

Indonesia

Smallholder Livelihood Development Project in Eastern Indonesia

Supervision Report

Main report and appendices

Mission Dates: 12 to 25 October 2017 and 16 to 29 November 2017

Document Date: 28/02/2018

Project No. 1100001509

Report No. 4689-ID

Asia and the Pacific Division
Programme Management Department

Abbreviations and Acronyms

AOS	Annual Outcome Surveys
ARFs	Agriculture Revolving Funds
AWPB	Annual Work Plan and Budget
CCDP	Coastal Community Development Project
DPIUs	District Project Implementation Units
FFSs	Farmer Field Schools
GoI	Government of Indonesia
HHs	Households
IDR	Indonesian Rupiah
IFAD	International Fund for Agriculture Development
KPPN	Local State Treasury Office
LVCs	Long Value Chains
M&E	Monitoring&Evaluation
MoF	Ministry of Finance
MOU	Memorandum of Understanding
MTR	Mid Term Review
NGO	Non-Governmental Organization
NPMO	National Project Management Office
O&M	Operations and Maintenance
PDR	Project Design Report
PPCO	Provincial Project Coordination Office
PPLs	Extension Workers
PRA	Participatory Rural Appraisal
PSME	Participatory M&E
RIMS	Results and Impact Measurement System

SA	Special Account
S&L	Savings&Loans
SOLID	Smallholder Livelihood Development Project
SHGs	Self-Help Groups
SVCs	Short Value Chains
VC	Value Chain
VCD	Value Chain Development
VCOs	Village Commercial Officers
VF s	(Non-Government Officer) Village Facilitators
VITs	Village Implementation Teams
WA	Withdrawal Application
WHO	World Health Organization

A. Project Overview

Region: Asia and the Pacific Division Project at Risk Status: Not at risk
 Country: Indonesia Environmental and Social Category: B
 Project Name: Smallholder Livelihood Development Project in Eastern Indonesia Climate Risk Classification: 2
 Project Id: 1100001509
 Project Type: Rural Development Executing Institution: Ministry of Agriculture, Agency for Food Security
 CPM: Ronald Thomas Hartman Implementing Institutions: Local Government (additional)
 Project Director: Ms Diah Chandra Aryani (Project Coordinator)
 Project Area: Maluku (5 districts) and North Maluku (6 districts)

Approval Date 11/05/2011 Last audit receipt 09/07/2017
 Signing Date 05/07/2011 Date of Last SIS Mission 29/11/2017
 Entry into Force Date 05/07/2011 Number of SIS Missions 7
 Available for Disbursement Date 05/07/2011 Number of extensions 0
 First Disbursement Date 16/11/2011 Effectiveness lag 2 months
 MTR Date 02/06/2014
 Completion Date 31/01/2019
 Financial Closure 31/07/2019

Project total financing

IFAD Financing breakdown	IFAD	\$49,112,095
	Asia and the Pacific Division	\$1,078,244
Domestic Financing breakdown	National Government	\$14,811,402
Co-financing breakdown,		
Project total financing		\$65,001,741

Current Mission

Mission Dates: 12 to 25 October 2017 and 16 to 29 November 2017
 Days in the field: 16
 Mission composition: Ron Hartman, Nigel Brett, Anissa Pratiwi, Arip, Iskandar, Tarwanto
 Field sites visited: Maluku Province, North Maluku Province

B. Overall Assessment

Key SIS Indicator #1	Ø	Rating	Key SIS Indicator #2	Ø	Rating
Likelihood of Achieving the Development Objective			Assessment of the Overall Implementation Performance		

Effectiveness and Developmental Focus	5	Project Management	4
Effectiveness	4	Quality of Project Management	4
Targeting and Outreach	5	Knowledge Management	3
Gender equality & women's participation	5	Value for Money	3
Agricultural Productivity	5	Coherence between AWPB and Implementation	4
Nutrition	4	Performance of M&E System	4
Adaptation to Climate Change	4	Requirements of Social, Environmental and Climate Assessment Procedures (SECAP)	4

