memorandum of Understanding (MoU) by IFAD/AsDB/Government of Indonesia of April 2002 (p. 2).

176. **Targeting.** Targeting has been an issue throughout the P4K. It is still not fully resolved. The same 2001 AsDB report noted that “the members of the SHGs are poor”, but suggested “that the poverty targeting methods need to be refined or consistently applied”. On a more critical note, in 2003 IFAD noted “total mistargeting”, suggesting that the poorest were being overlooked. There was a shift in 2003 to participatory wealth ranking plus district poverty indicators which may well improve matters.

177. **Group formation.** The P4K II aimed to form 33 000 groups, 1 000 of them carried over from the P4K I. This target was surpassed by a wide margin. At appraisal, in 1997, 48 000 groups had been formed. The 1996 Impact Study¹⁴¹ recorded 37 000 groups as having received one or more loans. By mid-2003, 71 000 groups (out of the 2005 target of 80 000) had been formed, of which 65 000 were registered in the project database and 53 000 had savings in the bank.¹⁴² Loans outstanding were IDR 236 billion (USD 27.8 million); 9 500 groups (24%) had arrears of 8.6% of loans outstanding.

178. The Mid-Term Reviews (MTRs) of 1993 and 2001, and also the CPE, highlight two important considerations. First, is the large proportion of moribund or ‘dormant’ groups. A high drop-out rate for groups has been noted throughout all three phases of the P4K, but has not been investigated in depth. By mid-2003, 41% of all groups ever formed had dropped out. Many of these were probably established by extension workers motivated by quantitative incentives and are moribund. However, there are indications that some of them were frustrated by cumbersome procedures and delays; and that an unknown number is operating independently. Second, is the consistently noted problem of the large number of groups owing to understaffing at the BRI.

179. **Internal financial intermediation** takes place at two levels, groups and associations. As of mid-1993, compulsory savings (deposited in the BRI as liquid collateral) by 9 000 groups exceeded the target by 80%. In addition, 5 649 groups reported voluntary internal savings. But, despite frequent references to the importance of savings, little seems to have happened throughout the P4K to strengthen the self-reliance of groups through savings (MTR 2001, p. 8). Using the 65 000 groups in the project database, the average amount of saving per group and per member is given in Table 6.

Table 6: Average Compulsory Deposits and Group Funds per Group and Member, June 2003*

| | Average Amount per Group | | Average Amount per Member | |
|------------------------------|--------------------------|-----------|---------------------------|----------|
| | IDR | USD | IDR | USD |
| Compulsory deposits (in BRI) | 426 084 | 50 | 42 608 | 5 |
| Internal group fund | 93 181 | 11 | 9 318 | 1 |
| Total | 519 265 | 66 | 51 926 | 6 |

* Calculated over the total number of 64 838 groups in the project database.

180. Total voluntary savings (including retained earnings) in group funds of USD 1 per member¹⁴³ and compulsory savings of USD 5 in the BRI do not suggest much self-reliance despite the statement in COSOP (p. 7) that “P4K’s SHGs can rely on the savings generated within their groups as a coping strategy”. However, reporting of internal funds is probably unreliable and savings-in-kind go entirely unreported. Field enquiries during the CPE suggest that total real savings may be two or three times the above figure.

181. **Bank credit.** In mid-2003 about 39 000 groups had loans outstanding amounting to IDR 236 billion (USD 27.8 million) or USD 713 per group or USD 70 per member.¹⁴⁴ About 24% of groups had arrears amounting to 8.6% of loans outstanding. There are no data on the loss ratio. However, “very few SHGs had access to more than two loans (compared to a cycle of six loans identified during the design as necessary to lift poor families out of poverty). Loans are used for a variety of income-generating activities, emergencies and consumption...financing a portfolio of activities of the poor.” (MTR 1993, p. xiv). The 1993 MTR also found microenterprise development to be an area of great

difficulty for group members, many of whom stagnated in low-income activities, and recommended more microenterprise guidance and training, particularly by NGOs, as the agricultural field extension workers are not best qualified. This problem has been consistently noted ever since and remains unresolved.

182. Farmers in the EISCDP were assisted in establishing cashew plantations with grants and loans provided by the project during the initial years, but they were not sufficient to carry the farmers through until the trees matured. Cash flow problems have been solved by the farmers in several ways: by using income from other sources including older cashew farms; by not buying inputs such as fertilizer, chemicals and hired labour; and by defaulting on the loans received. Farmers in the project areas had no access to formal or semiformal financial institutions, of which only a few exist. *Arisan* are widespread, either within the farmers' groups or without, but are unable to provide the required funding. No arrangements for access to finance were made beyond the initial disbursements. Disbursement of grants and loans and collection of instalments have all been handled mostly inefficiently by project staff: no institutions were involved. All cashew farmers in the project were organized into groups of around 20 members. Several groups have a modest joint fund for microloans to members, mainly for consumer purposes. A few loosely organized associations of small groups have emerged with objectives such as cashew storage and marketing. Most of them were formed after the project closed. Neither groups nor associations currently receive assistance in capacity-building although about half of the groups did receive some early training along these lines. Book-keeping and financial management in groups and associations are rudimentary. Without backup support, there is the risk that most of them will wither away.

183. In the EJRAP, a rural savings and credit programme aimed to: (i) support existing credit institutions in extending their services to rural areas; (ii) provide infrastructural and operational support for the introduction of existing rural savings and credit schemes to the project area; and (iii) help to establish a credit support services unit, as a service, not a financial agency. The BRI was intended to be the main banking partner. Although several strategies were attempted only the P4K method was successful, but this limited coverage to the very poor and so most farmers were left out. Consequently, achievement fell well short of initial targets (9-25% depending on the method of measurement). Repayments are reported to have been satisfactory, but attempts at savings mobilization failed.

184. The PIDRA distinguishes between mixed farmers' groups, which may be all-male or mixed and poor women's groups, on the basis, despite evidence to the contrary, that women are the better savers. The programme, which is still in its first phase, encourages groups to finance their activities through their own savings, enhanced by matching grants. As of December 2002, 643 SHGs had built up group funds amounting to IDR 835.9 million (USD 98 337), equivalent to an average of USD 153 per group or USD 7.30 per member. Small as these amounts may be, they surpass by far those mobilized internally in the P4K groups. Matching grants range up to three times (occasionally slightly more) the amount of group savings. This policy should be evaluated in due course to make sure that it does not constitute a perverse incentive leading to adverse selection.

185. Loan sizes vary from IDR 10 000 to IDR 800 000 (USD1.20 to USD 94); most are in the lower range. Interest rates range from 22% to 110%, averaging 46% (approximately 2% flat per month). Groups have autonomy in interest rate determination and tend to charge relatively high interest rates in order to increase their loan fund. Repayment is reported to be good.¹⁴⁵ It is expected that in a second phase, successful SHGs will graduate to P4K III, that is, have access to bank credit.

186. Group autonomy is respected and there are no restrictions on the use of group common funds, regardless of source. During 2001-02, 42% of the volume of loans went into agriculture, with considerable variation across provinces: 71% in NTB, 47% in NTT and 28% in East Java. As usual with unrestricted microcredit to the very poor, a sizeable proportion, 37%, of the loans went to consumption, including education. Other uses included trading 20% and processing 2% (P4K II Annual Report 2002, p. 26).¹⁴⁶

187. In the EKLCEP the basic principles of initiating sound financial self-help groups appear to be recognized. But, restrictions on group size may be questioned as well as the distinction between groups of only the very poor or groups of both poor and non-poor. Sustainability should be built in by planning to form associations of SHGs at the village level and networks of associations at the district level, which in turn could be integrated into the national financial system, either by evolving into formal financial institutions or through bank linkages.

C. Institutional Development

188. In rural finance the main institutional development issues relate to groups. In all projects in which groups build up internal loan funds including the P4K, PIDRA, EJRAP and others, there are common deficiencies limiting institutional development. Groups are too small in size and in volume of resources to function effectively as financial intermediaries. Groups are not encouraged to form associations (e.g. in contrast to the very successful Tamil Nadu Women's Development Project in India, supported by IFAD). Groups do not form part of larger institutions or networks of liquidity exchange, nor are they in any way integrated into the national financial system, nor is such networking or integration promoted. Lastly, no effort is made to help groups gain official status through registration or legal status.

189. AsDB's draft report on rural microfinance in Indonesia (AsDB 2003) concludes that: "Many development programs with microcredit components have established new institutions in the villages and the communities, and every government department seems to create its own type of microfinance institution. Most of these structures (*including those in IFAD projects*) are not sustainable and the prospects for upgrading them into viable village-based MFIs are bleak." (p. 18, parenthetical statement added).

190. Forming associations at the village level and networking at higher levels was not part of the design of any of the three phases of P4K or of any other IFAD project. The question of how isolated small groups might survive after the project has largely been ignored. Therefore it was surprising when, in 1993, 643 associations were found to exist in the P4K II, comprising 3 395 small groups engaged in financial intermediation, procurement and marketing. The MTR 2001 (p. 9) of the P4K III notes the existence of 1 329 associations and 47 formal cooperatives, the majority of them functioning as financial intermediaries. By mid-2003, the numbers had increased to 1 601 associations (*gabungan*) and 49 cooperatives, embracing over 8 000 groups.¹⁴⁷

191. Loans from associations complement the very small consumption and emergency loans of groups. They are usually larger in size and longer-term and tend to be for productive purposes. All associations report a need for substantial amounts of additional loanable funds. Accordingly, the MTR 2001 (p. 9) of the P4K III proposed "developing a comprehensive approach towards association development and integrating this with MFI/LKM developments", or linking them to existing cooperative institutions. Subsequently, IFAD carried out its own MTR in April 2002 and arrived at a different conclusion. "Finally, the informal credit associations (*gabungan*) and formal microcredit institutions promoted by P4K III are having in many instances a disempowering impact on the already fragile SHGs whose members lose control over their limited savings and decisions affecting their lives."¹⁴⁸ On that basis, support to associations was stopped, pending the results of a study, subsequently carried out in 2002 by the Institute Pertanian, Bogor,¹⁴⁹ which reaffirmed the judgement of the MTR 2001. Until this issue is resolved, it poses a serious threat to the sustainability of the rural finance dimension of IFAD's programme.

D. Sustainability

192. Sustainability of access to financial services is not part of the design of IFAD projects in Indonesia, except in the P4K and the credit component of the EJRAP. As a remedy, COSOP (p. vii) recommended: "The methodology used by P4K on targeting, group formation and empowerment

should be gradually adopted by all projects.” But, IFAD’s strategy in rural finance has hardly gone beyond the P4K itself. Basic techniques of financial management as practiced by the small groups in the P4K have only partly been transmitted to other projects, except the EJRAP; and the weaknesses noted by COSOP still persist.¹⁵⁰ But the biggest challenge is faced by the P4K itself. While the project has successfully mobilized the poor, it is now realized that large numbers of small groups scattered all over the country do not add up to a sustainable system.

193. The earlier positive overall assessment of P4K effectiveness changed fundamentally when sustainability in operational terms was taken into account. In the MoU by IFAD/AsDB/Government of Indonesia of April 2002 (p. 2)¹⁵¹ “serious concerns about the long-lasting impact and sustainability of P4K/RIGP and in particular the sustainability of the SHGs” were voiced, also that “SHGs have not been formed as self-reliant institutions but more as instruments to facilitate access to credit”. Indeed, self-reliance and savings-based financial intermediation by small farmers’ groups were not part of the project approach during the P4K II, when IFAD was in the driver’s seat; nor was the objective of developing “a sustainable system” translated in the P4K III into a concrete project design. The fundamental issue of how to transform a credit channelling scheme into sustainable institutions – the focus of IFAD’s Rural Finance Policy – remains unaddressed.

194. Almost 25 years after the start of the project and 15 years after the start of IFAD’s support, the crucial question now is to what extent the P4K has succeeded in laying the foundation for a sustainable system of income-generation and access to finance as instruments of poverty eradication. With regard to finance, four pathways to sustainability should be examined: (i) allowing groups and associations access to credit from BRI branches; (ii) giving individuals access to financial services from BRI units; (iii) allowing groups, when acting as financial intermediaries, access to internal financial services; and (iv) allowing associations, when acting as microfinance institutions (LKM), access to wider financial services. In brief, the first pathway is promising in the short run but doubtful in the long run; the second is practically closed, as no preparations have been made; the third is incomplete and comes very late; the fourth is promising and has been entered upon by an increasing number of associations, but has not received encouragement from IFAD. Only if this problem is successfully tackled will it be possible to rate the sustainability of IFAD’s rural finance initiatives as likely.

E. Impact

195. In 1993 the impact of the P4K II was analysed using survey data.¹⁵² The conclusions were very positive, but of doubtful validity owing to methodological problems and because the time period over which the results were measured was variable and unspecified. These shortcomings were largely absent in the 1996 Impact Study which found that average per capita incomes of group members, measured in real (rice per caput) terms, had increased on average by 12% per year over the life of the project, but the proportion attributable to the project is unknown.

196. The Impact Study found that the proportion of participants with an income of 320 kg of rice per capita/per annum increased from 19.2% before to 74.6% after the project, that is, 55% crossed the poverty line. However, 69% were already close to or even above the poverty line before the project. Impact was also found to be quite uneven, benefiting only “selected participants.”¹⁵³ Women benefited somewhat more than men. Housing improved for 36%, but worsened for 10%. Family health improved for 45% but worsened for 29%. Savings increased to a limited extent.

197. Indonesia’s economy was growing fast in the nineties and per capita incomes were rising at 7% per annum so at best the additional increase in income attributable to the P4K II was 5% per annum. How much of this change is attributable to the P4K III is unknown. Similarly, the P4K III Self-Assessment in 2003 found limited and uneven improvements.¹⁵⁴ This is in line with the finding of the Methodological Framework for Project Evaluation (IFAD 2003, p. 3) that impact “on the improvement of household livelihood has so far been limited ... in view of the fact that very few SHGs have had access to more than 2 loans.”

F. A Policy Perspective

198. During the eighties, a decade of transition, Indonesia deregulated its financial system and established a legal framework for rural banks, thereby creating a policy environment for vigorous savings mobilization, credit expansion and growth of the rural financial infrastructure. The further evolution of the rural financial sector and the changing policy environment, including the draft 2001 microfinance law, are not reflected in the design of any IFAD project. There is no evidence that IFAD has actively participated in ongoing policy dialogues. Rural finance is not one of the areas mentioned for policy dialogue in the 1998 COSOP.

199. The P4K II appraisal report noted “a tendency to move away from credit schemes with subsidized interest rates towards market-oriented conditions” (pp. 11-14). It also recognized the market leadership of the commercial BRI village units and claimed to incorporate features of such successful schemes. Yet in fact, it proposed an outmoded group credit scheme handled by BRI branches at subsidized interest rates: precisely the type from which the BRI village unit system had moved away. It also acknowledged the importance and efficiency of the informal financial market, without attempting to harness its forces in the new project phase.

200. Although, in its projects in Indonesia, IFAD has adhered to its mission of providing services to the poor, particularly in remote and marginal areas and despite the overall satisfactory rating for the P4K projects there are several remaining shortcomings.

- IFAD has made little or no use of the rapidly evolving rural financial infrastructure.
- IFAD has placed no emphasis on sustainable access of the rural poor to financial services (except in the P4K and the P4K component of EJRAP).
- There is little evidence that it has transferred the core elements of the P4K to other projects (except EJRAP).
- IFAD has not participated in any rural or microfinance policy dialogue, though IFAD’s presence as an advocate of the poor could be valuable.
- IFAD has not consistently insisted on rural market rates of interest.
- IFAD has not solved the problem of helping groups evolve into higher order financial institutions or engaged in building fully-fledged rural financial institutions as per its own policy statements.¹⁵⁵ As a result, groups with savings and credit activities are not being prepared for registration or licensing as MFIs/LKMs under the forthcoming microfinance law.
- IFAD has not given adequate attention to viable non-farm income-generating activities¹⁵⁶ and to how to create value added, thus disrupting the potentially virtuous circle between viable economic activities and viable local financial institutions.

201. IFAD’s Rural Finance Policy (RFP) was adopted in 2000¹⁵⁷ and identifies four key challenges in rural finance: (i) building sustainable rural finance institutions with outreach to the rural poor; (ii) fostering stakeholder participation, including the poor, in the development of rural finance; (iii) building a diversified rural financial infrastructure; and (iv) promoting a conducive policy and regulatory environment. In Indonesia, these challenges have largely remained challenges, without evidence of a systematic attempt by IFAD to put them into practice – understandably perhaps as most of IFAD’s projects were designed before the adoption of the RFP.

202. Lastly, numerous policy issues in rural finance in Indonesia, to which IFAD might contribute, remain unsettled, among them:

- integrating the ubiquitous informal financial institutions, including *arisan*, into the financial system;

- developing technologies for increasing the outreach of the existing formal and semiformal financial institutions (including the BRI units and the BPR) to remoter areas and the poor on a commercial basis;
- adjusting BRI's national programme *Linking Banks and Self-Help Groups* to the needs of the rural poor;
- prudential regulation or self-regulation, and delegated supervision within networks, of small financial institutions including self-help groups;
- legal recognition of the multitude of self-help groups and informal financial institutions that are too small to qualify for rural bank status; and
- adjusting the draft Microfinance Law of September 2001 to the needs of the rural poor and their SHGs.

203. The need for IFAD's participation in the rural finance policy dialogue is most pronounced in the ongoing process of revising the draft microfinance law of September 2001: to make sure that the law benefits small institutions owned and managed by the poor, or that financial services by other types of rural financial institutions reach the poor and very poor. Close cooperation would be required with the Ministry of Finance, which is in the process of setting up a microfinance unit, and GTZ, to which the Ministry has entrusted the task of assisting with the revision of the draft law.

VII. CONCLUSIONS AND RECOMMENDATIONS

204. This chapter draws together the main conclusions emerging from the evaluation in preceding chapters, restating as little of the evidence and argument as possible. Subsequently, a number of recommendations aimed at enhancing IFAD's performance are presented.

A. Principal Conclusions

205. For two decades, IFAD has pursued strategies broadly in line with government ambitions and international thinking. It has neither led nor lagged. It has updated its strategy at regular intervals and remained broadly relevant to Indonesia's needs. IFAD has given expression to its strategic goals only through its projects; it has not established, despite its commitment, a separate (but, supportive) policy dialogue function drawing on its operational experience in Indonesia and elsewhere, or on the work of others. Its current strategy as set out in the 1998 COSOP remains satisfactory in terms of its poverty targeting, its emphasis on gender, its attention to community development and its focus on local institution-building. But, it is not fully in line with the Government of Indonesia's central push for rural growth based in higher crop and livestock production and greater value added in the rural economy. This is a view echoed by a growing number of voices worldwide that are calling for more attention to the central element of rural development – agricultural growth.

IFAD's projects have been relevant.

206. Throughout its twenty-year relationship with Indonesia, IFAD has kept its project activities broadly in line with the goals and policies of the Government. In the eighties it financed (often with others) projects in the irrigation and livestock subsectors and in rural finance. The irrigation and livestock projects were conventional in structure and objectives, seeking to increase the productivity and raise the incomes of small and marginal farmers. The irrigation projects were largely framed within the Government's broad transmigration policy, while the livestock projects supported the Government's policy of expanding and deepening the livestock sector. But in rural finance, IFAD shifted ground and sought to raise both farm and non-farm output. The P4K projects expanded an earlier UNDP/FAO pilot project that placed greater financial resources at the disposal of small and marginal farmers and the landless by encouraging groups of farmers and non-farmers to save and to borrow.

207. In the nineties, additional, essentially agricultural, projects were undertaken – two tree crop projects, one rainfed agriculture project focused on soil conservation and a further livestock project. The nineties were a period of slowing agricultural growth in Indonesia reflecting a shift in the domestic terms of trade away from agriculture, reduced output from agricultural research and a slowdown in the pace of technological change. In this climate, these projects were mainly and appropriately focused on output growth and technical change. They were complemented by a further phase of the P4K.

208. The financial and political crisis of the late nineties brought radical changes to Indonesia including political and administrative devolution, a renewed commitment to fight corruption and a willingness to engage with civil society in the fight to reduce rising levels of poverty. IFAD responded to these changes with a new country strategy (COSOP 1998). This strategy, inter alia, seized the opportunity presented by the new climate of change to carry forward IFAD's agenda of fighting rural poverty by empowering the poor and by concentrating on disadvantaged people in the poorest and most stressed regions. Two projects resulted from the COSOP, namely the PIDRA and the EKLCEP. Conceptually, the second evolved from the first. However, both projects are fully consonant with the tenor of the times and seek to empower poor people in their dealings with government and the wider economy, improve decentralized public administration and work with NGOs to bridge the gap between bureaucracy and civil society. The downside is that these projects have a reduced emphasis on agricultural productivity and technical change at a time of low factor productivity in Indonesian smallholder agriculture.

209. IFAD-supported projects have been true to the Fund's and the Government of Indonesia's development objectives, but the extent to which they have been entirely relevant to the rural poor is harder to determine. In so far as they have been aimed at helping small farmers, the landless, women and the otherwise marginalized, they have clearly been relevant. To the extent that they have covered rainfed areas and other places of low potential or environmental stress, they have been relevant to the goal of reducing poverty and reducing inequity – at least regionally. But the extent to which they address the needs of the poor as defined by the poor themselves is less certain. For most of the last twenty years, limited attempts were made to assess this matter in a more analytical manner. IFAD-supported projects, like those of most other IFIs, were designed and implemented on the basis of assertion and assumption. Only in the PIDRA and EKLCEP have efforts been made at the outset and during implementation to listen to the people.

More than half of IFAD's projects achieved their main objectives.

210. The development effectiveness rating of most IFAD projects is substantial. The more recent projects tend to be those with the best ratings mainly because they are more responsive to a changing development environment. Until recently, top-down management systems prevailed and, in early projects that did not flounder for technical reasons, delivered effective projects. But in Indonesia's newly decentralized systems, such a style in implementation will not yield the desired outcomes. This effectiveness-reducing issue has been well-recognized in the PIDRA and EKLCEP, which are seeking new institutional solutions and more open management methods. In particular, and despite several difficulties, they are drawing on the skills of NGOs while at the same time helping the centralized directorates of the MOA, and the newly empowered district administrations, to grapple with their changed mandates.

211. Apart from two early livestock projects, IFAD's technically oriented projects in tree-crops, rainfed agriculture and livestock have mostly not been very effective – the cashew project being a clear exception. This weakness can be traced to poor project preparation and design so that proposed technical solutions and the institutional apparatus needed to deliver them were untested or inadequately investigated or poorly implemented. This was especially true in the EJRAP and SSSTCDP, while PUTKATI did not build adequately on the lessons from earlier livestock and other projects. The technical projects in particular did not establish strong links with Indonesia's agricultural research system and did not ensure that technologies were suitably adapted to the environments where they were being used. More recent projects, such as the PIDRA and EKLCEP also have few links to the research system or other external sources of proven technical innovation. This is likely to hamper their effectiveness as they seek to use the social capital they are successfully creating to raise agricultural productivity – the main livelihood source of the rural poor. This same argument, although still true, applies with slightly lesser force to the P4K III. There, even though almost half of all loans are used for agriculture, effectiveness is mainly being held back until an institutional solution is found to the problem of formally linking successful self-help groups to the wider external world of finance.

212. The development effectiveness of IFAD-supported projects has not been sufficiently driven by innovation. Overall, there is little evidence of innovation in the projects. Even in the newest projects such as the EKLCEP the focus on indigenous communities, use of NGOs for implementation and supportive relationship with district government are not new and have been pioneered by other bilateral and multilateral agents in Indonesia. Although the Fund has not contributed to promoting technical innovation, there are traces of innovations in the institutional sphere.

213. Much of the development effectiveness of IFAD's projects can be traced to the successful formation of self-help groups as the central organizing device in nearly all cases. Placing the onus on the people themselves has, especially in the two P4K projects, been very effective. But, it does not mean that groups do not need support. In several projects including the EISCDP, P4K and PIDRA some effectiveness has been lost because that support has been inadequate in quality or in quantity. Groups are organic and form, grow, dissolve and evolve like other organisms, but there is inadequate recognition of this dynamic in IFAD's operations. The ancient tradition of group formation in

Indonesian society is also too often not taken sufficiently into consideration. Only if these deficiencies are addressed will this very successful aspect of IFAD-supported projects go on to deliver broad and sustained development effectiveness.

The institutional development impact of IFAD's programme has been modest.

214. Institutional development may take many forms. It may be a change in national policy, a new or modified law, a different way of implementing a project, new administrative procedures, new or revised regulations or the creation of new institutions at any level. Institutional development impact thus means positive and sustainable change in one or more of these dimensions. Such outcomes are now expected to be part of IFAD country programmes.

215. In Indonesia, at the village level, IFAD has had significant institutional development impact. However, IFAD has not had any discernible and hence measurable impact on institutional change nationally; in policies, in the legal framework or in administration. Nor has it had much effect on the way projects are conceived, designed and implemented.

216. This absence of institutional impact at the national level in Indonesia is a direct result of IFAD's lack of attention to engaging with the Government and other development partners in discussions of policy change, either as a strategic matter or in the context of its projects. This is a significant shortcoming for a number of reasons. First, if the Millennium Development Goals' mandate of cutting poverty by half globally by 2015 is to be achieved, the agriculture sector and rural economies in Indonesia and elsewhere must grow quickly so as to improve sharply the incomes and welfare of the poor, most of whom live in rural areas and depend directly or indirectly on agriculture. Although, IFAD's mandate, unique among IFIs and United Nations agencies, is to reduce rural poverty, it cannot do so alone. Therefore, IFAD must persuade the Government of Indonesia and its international development partners of the justness of its cause and of the need to give Indonesian agriculture and rural development a higher place on the development agenda.¹⁵⁸ If such advocacy is to bear real development fruit, the policies and mechanisms used to induce increased rural productivity need to be revisited and the lessons of experience applied. Second, all IFAD's strategic pronouncements speak of this need and of the importance of bringing IFAD's experience and expertise to bear on solving the policy problems that hold poor people back. Continued lack of attention to this widely publicized goal in Indonesia will reduce IFAD's national, and to some extent its international, relevance, potentially vacating its mandated field for others. Third, a substantially more active posture in policy matters is likely to enable IFAD to return to the cutting edge of rural development thinking and to restore an innovative dynamic to its Indonesia programme.

217. In IFAD's early projects, institutional development was not a development objective. It was simply regarded as a matter of efficient project implementation. This usually meant ensuring that the responsible government agency or the farmers, or both, were properly organized. In turn, this meant relying on PMUs and top-down management systems and trying to get farmers to cooperate through user associations. In later projects such as the P4K III, PIDRA and EKLCEP, institutional development, usually in villages and communities, is an explicit development objective. In such projects, IFAD is mobilizing groups and seeking to empower both individuals and groups. It is engaged in drawing NGOs more fully into the development process and shifting the focus of capacity-building to decentralized district administrations. Well over 100 000 self-help groups have been organized through IFAD-supported projects with an estimated combined membership of between 1.5 and 2.5 million people. These groups have helped to build the economic and social capital of those who belong to them. In the most recent projects, and where the requisite social organization skills are available, they have begun to empower the poor in ways that will help them deal with new political and bureaucratic challenges. But, this substantial achievement will be short-lived if ways to ensure the long-term economic viability of these groups are not identified and implemented.

218. In sum, the overall institutional development impact of the IFAD programme in Indonesia is modest. This is mainly because an advocacy and policy dialogue function consistent in breadth and

depth with the unique and vital nature of IFAD's mandate has not been developed. And also because, in its projects, there is a general lack of innovation in its institutional initiatives in villages and communities, despite the quantitative success of group formation,

The impact of IFAD's projects on women is improving.

219. IFAD was perhaps the first IFI to make improving the welfare and status of women a strategic development objective. The important role played by women in agriculture and the rural economy was not well understood until the early nineties. It is not surprising therefore that in the early projects financed by IFAD, women were ignored. In the nineties, there was no such excuse. Yet, three out of five projects launched in the nineties did not have gender development goals and turned out to have a negligible impact on women. All three were technical projects and had mainly production objectives. They were also implemented mostly by men using a top-down management style.

220. It was not until the late nineties that gender entered explicitly into IFAD's project calculus in Indonesia. The P4K III, PIDRA and EKLCEP all aim to enhance the welfare and status of women. In significant measure, they have succeeded. Self-help groups of women or of men and women are an effective instrument for this purpose. Although there is ample qualitative and anecdotal evidence of this success it has not, in general, been quantified. The exception here is the EJRAP, where nearly 2 000 women's groups were formed, enabling the average member to increase her income substantially, to the point where it amounted to about 20% of household income.

221. Although, income increases in the hands of women have been shown to have positive effects on their own status and health and also on the status and education of their daughters, much depends on the intrahousehold distribution of power and income. About this little is known in the IFAD-supported projects in Indonesia. In general, gender relations in Indonesian society strongly favour men, so if women are to improve their status in relation to men more than the ability to earn a little extra income is required. In this regard, there is almost no evidence that IFAD-supported projects, even the most recent one, are taking a progressive, let alone aggressive, posture. Nevertheless, the early evidence from the PIDRA and the promise of the EKLCEP suggest that some moves in the right direction are being made.

Barely half of IFAD's projects have had a positive impact on poverty.

222. Nearly half of the IFAD-supported project portfolio has had, or is having, a positive effect on income poverty. Effects on the non-income dimensions of poverty are uncertain. Data with which to make such assessments are mostly conspicuous by their absence.

223. The EISCDP provides the best illustration of a reduction in income poverty. The project authorities estimate the IERR to be about 16%. Assuming that this estimate is methodologically sound, this would point to substantial real income increases among EISCDP farmers. There is similar evidence from the P4K although the magnitude of the income change is smaller. Less quantitative evidence of rising incomes also speaks clearly – better food security, improved housing, and larger outlays on health and education. In the less successful projects, such as the SSSTCDP and EJRAP, there were almost certainly no income gains. In SSSTCDP, the income effects may well have been regressive.

224. Evidence of impact on the non-income dimensions of poverty is scarce. Partly because this was not explicitly sought in early projects. Only the PIDRA and EKLCEP are so far charged with achieving this kind of impact. Broadly speaking, in the PIDRA and EKLCEP, the aim is first to empower the poor through expanding their social capital, increasing their technical or business skills and helping them gain greater voice in dealing with bureaucracy and second, to improve production and raise incomes. Both of these programmes are too recent to permit much to be said, although anecdotal evidence points to some initial success. In contrast, the complexity of the PIDRA and the overall quality of the NGOs charged with inducing positive change are emerging as significant

constraints. But the greatest weakness is the absence of attention to productivity and technological change. Systematic data collection is planned.

225. The paucity of these results and the tentative nature of the conclusions reflect the very small amount of reliable data that is available. Monitoring and evaluation systems have been, and remain on the whole, weak throughout the portfolio. There has been an inadequate level of commitment to outcome monitoring and strategic management in most projects. The PIDRA is the exception in that programme systems are well-defined and working. The EKLCEP shows much promise.

Few of IFAD's projects are likely to be sustainable.

226. The lack of sustainability has its origin in inadequate choices of technology in some cases, and in others to weak or incomplete institutional development. Where, as in the PIDRA, the eventual sustainability of an ongoing operation is judged unlikely, this is attributable to an imbalance between the successful formation of social capital and the equally successful formation of economic capital in the form of sustained increases in income. The lack of sustainability in the portfolio must be regarded as its greatest weakness. With little evidence of actual sustainability in completed projects and prospective sustainability in ongoing operations judged unlikely, the bulk of IFAD's efforts over two decades are uncertain at best and may be negligible at worst.

Overall government performance has been just satisfactory.

227. There have been few cases where the Government was unable to provide (albeit often with delays) its full share of project costs. In early projects it is clear that the Government made fully satisfactory arrangements for project implementation that were also responsive to project design. As project designs shifted in the nineties and required greater skills in social mobilization, some aspects of government performance faltered, but have since recovered. In current projects, being implemented in newly decentralized administrations, new challenges have emerged as traditional headquarters led line departments seek to adjust to the loss of control and resources. Similarly, national and district administrations are still defining an optimal collaboration with NGOs. However, the main gap in government performance is the absence of effective actions to eliminate corruption, despite many promises to do so.

228. At the local level, where decentralization is taking hold, government performance is variable. In some districts, overly enthusiastic *Bupatis* (district governors) are making wide-ranging changes for short-term reasons without paying due attention to the effects on development capacity in the long run. In others, more thoughtful *Bupatis* are making changes and allocating resources strategically. On balance, and taking full account of the extensive external assistance being deployed in Indonesia to help make decentralization work, it is likely that current difficulties affecting all development projects will be overcome.

IFAD's partnerships with cooperating institutions and cofinanciers have been troubled, while partnerships with NGOs have grown and are improving.

229. As per the trend throughout the region, UNOPS has been an important cooperating institution for IFAD in recent years in Indonesia. UNOPS provides a 'full-service' supervision package and for many years has delivered a satisfactory product. However, despite the widespread view among Indonesian project managers that UNOPS supervision missions are helpful, several problems are now commonly articulated. Among them, erratic and unpredictable mission timing, lack of staffing continuity on supervision missions and conflicting or inappropriate advice. On the other hand UNOPS argues, with justification, that it is providing a full-service package at well below cost because IFAD is unwilling to pay more. These issues notwithstanding, it is clear that the performance of IFAD's portfolio and the greater emphasis on empowerment and social capital warrant more and closer supervision delivered in a constructive and participatory manner.

230. IFAD has co-financed operations with several partners, among which the AsDB, the Islamic Development Bank and the World Bank are the most significant. The World Bank partnership ended after IFAD found its supervision charges to be too high and when the Bank began to reduce its involvement in the agricultural sector. Unfortunately, a residual partnership was not maintained. The Bank recognizes IFAD's unique mandate and its potential and would welcome closer contact as it is re-entering the rural sector in Indonesia in a significant manner.

231. The AsDB has been a project partner (cooperating institution and co-financier) since 1982. The relationship with AsDB has been unsettled right from the start, at least in the field of microfinance. The AsDB blames communication difficulties with IFAD, unclearly defined roles and responsibilities, and difficulties in professional working relationships. From its side, IFAD sees similar problems. The upshot is a partnership that exists only in name and is not contributing to joint resolution of the serious challenges facing the P4K and other programmes. Both the Government and P4K III management are aware that the working relationship between the two partners is not good and is causing difficulty in project implementation. In this unsatisfactory situation, the AsDB's performance is difficult to assess with certainty. In general, the evidence points to the AsDB being punctiliously correct, but not overly solicitous in its partnership dealings, and then tending to go its own way.¹⁵⁹

232. Among IFAD partners of long-standing there is some understanding and appreciation of its unique mandate and a desire for IFAD to take on a more proactive role in the pursuit of new and effective ways of tackling poverty through rural development. Nevertheless, other potential partners such as the major bilateral donors and international NGOs are not entirely familiar with the work of IFAD in Indonesia. Finally, partnership with other United Nations agencies (eg. FAO or UNDP) has been very limited in Indonesia.

233. IFAD has several long-term Indonesian NGO partners and many with whom its relationship has been much shorter. Perhaps because partnership with NGOs is an institutional arrangement of relatively recent origin, performance has been uneven. In general, within IFAD-funded projects, NGO performance declines from west to east across Indonesia and from the national to the local level. For the most part, this has to do with the ease with which NGOs engaged in project implementation can communicate with project authorities as well as their internal level of competence. It also reflects differences in attitude to NGOs in national and district agencies and the extent to which the supervision of IFAD-financed projects has been participatory and constructive. There is evidence of differing understandings of what is expected of NGOs by all parties. This, coupled with various skill and capacity constraints among NGOs, leads to unsatisfactory performance in some places. Lastly, although NGO performance is broadly satisfactory, there is evidence of collusion and impropriety by NGOs in the processes used to contract them.

Overall, IFAD's performance needs significant improvement.

234. IFAD's partnerships with other government agencies such as the Ministry of Finance and BAPPENAS have been satisfactorily productive and working arrangements have generally proceeded effectively. For many years IFAD's partnership with the MOA and its agencies was also successful and productive. But recently, officials in several MOA directorates and staff in NGOs report that IFAD dominates their partnerships, and that the inputs of 'partners' are not always followed up on sufficiently. Nor are there many signs in IFAD's partnerships in Indonesia, or in its project work, of the innovative contribution to development that it has challenged itself to make.

235. IFAD's partnership with UNOPS is strained and communications need to be strengthened. The nature of supervision being provided to IFAD-supported projects is not keeping up with evolving needs, yet IFAD's young experiment with the direct supervision of the PIDRA is also encountering various challenges. There is a common perception that the approach to direct supervision needs to be fine-tuned in consultation with key stakeholders to improve its effectiveness. Although there is support for the concept of direct supervision, partners conveyed that performance needs improvement and a

more participatory approach. Moreover, direct supervision needs to assist more intensively for projects to overcome difficulties, inter alia, with procurement, and monitoring and evaluation processes.

236. Although the 1998 COSOP recognizes corruption as a development problem, the programmes funded by IFAD do not address the issue sufficiently, as other IFIs operating in Indonesia are doing. Corruption poses a real threat to development results, and IFAD would be simply supporting the Government in its policy pronouncements against corruption by devoting attention to combating the phenomenon, at least in the context of the projects and programmes it supports.

237. In summary, IFAD's performance has been mixed. It proclaims to follow a knowledge-based, flexible, programmatic, partnership-oriented approach, and a strong intent to engage in a wide range of policy issues. But, in practice, IFAD has not engaged in policy discussions of significance. It has delivered a portfolio of projects that require adjustments to ensure they make a lasting impact on the rural poor. IFAD also needs to rapidly enhance its ability to learn from its programmes and those of others to improve the quality of its operations. Participatory processes are prominently included in the conceptual framework of projects, but project institutional frameworks, project management and its regional division's (PI) own approach in Indonesia are still hierarchical in practice.

238. Some of these deficiencies may be traced to a level of resources devoted to the Indonesia programme that does not seem commensurate with IFAD's ambitions. But other deficiencies do not stem from this and need to be addressed.

B. Recommendations

239. IFAD does not have the staff or lending resources to match those of the AsDB and the World Bank. It should not therefore let its reach exceed its grasp. The relatively mixed performance of its portfolio over a long period in Indonesia suggests that this may have been happening. The evidence from the IFAD-supported project portfolio and the lack of policy dialogue suggest a need to rethink IFAD's strategy in Indonesia, coupled with a number of operational changes.

240. It is not unreasonable for IFAD to see its role primarily as an innovator in policy, institutional and operational terms rather than as a purveyor of fairly routine projects, which mainly build upon the ideas and approaches developed by larger players. IFAD's comparative advantage does not lie in competing with the AsDB or the World Bank, but in being a progenitor of well-tested innovative ideas and approaches that can be expanded nationwide by those with greater resources. IFAD's small size and flexibility should be used to advantage in Indonesia to take up new models of rural development and make them work, and to abandon them if they do not. It has already developed lending instruments well suited to this task. By building on evidence from on the ground, IFAD could substantially increase and deepen its contribution to policy change, assume a position of knowledge and influence in councils such as the CGI, and give vibrancy and vitality to its arguments.

241. IFAD's unique mandate provides a powerful imperative for IFAD to take a leading role in showing how rural development reduces poverty. To do so, IFAD needs to:

- (a) **adjust its Indonesia country strategy to better balance the current focus on empowering the poor with efforts to raise farm and non-farm productivity.** This will require, inter alia, stronger linkages with formal and non-formal agriculture research systems and promoting the development of markets and other aspects of market-linkages such as rural infrastructure, market information and agro-processing; and
- (b) **increase its staff and other inputs devoted to knowledge generation, advocacy and policy dialogue.** In this regard, attention should be paid to generating evidence of what works, preferably of new elements that work, to help carry the policy and advocacy dialogue forward. Moreover, it should use networking (both real and virtual) and experimentation on the ground as key instruments in knowledge generation.

242. To give effect, this shift in strategy requires at least three lines of actions:

- (a) **IFAD should establish and nourish strategic partnerships.** First, IFAD should work on its partnerships (both new and strengthen existing ones) with agencies and organizations, especially NGOs and community-based organizations working with the poor, to find new and workable solutions to raising incomes and empowering all people. Second, it should focus on partnerships with all levels of administration to identify and introduce ways of building capacity for effective poverty reduction. Third, it should enhance partnerships with other aid agencies to provide an audience and a market for new policies and ideas and tested poverty reduction projects in the rural economy;
- (b) **IFAD should provide greater support to its operations during implementation, and improve the supervision and the monitoring and evaluation of its operations.** First, more support needs to be provided to implementing agencies and project staff during project execution, possibly through a highly competent, well-resourced and well-mandated in-country group of mainly local staff. Such support must be knowledgeable and effective in anticorruption activities. Second, to capture the knowledge generated by 'learning while doing' requires more intensive, participatory and sophisticated project monitoring and evaluation as well as more frequent, thorough and instructive project guidance and supervision. Similarly, logical frameworks need to be revised and refreshed to help improve strategic management and greater attention must be given to outcome monitoring and impact evaluation; and
- (c) **IFAD should allocate adequate resources to implementing all objectives in its next COSOP for Indonesia.** In addition, the COSOP should include a coherent hierarchy of objectives, for both lending and non-lending operations. It should contain performance indicators to monitor the implementation of the strategy, which will serve eventually to measure performance and the outcomes of the COSOP. The preparation of the COSOP should be based on a thorough analysis of the inputs, processes, and activities required to achieve its objectives, and also include a prioritization or time plan for the delivery of its expected outputs.

IFAD–Supported Projects and Programmes in Indonesia¹

| Project/Programme | Board Approval | Loan Effectiveness | Current Closing Date | Project Status | Cooperating Institution | Financing Type | Lending Terms | IFAD Approved Financing USD | Amount Disbursed % |
|---|----------------|--------------------|----------------------|----------------|-------------------------|----------------|---------------|-----------------------------|--------------------|
| Smallholder Cattle Development Project | 06 May 80 | 01 Oct 80 | 31 Mar 87 | C | World Bank | E | I | 26 000 | 100 |
| Sulawesi Paddy Land Development Project | 08 Sep 81 | 29 Sep 82 | 31 Dec 90 | C | AsDB | E | HC | 34 000 | 100 |
| Seventeenth Irrigation (East Java Province) Project | 31 Mar 82 | 15 Dec 82 | 31 Mar 89 | C | World Bank | C | I | 25 000 | 100 |
| Second Smallholder Cattle Development Project | 05 Sep 85 | 15 Apr 86 | 31 Mar 94 | C | World Bank | F | I | 12 000 | 100 |
| Income-Generating Project for Marginal Farmers and Landless | 03 Dec 87 | 18 Jun 88 | 30 Jun 98 | C | UNOPS | F | I | 14 000 | 100 |
| East Java Rainfed Agriculture Project | 19 Apr 90 | 09 Oct 90 | 31 Mar 99 | C | AsDB | F | I | 20 000 | 100 |
| South Sumatera Smallholder Tree Crops Development Project | 14 Apr 92 | 29 Sep 92 | 15 Mar 99 | C | AsDB | E | I | 19 930 | 90.64 |
| Eastern Islands Smallholder Cashew Development Project | 19 Apr 94 | 29 Jul 94 | 30 Sep 02 | C | UNOPS | F | I | 26 007 | 94.63 |
| Eastern Islands Smallholder Farming Systems and Livestock Development Project | 06 Dec 95 | 22 Mar 96 | 31 Mar 04 | O | UNOPS | F | HC | 17 994 | 46.58 |
| Income-Generating Project for Marginal Farmers and Landless – Phase III (P4K III) | 04 Dec 97 | 09 Jul 98 | 30 Sep 05 | O | AsDB | C | I | 24 901 | 76.75 |
| Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas | 04 May 00 | 31 Jan 01 | 30 Sep 09 | O | IFAD | E | HC | 23 520 | 28.11 |
| East Kalimantan Local Communities Empowerment Programme | 11 Dec 02 | - | - | NS | UNOPS | E | HC | 19 958 | - |

Project status: C – closed; O – ongoing; NS not signed.

Financing type: C – initiated by another institution and cofinanced by IFAD; E – initiated by IFAD and exclusively financed by the Fund; F – initiated by IFAD and cofinanced.

Lending terms: HC – highly concessional; I – intermediate.

¹Data representing status of the time of the CPE

BIBLIOGRAPHY

This bibliography excludes the numerous internal reports and papers produced by IFAD (e.g. appraisal, supervision, mid-term and completion reports, other memoranda, notes and e-mails) that were consulted during the evaluation. Where it has proved necessary to make specific reference to, or quote a document, the full reference is footnoted in the text. Many, but by no means all, of the documents listed below have been published and are in the public domain.

AsDB 1998. Anticorruption Policy, Manila.

AsDB 1999. Guidelines for Procurement under Asian Development Bank Loans. Manila.

AsDB 1999a. A Study of NGO's in Indonesia, Manila.

AsDB 2001. Indonesia: Geographical Focus in Country Operations. Manila and Jakarta.

AsDB 2003. Report of AsDB Technical Assistance (TA) No.. 3843-INO: Agriculture and Rural Development Strategy Study. Regional Center for Graduate Study and Research in Agriculture. Jakarta, August 2003.

AsDB 2003a. Draft Report on TA No. 3810-INO: Rural Microfinance Indonesia. Manila and Jakarta.

AsDB 2003b. Indonesia: Country Strategy and Program Update 2003-2006. Draft. Jakarta and Manila.

Ashley, C. and S. Maxwell (eds) 2001. Rethinking Rural Development. Development Policy Review, 19 p. 4. December 2001.

Bank Indonesia 2002. Bulan Laporan Perkembangan – Program hubungan Bank dan KSM (PHBK). Biro Kredit. Tim Penelitian dan Pengembang. Jakarta.

Bank Indonesia 2002a. Laporan Penelitian Evaluasi Konsep PHBK. Biro Kredit. Jakarta.

Bank Indonesia 2002b. Laporan Perkembangan PHBK. Biro Kredit. Jakarta.

Bank Indonesia 2002c. Butir-Butir Penyempurnaan Konsep PHBK. Biro Kredit. Jakarta.

Badan Pusat Statistik (BPS) 2002. Statistik Indonesia 2002 (Statistical Yearbook of Indonesia for 2002). Jakarta.

BRI 2003. Bank Rakyat Indonesia, 2003/4: Skim Kredit Kepada Kelompok Dan Gabungan Kelompok Usaha Kecil (*credit scheme for groups and associations*), B. 168-PRG/KPL/04/2003. Jakarta.

BRI 2003a. Bank Rakyat Indonesia, 2003/7: Surat Pengantar: BRI Unit Summary Report and Laporan Statistik BRI Unit. Jakarta.

CGI 2003. Promoting Equitable Growth, Investment and Poverty Reduction, Papers for the 12th Consultative Group on Indonesia (CGI) Meeting, 21-22 January. World Bank for the CGI. Jakarta.

Chowdery A. and Iman Sugema (undated). Foreign Aid to Indonesia: Historic Significance and Post Crisis Issues. United Nations Support Facility for Indonesia (UNSFIR). Draft. Jakarta.

Center for Rural and Regional Development Studies of Gadjah Mada University (CRRDS-UGM) 2003. Final Report: Beneficiary Self-Assessments for the Indonesia Country Program Evaluation. CRRDS-UGM, Yogyakarta, including reports on the P4K, PIDRA, PUTKATI and EISCDP.

Departmen Dalam Negeri 2003. Dirjen Pemberdayaan Masyarakat dan Desa (PMD) : Pedoman umum pengembangan lumbung pangan masyarakat desa. Jakarta.

Economist Intelligence Unit (EIU) 2002. Country Report: Indonesia. Economist Intelligence Unit. London.

EIU 2002a. Country Profile: Indonesia. Economist Intelligence Unit. London.

- Feulner, F. 2001. Consolidating Democracy in Indonesia. Contributions of Civil Society and State. Part One: Civil Society. UNSFIR Working Paper Series No. 01/04. Jakarta.
- Grayson, L. 2000. Indonesia's Future Prospects: Separatism, Decentralisation and the Survival of the Unitary State. Department of Foreign Affairs, Defence and Trade Group. Jakarta.
- Holloh, D. 2001. Microfinance Institutions Study. Ministry of Finance. Bank Indonesia. GTZ-ProFi. Jakarta.
- IFAD 1988. Rural Indonesia: Socio-Economic Development in a Changing Environment. Rome.
- IFAD 1998. Republic of Indonesia: Country Strategic Opportunities Paper (COSOP). Report No. 1200-ID. Rome.
- IFAD 1999. Performance and Governance: Confronting the Issues. Update, No.6. Rome.
- IFAD 2000. Rural Finance Policy. Rome.
- IFAD 2002. Enabling the Rural Poor. *Strategic Framework for IFAD 2002-2006*. Rome.
- IFAD 2002a. External Review of the Results and Impact of IFAD Operations. Rome.
- IFAD 2002b. *IFAD Strategy for Rural Poverty Reduction in Asia and the Pacific*. Rome.
- IFAD 2002c. The Flexible Lending Mechanism: Responses to Some Commonly Asked Questions. Rome.
- IFAD 2003. A Methodological Framework for Project Evaluation (Second Revision). Draft. Office of Evaluation. Rome.
- IFAD 2003a. Decision Tools for Rural Finance. Rome.
- Institut Pertanian Bogor 2002. Studi Kemandirian KPK – Studi Manfaat Gabungan KPK/Lembaga Keuangan Mikro Bagi Perkembangan Kemandirian KPK. Bogor and Jakarta.
- Islam, I. 2001. Identifying the poorest of the poor in Indonesia. Towards a conceptual framework. UNSFIR Working Paper No. 01/06. Jakarta.
- Islam, I. 2002. Formulating a Strategic Approach to Poverty Reduction. From Global Framework to an Indonesian Agenda. UNSFIR Working Paper No. 02/09. Jakarta.
- Islam, I. and Satish Mishra 2000. Towards a Poverty Reduction Strategy for Indonesia. Paper for Seminar on Renewing Poverty Reduction Strategy in Indonesia. BAPPENAS. Jakarta.
- Kementerian Pemberdayaan Perempuan 2002. Panduan pelaksanaan INPRES. Nomor 9 tahun 2000 tentang pengarusutamaan gender dalam pembangunan nasional. Edisi II. Jakarta.
- Kieft, J. 2003. United States Department for Agriculture (USDA) Project Report. September 2002-March 2003, CARE International. Jakarta.
- Ministry for the Empowerment of Women 2002. Strategic Planning. Jakarta.
- Ministry for the Empowerment of Women 2002a. Women's Empowerment in Indonesia. Jakarta.
- Ministry of Agriculture 2002. The Hard Work. Bureau of Planning. Jakarta.
- Ministry of Agriculture 2002a. Agricultural Development Program 2001-2004. Jakarta.
- Ministry of Agriculture 2002b. Agribusiness System Development as Prime Mover of the National Economy. Jakarta.
- Ministry of Agriculture 2002c. Agribusiness Investment Opportunity in Indonesia. Jakarta.
- Ministry of Agriculture 2003. Project Performance Self-Assessments of EISCDP, EISCDP, P4K III and PIDRA, plus a Progress Report on EKLCEP. Jakarta.
- Ministry of Home Affairs 2001. Law of the Republic of Indonesia No. 22 of 1999 regarding Regional Governance, and Law of the Republic of Indonesia No. 25 of 1999 regarding the Fiscal Balance

between the Central Government and the Regions. Directorate-General of Regional Autonomy. Jakarta.

Ministry of Home Affairs 2001a. The Fiscal Balance between the Central Government and the Regions. Directorate General of Regional Autonomy. Jakarta.

Organisation for Economic Co-operation and Development (OECD) 2001. Glossary of Key Terms in Evaluation and Results-Based Management. Development Assistance Committee (DAC). Paris.

Republic of Indonesia 2001. Draft Act of the Republic of Indonesia No. XXX of 2001 concerning Microfinance (translation into English). Jakarta.

Republic of Indonesia (undated). Capacity Building to Support Decentralization: A National Framework (A Concept Based On Need Assessment). Jakarta.

Seibel, H.D. and P. Schmid 2000. How an Agricultural Development Bank Revolutionized Rural Finance: The Case of Bank Rakyat Indonesia, Rural Finance Working Paper No.B-5.

Seibel, H. D. 1989. Finance with the Poor, by the Poor, for the Poor: Financial Technologies for the Informal Sector, with Case Studies from Indonesia. Social Strategies vol. 3, No. 2.

Steinwand, D., 2001. The Alchemy of Microfinance. Wiessenschaftsfonds (FWF). Berlin.

Suharyo, Widjajanti I. 2000. Voices from the Regions: A participatory Assessment of the New Decentralization Laws in Indonesia.

UNDP 2002. Common Country Assessment for Indonesia. December 2001. United Nations, Indonesia, 2002.

USAID 2003. Final Report of the Agricultural Sector Review, prepared by J. Mellor and others for the Carana Corporation. Jakarta.

Wehnert, U. and R. Shakya 2001. Transforming an Unsustainable Project into Sustainable Rural Financial Institutions: The Case of the Small Farmer Co-operatives Ltd. (SFCLs) in Nepal, Rural Finance Working Paper No. B-12.

World Bank 1995. Staff Appraisal Report for Second Agricultural Research Management Project (SARMP). Report No. 13933-IND. Washington D.C.

World Bank 1996. Staff Appraisal Report for Nusa Tenggara Agricultural Area Development Project. Report No. 15043-IND. Washington D.C.

World Bank 1999. Indonesia Country Assistance Note, Operations Evaluation Department. Washington D.C.

World Bank 1999a. Staff Appraisal Report for Decentralized Agricultural Extension Project. Report No. 19421-IND. Washington D.C.

World Bank 2001. Governance and Public Sector Reform: Anticorruption. World Bank Group. Washington D.C. and Jakarta.

World Bank 2002. Memorandum of the President on a Country Assistance Strategy Progress Report for the Republic of Indonesia. Report No. 24608-IND. Washington D.C.

World Bank 2003. Indonesia, Maintaining Stability – Deepening Reforms. Report No. 24330-IND. Washington D.C.

World Bank 2003a. Implementation Completion Report for Second Agricultural Research Management Project (SARMP).

World Bank 2003b. Anticorruption Guide: Developing an Anti-Corruption Program for Reducing Fiduciary Risks in New Projects: Lessons from Indonesia. Jakarta.

Comments by Prof. M.S. Swaminathan (by email dated 2 February 2004)

1. The projects covered by CPE relate to core issues in fostering sustainable human security and well-being in Indonesia, namely poverty eradication through promotion of job-led economic growth. Indonesia's rural economy provides over 60% of the country's jobs. For sustained progress in employment generation, the CPE rightly emphasizes the need for a technological enhancement of agricultural productivity and value-addition to primary produce through agro-processing and agro-industries

2. IFAD has funded, in whole or partially, 12 projects in Indonesia. They conform to Indonesia's development priorities. Six out of these 12 projects have achieved their objectives satisfactorily. I find that the evaluation has been thorough and has kept in view the spirit behind IFAD's mandate and mission. For example, although explicit attention to gender was not an objective in all IFAD-supported projects, CPE has rightly examined the gender impact of the projects. Sustainability is another aspect that has received considerable attention. I agree with the following conclusions of the CPE.

- a. IFAD-supported projects have been true to the Fund's and the Government of Indonesia's social and development objectives.
 - b. Technical drawbacks have been largely responsible for the lack of success in achieving the goals of projects relating to tree crops, rainfed agriculture and livestock. The CPE has rightly emphasized the need for greater symbiotic links among research, innovation, capacity-building and project design and implementation.
 - c. The self-help group (SHG) revolution fostered by IFAD based on microenterprises supported by microcredit will be sustainable only if the following linkages are established:
 - Backward linkages with Science and Technology Consortia;
 - Forward linkages with assured and remunerative markets;
 - Lateral linkages among SHGs to gain the power of scale in production & marketing;
 - Decentralized production supported by key centralized services will be essential to combine the livelihood advantages of production by masses with the market-efficiency features of mass production technologies; and
 - IFAD should develop a set of guidelines for ensuring that SHGs become SSHGs (sustainable self-help groups). This message emerges powerfully for the current evaluation.
- (a) Much more learning is necessary on methods of making IFAD projects truly pro-nature, pro-poor, pro-women and pro-employment. The CPE offers valuable suggestions in this respect. Only then can IFAD become the voice of a poverty-free Indonesia movement. I particularly support the recommendation relating to strategic partnerships. The power of partnerships will unleash a new momentum to

voicing the voiceless and including the excluded in achieving sustainable and equitable livelihood security for all and for ever.

I congratulate the Evaluation Team on their perceptive and incisive analysis of progress and problems and for proposing a road map for greater success of IFAD's projects in the future.

M.S. Swaminathan

¹ This agreement reflects an understanding among partners (see paragraph 1) to adopt and implement the recommendations stemming from the evaluation.

² Eastern Islands Smallholder Cashew Development Project, Eastern Islands Smallholder Farming System and Livestock Development Project, Rural Income Generation Project and the Post Crisis Programme for Integrated Development in Rainfed Areas.

³ IFAD has financed a total of 12 projects in Indonesia. At the time of the CPE one project was not yet effective and due to lack of data another project was not rated.

⁴ The Country Programme Evaluation mission was composed of Mr Roger Slade, Mission Leader/Development Economist; Mr Hans Dieter Seibel, Rural Finance; Ms Dorothy Lucks, Institutions/Decentralisation and Project Management; Mr Dimiyati Nangju, Agriculture Expert; and Ms Suwan Yang, Sociologist.

Mr Ashwani Muthoo, Senior Evaluation Officer, was the OE lead evaluator of this Country Programme Evaluation.

⁵ Namely the Eastern Islands Smallholder Farming Systems and Livestock Development Project, Eastern Islands Smallholder Cashew Development Project, Income-Generating Project for Marginal Farmers and Landless – Phase III (P4K III) and Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas.

⁶ The Country Programme Evaluation Mission was composed of Mr Roger Slade, Mission Leader/Development Economist; Ms Dorothy Lucks, Institutions/Decentralisation and Project Management; Mr Dimiyati Nangju, Agriculture Expert; and Ms Suwan Yang, Sociologist. Mr Ashwani Muthoo, Senior Evaluation Officer, was the OE lead evaluator of this Country Programme Evaluation.

⁷ Yogyakarta, Nusa Tenggara Barat (NTB), Nusa Tenggara Timur (NTT), East Java, East Kalimantan, South Sulawesi, North Sulawesi, Gorontalo and South Sumatera.

⁸ The districts are distributed across provinces as follows: Yogyakarta (2), NTB (6), NTT (4), East Java (3), East Kalimantan (1), South Sulawesi (1), North Sulawesi (1), Gorontalo (2) and South Sumatera (1).

⁹ Each CPE mission member prepared a thematic working paper, all of which are available in OE. Thematic papers were prepared on the following subjects: (i) agriculture; (ii) rural finance; (iii) institutions, supervision and project management; (iv) community development (including participation, empowerment, targeting and gender); and (v) the evolution of IFAD's strategy in Indonesia and policy issues.

¹⁰ In 1996-97 the IDR:USD exchange rate was about 2 400:1 while in 1998-99 it was 10 000:1.

¹¹ There are many detailed analyses of the causes and consequences of the crisis. This section has drawn mainly on Operations Evaluation Department (OED) of the World Bank, 1999.

¹² The World Bank estimates that 41% of the post-crisis decline in poverty is attributable to the falling price of rice. (World Bank 2003)

¹³ Good recent discussion of these relationships in Indonesia may be found in World Bank 2003, AsDB 2003 and USAID 2003.

¹⁴ The following account of the evolution of the agricultural sector does rough justice to the vast store of available analysis and literature, among which is a comprehensive and frank history of government agricultural policy and development initiatives produced by the Ministry of Agriculture (see Ministry of Agriculture 2002a).

¹⁵ According to the World Bank, 25% of the rural population and 10% of the urban population lived in poverty in 2001, using Indonesia's 1998 definition of the poverty line (World Bank 2003, Table 3).

¹⁶ According to USAID (2003) Indonesian agriculture stagnated before 1967 although the seeds of mass-guidance were planted during this period. The period 1967 to 1978 corresponds to the New Order Government led by President Suharto which improved economic and political stability. Rapid growth characterized the period 1978-1986, when Indonesia achieved self-sufficiency in rice production. In 1986, deregulation and devaluation signified a major shift in priorities and strategies for economic development. An unbalanced development paradigm between industry and agriculture took over and led to the 'deconstruction' of agricultural growth. During the recent crisis period of 1997-2000, economic and political events came to a head. Agriculture played an important role in the recovery but did not resume a high growth path.

¹⁷ In general Java has prospered at the expense of other provinces.

18 By the late nineties Indonesia was importing around 5 million tonnes of rice annually and had
19 become the world's largest rice importer.
20 This is because some rural poor gain increased income from higher sale prices, but many more
21 lose from the higher price of food. Nevertheless in late 2003 a higher tariff on rice was under
22 active policy consideration.
23 See for example Ministry of Agriculture (2002b and 2002c).
24 This section relies heavily on two primary sources: World Bank 2003 and AsDB 2003.
25 Law 22/99 deals with local autonomy and Law 25/99 with the fiscal balance between central and
26 regional governments.
27 National defence and security, foreign policy, monetary and fiscal policy, justice and religious
28 affairs remain central government preserves exclusively.
29 A year after this was written, in September 2003, these procedures were broadly in place but,
30 being novel, were experiencing substantial teething problems.
31 Well summarized in AsDB 2003.
32 Presentation by Dr Kaman Nainggolan, Director, Planning and Finance, Ministry of Agriculture,
33 at the Food and Agriculture Organization of the United Nations (FAO), Jakarta, on 16 January
34 2004.
35 See Annex I for a complete list of projects and programmes financed by IFAD in Indonesia to
36 date.
37 IFAD had financed two irrigation projects in the country in 1981 and 1982, respectively.
38 According to the opinion of the country programme manager (CPM), the prevailing approach of
39 IFAD at the time (in the eighties) was to be satisfied by co-financing suitable projects identified in
40 the pipeline of other IFIs.
The strategy specifically endorsed the existing tentative design of an income-generating project
for marginal farmers and landless. This was in fact the first IFAD-funded phase of what has
subsequently become known as P4K (see Chapter V).
This was a conditional recommendation and depended on the agricultural research system coming
up with a satisfactory diagnosis of production constraints and the means of relaxing them.
According to IFAD's internal timetable its Indonesian strategy was due for review in 1998, but
the 1997-98 crisis made it more urgent and radically changed the opportunities frontier for donor
agencies.
The review also identified about USD 35 million of savings in the ongoing portfolio and reached
agreement with the Government on their redeployment. About USD10 million was reallocated to
ongoing projects and about USD 25 million was set aside for new projects. See Memorandum of
Understanding between the Government of Indonesia and IFAD dated 17 July 1998.
According to the regional division (PI), these were mainly 'handouts' under government social
safety-net programmes.
Defined later as BAPPENAS and the Ministry of Agriculture.
The Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA)
and the East Kalimantan Local Communities Empowerment Programme (EKLCEP).
This sharp comparison does not diminish the value of empowerment, but is intended to suggest
that technical and economic change is vital. If poor and hungry people remain poor and hungry
they are not empowered. The rural poor, especially the poorest of the poor, typically live in
resource-poor and environmentally stressed areas where their poverty is further aggravated by
inadequate schools and health clinics. Their economies are in low level equilibrium. In these
situations social empowerment is not likely to lead to self-identified solutions to economic
empowerment without externally driven technical change.
The FLM has a long loan period (around 10-12 years) spanning three or four phases. The decision
to proceed from one phase to another is based on the achievement of a set of clearly defined
preconditions or 'triggers'.
See for example, Ashley C. and S. Maxwell 2001.
"IFAD will continue to work towards enabling the rural poor to overcome their poverty – as
perceived by the poor themselves – by fostering social development, gender equity, income
generation, improved nutritional status, environmental sustainability and good governance.
Concretely this implies: developing and strengthening the organizations of the poor to confront
the issues they define as critical; increasing access to knowledge so that poor people can grasp
opportunities and overcome obstacles; expanding the influence that the poor exert over public
policy and institutions; and enhancing their bargaining power in the marketplace. All IFAD's
strategic choices (as reflected in regional, country and thematic strategies; loan and grant

-
- activities; involvement in poverty reduction strategy papers; policy dialogue; and choice of development partners) will be made with these principles mind.” (p. 8)
- 41 The participants attending the workshop on 14 January 2004 to discuss the draft CPE report noted the importance for IFAD of establishing appropriate linkages with agriculture research institutions so as to develop and promote pro-poor sustainable technologies for enhancing production.
- 42 These terms are widely understood and generally accepted in the international development community. The formal definitions of these terms by the Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD/DAC) which have guided IFAD are set out in the following sentences. Project or programme objective: The intended physical, financial, institutional, social, environmental, or other development results to which a project or programme is expected to contribute. Relevance: The extent to which the objectives of a development intervention are consistent with beneficiaries’ requirements, country needs, global priorities and partners’ and donors’ policies. Retrospectively, the question of relevance often becomes a question as to whether the objectives of an intervention or its design are still appropriate given changed circumstances. Effectiveness: The extent to which the development intervention’s objectives were achieved, or are expected to be achieved, taking into account their relative importance. Efficiency: A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results. Impacts: Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended. Sustainability: The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time. Glossary of key terms in Evaluation and Results-Based Management, DAC, OECD, Paris 2001.
- 43 Tracking the way in which one institution influences, or even induces, policy change often uses tracer studies that take a policy or policy idea and track its genesis and adoption, identifying those who influence this process either positively or negatively along the way. But before tracking commences, it is essential to establish with certainty that the chosen institution was at least engaged in the dialogue that formulated the policy or preceded its adoption.
- 44 The CGI consists of all major multilateral and bilateral donors to Indonesia, plus several other agencies that participate as observers. Its plenary is an annual opportunity for the aid community to formally engage the Government of Indonesia in policy and strategic discussions as a prelude to agreeing indicative future levels of aid. It is chaired by the World Bank and has been operational in Indonesia for twelve years. It has several subcommittees which meet frequently and provide crucial opportunities for donors to discuss policy and strategic options.
- 45 The CPM was not able to participate in the January 2003 CGI meeting, but attended the meeting held in December 2003. The Indonesia CPM, who is also responsible for East Timor, Papua New Guinea, the Pacific Islands (Fiji, Cook Islands, Samoa, Solomon Islands and Tonga) and Viet Nam, conveyed that due to the lack of resources and other prior engagements it is difficult for him to attend every CGI meeting.
- 46 IFAD is heavily engaged in rural and microfinance in Indonesia. Numerous policy issues remain unsettled in rural finance, among them: integrating the ubiquitous informal financial institutions (such as arisan) into the financial system; developing technologies for increasing the outreach of the existing formal and semi-formal financial institutions (including the Bank Rakyat Indonesia (BRI) units) to remoter areas and the poor; providing some form of legal status or recognition for the multitude of self-help groups and informal financial institutions which were too small to qualify for Bank Perkreditan Rakyat (BPR) status; cooperative reform; networking; supervision of financial institutions including delegated supervision of small financial institutions; and prudential regulation. There is no evidence that IFAD has actively participated in these ongoing policy dialogues. In fact, rural finance is not one of the subjects mentioned for policy dialogue in the COSOP.
- 47 In discussing an earlier version of this report, BAPPENAS indicated that it might be desirable for IFAD to adopt a broader multisector strategy that would embrace fisheries and forestry in particular. These ideas were partly echoed by the World Agroforestry Centre (ICRAF) who suggested a “whole-landscape” integrated natural resource management approach.
- 48 The CPM has explained that in his view this is what IFAD’s policy dialogue should be about. He conveyed that IFAD’s dialogue with the Government is (and should be) based on the achievements of its project-related field work.
- 49 Other IFIs for example have country offices with expertise in locally important sectoral and thematic areas who contribute to policy research and policy dialogue for their respective

institutions. Their in-country presence enables them to establish and maintain continuity in dialogue with the Government and other actors in multiple areas simultaneously. In IFAD, these processes are currently the responsibility of one person, the CPM.

Such as ICRAF or the Center for International Forestry Research for example.

For example, the donor consultation working group on (i) water resources and (ii) agriculture and rural development chaired by FAO. In fact, the OE Lead Evaluator was invited by the FAO Representative to participate in the third such meeting on 16 January of the latter working group. The CPE mission leader attended on behalf of OE, and took the opportunity to brief them about the CPE's results.

The Government has set up a PRSP Formulation Team, currently headed by Mr Djoharis Lubis, Deputy Coordinating Minister for People's Welfare.

Interim report by Mr James Carruthers, IFAD Assistant President, from the Programme Management Department (PMD) retreat on 22-23 January 2004.

There are two 'programmes' (PIDRA and EKLCEP) in the portfolio. Hence, when referring to 'projects', it includes the aforementioned programmes.

Annex I includes a complete list of projects and related data.

The methodology of the project was forged in P4K I funded by the Government of Indonesia, UNDP and FAO. P4K I established that: credit to poor groups could help them to greatly increase their incomes; existing extension workers could effectively form, train and sustain farmer groups; the poor are good credit risks and can be effectively linked to banks; and a single loan is an inadequate poverty reduction instrument. There were weaknesses but, these were not addressed. They included an overly rigid credit system; poor understanding of BRI's role as a commercial bank; weaknesses in targeting, training and maintaining groups; and difficulties in establishing an effective management information and impact assessment system. The main objectives of P4K II were to: (i) develop small farmer groups (SFGs) and provide the necessary extension support and training to enable them to function as small business enterprises; and (ii) channel credit from the formal banking sector to finance the farm and off-farm income-generating enterprises. In 1980, establishing SFGs as credit channels for the financing of income-generating activities might have passed as a relevant strategy for poverty alleviation, though even then it would have lacked innovative features. But in 1990 when P4K was reappraised, such an approach was daringly oblivious of the ongoing debates and developments. It ignored the knowledge that by the early eighties channelling credit through groups had been identified as a failure with repayment rates of around 50% and also the lessons of experience of SHGs. It failed to assess the merits of establishing new groups with new methods versus using Indonesia's age-old group systems.

The project is targeted at poor farmers in marginal rainfed areas where there are very few options for increasing productivity. IFAD's strategy for the outer islands, particularly those in the eastern part of Indonesia, was to reduce poverty through productive interventions such as tree crop development. The cultivation of cashew nut in NTB, NTT, and Maluku is attractive since the crop is highly adapted to dry areas in the eastern region and has excellent prospects in domestic and world markets.

These projects coupled with other livestock projects funded by the AsDB are credited by at least one observer with substantially contributing to the rapid growth of the cattle industry in Indonesia during the eighties (AsDB, 2003).

In general groups are being established through a targeting process that aims to reach the poorest families in the community. In some areas this has been effective (East Java) but less so in others. At the field level, this is blamed on the reliance on key informants to help in selection. Group formation is often socially divisive. Social structure is already well developed in most communities and formation of new groups can create a "you are in, you are out" division. This aspect was raised (i) where community members had been de-selected once household income data had been reviewed; and (ii) where subgroups developed within the groups due to social grouping, affecting the group dynamics. The EKLCEP approach of involving all groups in the process and building capacity of groups to reach out to help poorer families through existing and new groups seems a better method. In NTB and NTT, group leadership is still largely in the hands of the old elite. High resignation rates are common in the Outer Island provinces; "We do not feel the benefit as group members". The intensity and creativity of facilitation among such groups is not dynamic enough. The beneficiary self-assessment for PIDRA reports "boring meetings" as a key problem. Agriculture and livestock development activities are so far very limited. The Beneficiary Self-Assessment Report states that there has been no impact on increasing income for these sectors. Adaptive research demonstration plots are at an early stage of operation, and

found only in groups over one year old. In addition, the programme itself reports a lack of activity in such groups. Agricultural adaptive research takes several years to produce results but the planned duration of programme interaction per village, for all activities, is only three years. If groups receive support for only three years and no on- the-ground agricultural improvements have been achieved by the end of the second year, full-scale positive production effects are highly unlikely to be achieved by the end of the three years. This rate of progress conflicts with the schedule proposed in the PIDRA Appraisal Report, Annex 6 on Programme Implementation which recognizes that clients will be eager to commence economic activities and envisages pilot activities commencing within the first year and being in full-scale operation by the second. Programme management see this as an issue, but the programme objective is not likely to be achieved without early action.

60 These issues are well known and the World Bank has recently approved a Decentralized Agricultural Extension Project to strengthen extension services at the district level. (Soemardjo, 2003)

61 CARE International has been implementing three to five-year agricultural projects in West Java, East Kalimantan, Central Kalimantan, South Kalimantan, South Sulawesi and NTT funded mainly by USAID and the United States Department of Agriculture (USDA) (Kieft, 2003). These projects are executed by local governments, and linked with Dinas and universities to maximize effective implementation. CARE has its own agricultural and institutional experts to assist in project planning and implementation using participatory methods. Its experience in Kalimantan, NTT and Sulawesi is highly relevant to the PIDRA and EKLCEP. For example, CARE has been working on ways to give farmers choice in their sources of supply for crop varieties and technologies – government agencies, NGOs and private sector companies (e.g. tobacco companies, agro-industries, and fertilizer and pesticide dealers).

62 The calculations on which this figure is based were not validated during the evaluation.

63 This is far from perfect as it assumes that all projects compared will deliver roughly similar economic and social benefits, that is, would have similar IERRs if calculated.

64 Based on the actual investment cost of USD 23.0 million, and the total developed area of 35 000 ha.

65 These figures refer to their entire portfolio. Sector breakdowns are not available, but historically the agricultural and rural sector has had a higher proportion of problem projects than other sectors.

66 Both the AsDB and World Bank have large offices in Jakarta with a variety of technical expertise and management skills.

67 The EJRAP did try to address some aspects of village institutional development. At the start of the project, participants were organized into small groups of about 20 members. In all, about 6 800 groups were established comprising a total of about 136 000 participants. Through the use of participatory rural appraisal methods, the groups were asked to prepare Village Area Development Plans that prioritized their infrastructure needs and to commit themselves to carrying out various project activities. The groups were strengthened through training and workshops, which were held throughout project implementation. A total of 3 700 staff and 31 000 participants were provided with skills and management training during the project period. This process greatly enhanced the participation of beneficiaries in the implementation, operation and maintenance of project-funded infrastructure. But it is unclear whether this approach has empowered the poor as most of the institutional development under the project was directed towards group planning and implementation. A similar weakness is present in EISCDP and PUTKATI where groups were formed merely to deliver project inputs and then allowed to decay. There is some evidence that steps were taken to try and correct this weakness during the last few months of implementation in PUTKATI.

68 Indonesia's state philosophy Pancasila makes no distinction between men and women. The 1945 constitution gives every citizen equal status, rights, obligations and opportunities both in the family and in society. In practice, discrimination prevails, gender stereotyping persists and women continue to be marginalized.

69 Despite their known competence as livestock managers, women were provided only with chicken or ducks. Towards the end of project implementation and in response to repeated reminders from UNOPS, project management did begin to form women's groups, but it did not relax the bar on women having cattle.

70 The impact on women of the SSSTCDP, which was closed prematurely in 1999, was negligible.

-
- ⁷¹ For example, a mixed group in Ngudi Mulyo village, Demuk subdistrict, Pucang Laban-District, East Java joined an agroforestry programme and acquired the new name Kelompok Tani Hutan or Forest-Farmers' Group.
- ⁷² The 1996 Impact Study of P4K II found an average increase in income per capita per year of 12%, without being able to specify the proportion attributable to the project. The proportion of participants with an income of 320 kg per capita/per annum increased from 19.2% before to 74.6% after the project, i.e. an additional 55% crossed the poverty threshold. However, a total of 69% were already close to or above the poverty line before the project. Also, impact was found to be quite uneven, benefiting only "selected participants". Women benefited somewhat more than men. Housing improved for 36%, but worsened for 10%. Family health improved for 45% but worsened for 29%. Savings increased to a limited extent. Given the improvement nationally in per capita income and poverty alleviation throughout the period under study, there appears to have been some, but not much additional impact of the project.
- ⁷³ This was undertaken by the Center for Rural and Regional Development Studies at the University of Gajah Mada. One shortcoming in this assessment was the survey design, which resulted in an unrepresentative sample size (the main reason was because a small budget was allocated for the entire exercise and little time was allowed for analysing the primary data collected in the field). Nevertheless, the assessments do provide an extensive listing of genuine beneficiary opinions.
- ⁷⁴ This is especially clear in the PUTKATI where the project policy has been to give livestock (both initial and redistributive livestock) only to landholders. This weakness has been compounded by the poor quality of the initial livestock and very low calving rates.
- ⁷⁵ For example in the first livestock project, the cow distribution target was met and 90% were used for the designated purpose of land preparation. This resulted in timelier crop cultivation, higher yields and an increase in the area under cultivation. However, monitoring and evaluation studies produced conflicting and inconclusive results about the impact on farm incomes. The majority of farmers said they and other family members had to work much more to cultivate the larger area and this reduced their ability to earn cash from other employment. The net effects on income were unclear.
- ⁷⁶ The main objective of the South Sumatera Smallholder Tree Crops Development Project (closed by IFAD soon after the project's Mid-Term Review) was to increase and maintain the incomes of some 13 240 transmigrant families who had previously been resettled in Pulau Rimau (8 000 ha) and Air Sugihan Kiri (5 240 ha) but remained severely disadvantaged economically because the areas suffered from poor drainage and floods. The project was ineffective because the project area is remote and inaccessible, the soils are problematic, hybrid coconut is not suitable for large-scale cultivation under low-level management, and farmers were plagued by animal predators. The agro-ecological complexity of the environment in the project area was severely underestimated during project preparation, design, appraisal and implementation. Thus, the project failed to achieve its objective of improving farmers' incomes. In fact, it drove most of them out of Pulau Rimau due to frustration and repeated crop failures. Only in Air Sugihan Kiri, was there some measure of success but that was because the farmers, on their own initiative, decided to replace hybrid coconut with more attractive crops, such as coffee and banana. Although there is no information about the economic returns to investments made by IFAD in the Project Completion Report or any other reports, all the evidence points to low or even negative returns in Pulau Rimau. In Air Sugihan Kiri, the economic returns would probably be much less than 10% because only 56% of hybrid coconuts survived, and the yields and incomes from the surviving coconut are low. Five years later in 2003, the impact of the project on the welfare of the poor in Pulau Rimau can be seen to have been negligible. There has been hardly any improvement in the welfare of the poor in this area as reflected by the poor quality of their houses, farms and surroundings. The majority are now indebted to the Government for the credit they received for the cultivation of hybrid coconut. Most of the men have left Pulau Rimau to seek work in Palembang and surrounding farms, while the women stay behind to look after their land and houses. Farm roads and bridges are poorly maintained. There is little economic activity in the area, despite the recent completion of a road link between Pulau Rimau and Palembang. In contrast, the welfare of the poor in Air Sugihan Kiri has improved. Their own efforts together with the completion of drainage canals and land clearing, has eased the problem of wild pigs and elephants significantly. Many farmers now appear to have better incomes as reflected in the improvement in their dwellings, education and food security. Increased trade is noticeable as farmers sell considerable amounts of coffee, coconut, banana, cassava, corn and soybean to traders and middle men. In return, they purchase seeds, fertilizers, pesticides and other goods from outside. Economic activity

-
- has been helped by the adequately maintained farm roads and the availability of electricity and telephones. Although Air Sugihan Kiri can only be reached by boats from Palembang, it is no longer isolated since many small and large boats visit the area regularly. But none of these gains are attributable to the IFAD tree-crops project.
- 77 Within the demonstration areas, the impact of the project was significant and positive as shown by the socio-economic survey undertaken in 1998. Soil conservation using bench terraces reduced soil erosion by 75%. Adoption of improved varieties and technologies increased average yields of food crops and palawija by 16 to 144%. Average annual incomes of beneficiaries who received goats or sheep from the project increased by 58%. The total incomes of participating farmers increased by 208%. The impact of the project on the poorest was also significant since the landless were able to participate in livestock development or obtain employment generated on-farm and off-farm.
- 78 The watershed management associations encountered in this evaluation were not able to articulate the objectives, means of implementation or likely benefits of the sub-component. However, the Beneficiary Self-Assessment (p. 20) confirms that members of some groups did view the environmental training as important but still had difficulty with practical implementation. Other group members were not aware of the watershed aspect of the project. There is also a natural limitation in trying to implement micro-watershed activities when only a small proportion of the local residents are involved. This in turn requires a higher and more sustained level of support than envisaged in the project implementation plan. Moreover, the process of mobilizing support for micro-watershed activities may be beyond the scope of young groups when their main concern is how to increase their own food security.
- 79 The CPM suggests that the sharp increase in government safety net programmes after the 1997-98 crisis adversely affected the implementation and performance of the PIDRA and P4K III by promoting an assistance mentality among beneficiaries.
- 80 The PIDRA Annual Report for 2002 (p. 8) states that “emerging problems of SHGs that are related with farming, trading, handicraft making, livestock breeding, relationship with other institutions, social, education and health, make the facilitators efforts impossible”. The Beneficiary Self-Assessment of the PIDRA (p. 10) states that “they [the clients] regarded the PIDRA as being too complicated and [that] it did not consider the people’s condition”.
- 81 In the EJRAP, project benefits related to on-farm soil conservation and agricultural production are not likely to be socially, economically, institutionally or environmentally sustainable. Soil conservation, the primary focus of the project, was confined to about 10-15 ha of demonstration plots in each village. Most farmers outside these areas did not adopt soil conservation technologies promoted by the project, while the soil conservation groups disintegrated soon after the project closed in 1999 and the extension staff were withdrawn. In addition, several state-owned tree plantations were illegally clear felled by farmers soon after the fall of the Suharto Regime in 1998 and have since been converted to food production even though the slope is too steep for sustainable cultivation. In 2003 the bench terraces are not being well maintained by farmers because they are too busy working elsewhere. As a result, land degradation through soil erosion is continuing at a high rate around and even inside the project demonstration plot areas. On the other hand, project benefits related to livestock, and savings and credit activities are likely to be sustainable. Although livestock groups also broke down soon after project completion, most participants look after their own goats and sheep properly because they know that livestock is an important source of cash income for their families. The benefits from farm road and water supply schemes are likely to be sustainable since the groups continue to operate and maintain them long after the project has closed.
- 82 Because project authorities paid too little attention to the development of farmers’ groups, many farmers do not apply fertilizers, prune their crop and manage pests optimally. As a result the yields of cashew are no longer rising and may be starting to fall. In addition, with increasing areas in NTB and NTT under mono-cropped cashew, the incidence of pests and diseases has tended to increase calling for integrated pest management. Farmers have therefore taken the initiative to tackle these problems by forming larger associations and cooperatives, and linking up with private companies and NGOs. Seeing these initiatives, the Directorate-General of Estates in cooperation with local government has provided some additional short-term training to project beneficiaries.
- 83 In April 2002, a Memorandum of Understanding between IFAD, AsDB and the Government of Indonesia voiced “serious concerns about the long-lasting impact and sustainability of P4K and in particular the sustainability of the SHGs.” It noted “that SHGs have not been formed as self-reliant institutions but more as instruments to facilitate access to credit.” Indeed, self-reliance and

savings-based financial intermediation by small farmers' groups were not part of the project approach during P4K II, when IFAD was in the driver's seat; nor was the objective of developing "a sustainable system" built into P4K III. The fundamental issue of how to transform a credit-channelling scheme into sustainable institutions – the focus of IFAD's Rural Finance Policy – remains unaddressed.

84 Leadership development has been an important part of the empowerment process and is likely to yield long-term benefits for individuals, if not also for groups. The improved links between local government and group leaders are likely to continue in some cases. The first real 'test' for sustainability will be in the coming general election. Groups will be targeted by all sorts of interest groups, propaganda and political factions. Those surviving these dynamics will probably be sustainable and last the course. Another aspect of community empowerment is the extent to which water management associations, village development associations, village legislative boards, etc. develop into civil-society organizations. This depends on whether they can gain independence from local bureaucracy, integrate women as equal partners and command support and resources from the district head and the local planning board (Bappeda). There is patchy evidence of these changes in a small number of PIDRA districts. There is no evidence that the project has developed a realistic path to institutional sustainability for groups. Building networks among groups (other PIDRA groups or other local associations) is not much encouraged and there is some evidence of the opposite. Nor is the linking of groups to permanent service providers such as banks, social service agencies and research facilities systematically facilitated. Economic empowerment activities will begin in 2004, and many groups have succeeded in doing their planning. But the prospects are not good. For example, off-farm activities especially in women's groups are very unimaginative and produce goods with little value added. Field staff are reactive, responding to group wish lists without encouraging critical thought, market analysis, etc. The objective of materially increasing incomes is likely not to be achieved unless these deficiencies are rectified. A market study is planned but there is no documentation available on what form this will take, how it will be implemented or what the expected benefits will be. Lastly, the mid-term project trigger for Phase II includes consideration of group sustainability but does not provide clear indicators for how sustainability will be assessed.

85 This evaluation carried out a detailed assessment of all agricultural technologies deployed in IFAD's projects. None were judged environmentally damaging or unsustainable. Apart from the application of inorganic fertilizers in projects such as the EISCDP, all other technologies (e.g. improved varieties, crossbred livestock, soil fertility improvements, pest and disease control, soil conservation techniques and cropping systems) were judged to be wholly or largely environmentally benign. Often they were also simple and low cost, and it must be said, already well known.

86 The CPM informed OE that the land management component under the PIDRA is also having a positive impact in halting soil erosion and impoverishment, with irrigation and use of fertilizers restoring soil fertility, and increasing productivity in an environmentally sustainable manner.

87 That feedback and comments are not given sufficient attention by IFAD was confirmed by partner NGOs, and by PIDRA, PUTKATI and P4K project management.

88 Established during an IFAD-convened Rural Poverty Alleviation Forum and consisting of several NGOs and research institutions.

89 Articulated by several project managements and the Centre for Women's Resources Development (PPSW), Bina Swadaya and the Bureau of International Cooperation in MOA.

90 The CPM commented that the implementers' views are always taken into consideration by IFAD during implementation support of the PIDRA and that relationships are always clearly stated in terms of reciprocal obligations and expectation from IFAD's side. IFAD is always very clear in what it expects from implementers: the highest degree of commitment and honesty in implementing the programme, which is what it expects from itself in its support activities.

91 The CPM has noted that the technical basis of the project was compromised by two years of delays in an enabling OECF operation to drain the soils in the project area. Nevertheless, the Government proceeded with project implementation mainly with the objective of meeting the target in terms of planting coconut trees. In some project areas about 90% of the seedlings died.

92 The PIDRA, which also uses the FLM, has an implementation period of eight years.

93 Decress, MOF Number 35, January 2003.

94 The CPM challenges this conclusion stating that "IFAD definitively is not hierarchical since it has applied a capacity-building approach to implementation support that no other IFI has ever applied. IFAD relates to implementers in the same way it would like them to relate to beneficiaries. It

would not be credible if it talked about participation without practising it. In order to generate full ownership of implementation support recommendations, IFAD supervision missions used participatory techniques for constraint and solution identification among beneficiaries and implementers. Thus, supervision aides-mémoire, reports and recommendations emerged from discussions held with the beneficiaries, implementers from NGOs and the Government and other stakeholders, including ICRAF, during field visits; and briefing and debriefing sessions, as well as wrap up meetings took place at the district, provincial and central levels”.

95 Traditional community-based revolving savings and loan activity.

96 Operational staff in IFAD recognize that supervision is inadequate. They note that increased requests and expectations have not been matched by increased resources. They explain that they have moved from supervision to implementation support or, in other words, from a donor-driven exercise to a client-oriented product. They argue that supervision should not be an independent series of annual events but a process with its own continuity and constant dialogue with implementation partners. These expectations have been passed on to cooperating institutions but, at the same time, IFAD has reduced its payments for their services.

97 As opposed to supervision by co-operating institutions.

98 The CPM subsequently sought to include the EKLCEP under direct supervision. However, this was not possible, as the number of projects (15) in which the Executive Board authorized IFAD to conduct direct supervision had been already reached.

99 Which included a review of IFAD’s experiences with ad-hoc arrangements for field presence in 13 countries, including Indonesia.

100 At the national level, project management has worked hard to achieve efficient implementation, but the project may be exceeding its capacity and strength due to ambitious targets and widely spread project areas. For the most part, especially outside Java, results are weakened by distance and inadequate understanding of the sociocultural dynamics of the non-Javanese. This situation prompts the observation that the project should have begun with one or two pilot districts. Nowadays it is important to invite candidate districts to participate fully from the earliest phase of preparation and appraisal and to recognize and address their resource and capacity constraints.

101 Here and elsewhere in the report the term NGO refers to organizations that are registered with the Government of Indonesia as NGOs. Generally, it does not embrace those additional unregistered organizations included in the term civil-society organization.

102 This project was initiated by the World Bank and co-financed by IFAD.

103 The AsDB is currently undertaking the design of a national programme in the microfinance sector development and policy for approximately USD 150 million.

104 These problems were recently described by AsDB as follows. “The knowledge and added value of IFAD is recognized and welcome. But in order to have a productive and effective partnership during project implementation, the relation and responsibilities between the two institutions, in the case of cofinanced projects, should be clearer, to avoid possible misunderstandings, and dissatisfaction. Without the needed clarification and common understanding, further partnerships may experience similar dissatisfaction during project implementation as has been the case in the past.” E-mail from P. Pantigati (AsDB) to A. Muthoo (IFAD) dated 26 January 2004.

105 The same concerns regarding relations with AsDB surfaced during the evaluation of the IFAD/AsDB cofinanced Philippines Rural Micro-Enterprise Finance Project in 2002.

106 AsDB has commented as follows: “The project currently under preparation by AsDB has not involved IFAD mainly because it is not supporting group lending, but rather the expansion of microfinance networks in unserved areas. It ultimately targets primarily individual lending, and is therefore not within the current focus of IFAD activities. However, with P4K III/RIGP coming to a closure next year, possible joint further support to groups and group lending could be envisaged and would be welcome.” E-mail P. Pantigati (AsDB) to A. Muthoo (IFAD) dated 26 January, 2004.

107 Often referred to also as IFAD’s specificity.

108 Based on discussions with the Ministry of Home Affairs, Ministry of Agriculture, Ministry of Finance, major NGO partners such as PPSW, Bina Swadaya, and Yayasan Sejahtera Muda, and other international development institutions such as AsDB, CARE International, DFID, FAO, GTZ, UNDP and World Bank.

109 CGI. “Promoting Equitable Growth, Investment and Poverty Reduction”. January 2003.

110 For example, the AsDB has a project in East Kalimantan for USD 170 million named “Community Empowerment for Agriculture and Rural Development”. Its objectives are similar to those of the IFAD-financed EKLCEP.

-
- ¹¹¹ The debate over formation of new groups or strengthening of existing groups is an ongoing discussion among the PIDRA, P4K III and EKLCEP. The EKLCEP seems to take the most balanced view in that this is something that should be decided by the communities themselves, but what is clear is that a project should not re-name existing local organizations and then take credit for establishing new groups. Specific cases were cited by local communities, particularly in the P4K III and EJRAP where the projects had taken credit for group formation so that field staff could achieve group formation targets.
- ¹¹² In the PIDRA, lack of relevance was found in Sumbawa and in the Beneficiary Self-Assessments where project participants in several communities reported that members had left the groups because they could not see the relevance of investing time in meetings that could better be used for productive activities. There may be a positive correlation between these participants and their degree of poverty, but there is no available data to substantiate any link between extreme poverty and the relevance of group formation as a principal institutional tool for poverty reduction.
- ¹¹³ The CPM mentioned that the Fund's achievements in terms of policy dialogue and scaling up are not negligible. He highlighted some examples: (i) MOA decided to invest its resources in replicating the PIDRA in other provinces (they did so without consulting IFAD and simply went ahead); (ii) the partnership between the Government and NGOs has received wide attention and is considered as a replicable model. The potential of this partnership (on which the Fund should continue to work, learning from experience) to enhance impact and replicability of development efforts is obviously enormous. The NGO Bina Swadaya made a presentation at a national conference organized by the World Bank citing PIDRA as a model of partnership between donors and NGOs to be followed; (iii) MOA is considering how to reform the extension system, introducing elements of the client-oriented and capacity-building approach from PIDRA; (iv) P4K is one of three priority poverty eradication programmes according to the Coordinating Minister for Social Welfare. P4K was scaled up with sizeable co-financing from AsDB; (v) the approach used by PIDRA has also influenced the design of other official development assistance agencies; (vi) IFAD's approach during programme design, aimed at building ownership and increasing the accountability of local government, has received a lot of recognition by MOA and BAPPENAS; and (vii) the Directorate for Human Resources (BIMAS) was restructured. Its new name is Agency for Community Empowerment and Food Security and its new development strategy is endorsing IFAD's approach under the PIDRA, for which it is the executing agency.
- ¹¹⁴ Project Completion Report, EJRAP, 2000.
- ¹¹⁵ Annual Report PIDRA, March 2003.
- ¹¹⁶ See also the Memorandum of Agreement, Mid-Term Review P4K II, 2001.
- ¹¹⁷ *Strategic Framework for IFAD 2002-2006* (2002), p. 6.
- ¹¹⁸ Two projects, the P4K III and EJRAP had a clearly defined path of economic growth for group members that linked groups with the existing financial institutional structure in Indonesia. Forming associations and forging links to cooperatives were included as a valid strategy as early as the late eighties. In more recent projects, group formation remains the main vehicle for empowerment, but clear sustainability strategies for groups are not articulated.
- ¹¹⁹ The Appraisal Report 2002 (p. 28) notes an intention to "build networks within and beyond villages", but networking is only mentioned in the context of gender, identifying the networking of existing women's groups as a possibility rather than a coherent strategy for all group strengthening activities.
- ¹²⁰ In the PIDRA, members of several groups in Sumbawa stated that they had wanted to work towards forming a cooperative but had been told by programme staff that "IFAD did not allow it".
- ¹²¹ There are some valid reasons for concern such as a tendency for some field workers to over-zealously promote association formation before groups are ready to take the next step, and a need to assess whether effective support mechanisms are in place. However, a more targeted approach is needed to address these specific issues rather than a blanket halting all developmental activities.
- ¹²² Both NGOs and the Government highlighted improved relationships with each other as a major gain in the PIDRA.
- ¹²³ Transparency International has consistently ranked Indonesia in past years high on its annual list of countries most affected by corruption.
- ¹²⁴ Governance and Public Sector Reform: Anticorruption. World Bank Group 2001
- ¹²⁵ The World Bank solution (Anticorruption 2001) is to: (i) increase political accountability; (ii) strengthen civil society participation; (iii) create a competitive private sector; and (iv) place institutional restraints on power. This has become such a major issue for the World Bank that an anticorruption unit has been established within the Governance and Public Sector Reform

Department section and a policy has been developed. In the Indonesia World Bank office, each officer met confirmed that anticorruption reform is now a major focus. All World Bank project appraisals must have a separate annex setting out a specific anticorruption strategy for that project and all supervision reports must cover financial management aspects, including a full accountability assessment. In February 2002, the World Bank launched a new three-year country assistance strategy for Indonesia, loudly criticizing the high level of debt and corruption. It announced heavily reduced lending, stressing the need for progress on legal and judicial reform before the Bank would consider lending at higher levels.

126 PUTKATI Beneficiary Self-Assessment.

127 There were 32 pre-qualified, 18 finally qualified and 7 short-listed bidders. Nominally, all were correctly selected and properly documented.

128 In NTT, the PIDRA uses a “fee for service” with lead NGOs as a means to improve efficiency. (IFAD Direct Supervision Report, February 2003).

129 AsDB has established in Jakarta a special unit to follow-up on audit recommendations. The World Bank has increased the transparency of its accounting procedures by tighter checking of bidding documents to verify costing, immediate termination of any contracts where corruption is identified, and suspending project activities in areas where funds are being diverted. These measures help to combat obvious corruption but are of little use against collusion and hidden charges and fees. The World Bank also requires all new projects to have an explicit anticorruption strategy spelled out in the appraisal report. Task managers are held responsible for its strict implementation.

130 Except perhaps in the EKLCEP where one of the reasons for establishing a programme office outside government and a separate financial management system closely controlled by the programme is an expected reduction in the likelihood of leakage.

131 IFAD’s Assistant President at the United Nations Department of Public Information. Chronicle Vol. XXXVII. 2000.

132 UNOPS acting on behalf of IFAD suspended disbursements on a technical assistance grant in connection with P4K on the grounds of misprocurement. Eventually, the offending company was blacklisted by the Government.

133 The CPM has explained that the sources of corruption and possible mismanagement are constantly pointed out to implementers and budget items deleted or challenged when “suspicious”. The budget review has so far been one of the main instruments used by IFAD to point out the issue of corruption and the need to curb it. Detailed review of bidding documents also contributes to the process of building transparency. Corruption still exists even in the PIDRA, but to a much lesser extent than in previous projects. The PIDRA design introduces NGOs as internal control mechanisms and shifts procurement responsibilities from project management to local communities to try and address this issue.

134 For example, in PUTKATI visits to Java by Sulawesi staff to assess integrated farming systems were not relevant. Participants in the Myrada micro-watershed process said the training was interesting and informative but not directly applicable to the PIDRA, which has a shorter time-frame in a village and does not work with the whole community.

135 As stated in the *Strategic Framework for IFAD 2002-2006*.

136 AsDB Rural Microfinance Indonesia (TA No. 3810-INO), March 2003, Annex 4.

137 This is the number of deposit accounts, the number of actual depositors is lower.

138 In the banking system as a whole, and in BRI its major rural provider, there is enormous excess liquidity, i.e. savings exceeding loans outstanding.

139 General Identification Mission to Indonesia, November 1982, Annex II, p. 25.

140 To strengthen the equity base of a financial intermediary three major sources of funds are commonly used: grants (a conventional donor instrument), equity lending (long-term loans treated as equity) and equity participation (with an exit strategy for the investor). To find the right mix is a delicate matter, and is not discussed in the appraisal report. In microfinance grants are now generally thought to undermine self-help and self-reliance.

141 P4K Impact and Evaluation Study, by Gaia International Management Inc. MOA and UNDP, November 1996. The study was based on a before and after analysis, spanning an average time period of 3.5 years.

142 MOA-BRI Semi Annual Report January-June 2003, Annex 5.

143 If savings in associations are included this figure rises, and based on field data collected by this evaluation from six associations in East and West Java, this would raise the national average of internal funds of all groups in the database from USD 11 to USD 21 per group, or from

approximately USD 1 to USD 2 per member. This is still far from impressive; yet it shows that there is potential to be mobilized through further capacity-building. Some of these associations are now borrowing from banks, thereby mobilizing additional domestic resources. Given the excess liquidity of banks in Indonesia, the scope for further borrowing appears enormous. On the whole, however, these figures lend support to the frequent assertion that loan channelling and savings mobilization do not go well together.

144 If calculated over all 64 838 groups in the project database, this is equivalent to USD 430 per group and USD 43 per individual.

145 As loan sizes and maturities vary widely among the groups and loans are taken for high-return income-generating activities as well as consumption, a training package on interest rate determination and financial management should be offered. Members should be made aware of effective interest charges and of the implications of high interest rates if they take out loans for consumer purposes. No such training is being offered; there is no training module dealing with this issue; FEWs and NGO staff, to date, are not qualified to offer such training; and on the whole, financial management training is inadequate. The problem is aggravated by job rotation, which is a standard feature of the project: once individual members or committees understand the basics of book-keeping, creditworthiness examination, monitoring and supervision, the functions are rotated to other members

146 These figures mask a wide variety of loan purposes in each group. For example, the members of Kampung Refo group in Negentut, East Java, borrowed to produce krupuk, instant ginger, orange syrup, sticky rice crackers, tempe and snacks, as well as for orange farming, trading, chicken feed production, poultry, sheep and goats.

147 Laporan Bulanan Proyek P4K Pusat, July 2003.

148 MoU between IFAD, AsDB and Government of Indonesia, 12 April 2002.

149 The study presents data of 12 associations-turned-LKM, with an average of 9.5 groups per LKM. Seven of them were found to admit non-group members. LKM members numbered from 20 to 549, averaging 175. Total assets varied from IDR 3.35 million to IDR 404million, averaging IDR 78 million (USD 9 150); exactly 50% of these are internal resources. The study also includes a number of balance sheets and profit and loss calculations. One of the associations visited during this evaluation presented an impressive Annual Report for 2002 of 58 pages. Substantial inputs into the quality of accounting had been made by two staff members with a credit union background taken over from the Program Hubungan Bank dan KSM (PHBK).

150 “In the case of SSSTCDP and EISCDP, credit records were not readily accessible to participants and they were not aware of their debt or of their savings. Furthermore, methods of loan repayment were not clearly articulated to participants.” (COSOP, August 1998, Attachment 3, p. 4).

151 The status of this MoU, co-signed by AsDB, is controversial, as it refers to an IFAD MTR for which there is no provision in the project agreement. It is not clear whether this MoU, based on a mission in April 2002, supersedes the MoU of the MTR in November 2001. AsDB claims that it has not received the IFAD MTR of 2002.

152 Based on the mission’s Rapid Rural Appraisal and on a survey by two NGOs, Bina Swadaya and Dua Bina Bhuana, of 181 groups and 181 members in September 1993.

153 The best 25% does well through the loan, the middle group of 50% does only reasonably well, and the lower 25% does not do well at all ... some respondents reported a negative impact.” Gaia International Management, P4K Impact and Evaluation Study. MOA and UNDP November 1996, p. 4.

154 A 1998 socio-economic impact survey of the EJRAP (where credit was provided under the P4K programme) found that the total incomes of participating farmers nominally increased by 208% from IDR 481 338 (prior to project implementation) to IDR 1 463 876 (at project completion).

155 In the P4K, where small groups have initiated associations (gabungan) as self-financed and self-managed local financial institutions (now called Lembaga Keuangan Mikro in anticipation of the microfinance law), IFAD has given instructions not to support their capacity-building for the time being and to focus on the empowerment of small groups instead, as if one precluded the other.

156 In the words of the P4K MTR 2001, p. 11: “One of the main tasks of the Project is to introduce skills development to the SHGs. This is not happening although the FEWs are trying to provide some guidance in simple skills such as food processing, packaging, etc.”

157 Since 1978, IFAD has funded at least 153 projects in Asia and the Pacific. Out of USD 602 million in outstanding loans in 1999, microfinance represented USD 253 million. “The main microfinance commitments were in China (45%), India (15%) and Indonesia (10%, but for a single project).” Decision Tools for Rural Finance, IFAD, March 2003, p. 72.

¹⁵⁸ It is increasingly commonplace for agencies to seek to influence governments and each other by direct methods. The DFID for example has adopted ‘policy influence’ as a key strategic objective worldwide. In Indonesia, it has placed staff within the Ministry of Forestry and the Jakarta office of the World Bank.

¹⁵⁹ In commenting on this point AsDB states “...at least as far as the last two years are concerned, AsDB missions have always been timed with, and have involved IFAD participation. Joint MoUs were produced, and on all relevant matters (for example the government proposals on possible use of loan savings) IFAD’s view has always been sought, prior to responding to the government”.