Sustainability and Scaling-up	4	Financial Management and Execution	5
Institutions and Policy Engagement	3	Acceptable Disbursement Rate	5
Partnership-building	4	Quality of Financial Management	4
Human and Social Capital and Empowerment	5	Quality and Timeliness of Audit	4
Quality of Beneficiary Participation	4	Counterparts Funds	5
Responsiveness of Service Providers	4	Compliance with Loan Covenants	5
Environment and Natural Resource Management	4	Procurement	4
Exit Strategy	3		
Potential for Scaling-up	4		

C. Mission Objectives and Key Conclusions

Background and Main Objective of the Mission

The Smallholder Livelihood Development Project in Eastern Indonesia was approved by IFAD's Executive Board in May 2011. This project is jointly funded by an IFAD loan of US\$ 49.11 million, an IFAD grant of US\$1.08 million and a Government of Indonesia contribution of US\$14.81 million. The project became effective in July 2011 and the project closing date is 31 July 2019.

A joint review mission was undertaken two phases in October and November 2017. Firstly, a fiduciary and technical support mission was undertaken from the 12 to 25 October 2017, followed by a full joint review mission from the 16 to 29 November 2017.

The objective for the overall joint review mission was to assess progress toward achieving the programme objectives, review programme performance in terms of effectiveness and efficiency, and also generate lessons in order to make recommendations to enhance programme performance.

The fiduciary review mission visited two districts in the two target provinces (West Seram in Maluku Province and Central Halmahera in North Maluku, including two villages in West Seram (Hatusua and Latu) and one village in Central Halmahera (Loleo). The 12-day fiduciary mission included 6 days of field work. The full joint review mission also visited two districts in the two target provinces (East Seram in Maluku Province and East Halmahera in North Maluku Province including two villages in East Seram (Solang and Namalema) and two villages in East Halmahera (Silayalang and Baburino). The mission met with the Bupati (District Mayor) of East Seram (Maluku Province). The 14-day full joint review mission included 7 days of field work with a kick-off meeting held on 16 November 2017 (chaired by the Head of Food Availability and Vulnerability Center, Food Security Agency) and a wrap up meeting on 29 November 2017 (chaired by the Head of Food Vulnerability Division, Food Security Agency).

Key Mission Agreements and Conclusions

SOLID seeks to develop a scalable livelihood development model for poor, remote and vulnerable areas in eastern Indonesia. The 2017 annual outcome survey confirms an improvement in performance and results. Beneficiaries of SOLID demonstrate improved incomes, food and nutritional security, agricultural productivity, adoption of new technologies, increased savings and investment capital, and institutional capacity.

The mission concludes that while good progress has been achieved, performance is uneven across all project areas. Although important improvements are noted in social mobilization and group formation processes, critical issues remain related to quality of groups and federations, and securing the savings of project beneficiaries. Similarly, although impressive increases in agricultural productivity have been achieved, there are issues related to value addition, securing market access and developing sustainable business relationships. Project management has improved since mid-term review; however, there are opportunities to improve coordination, communication and management processes to ensure a more effective delivery of results.

The mission therefore recommends a focus on the following key issues:

Development Effectiveness. The 2017 annual outcome survey confirms that SOLID is achieving robust results. Compared to control groups, SOLID beneficiaries have achieved increased physical and financial assets, improved agricultural productivity and diversification, higher food and nutritional security, better access to inputs including finance, land, technology and training, and have improved resilience. However, as SOLID performed poorly during the early implementation phase, considering the limited time remaining, there is an urgent need to focus on the quality of results and impact and ensuring that these benefits are sustainable.

Sustainability. With 14 months remaining, ensuring the sustainability of project results is critical. This requires emphasis on improving the quality of project implementation and the support provided to project beneficiaries. SOLID must urgently develop an exit strategy defining the critical path to increase the likelihood of sustainability and providing clear direction for the allocation of project resources, both human and financial, during the final year of implementation. This exit strategy should prioritize practical action related to the key aspects to promote sustainability including: (i) institutional sustainability (e.g. actions to ensure that groups receive targeted intensive support to increase likelihood of institutional sustainability), technical (intensive support provided to sustain productivity improvements and business relationships), financial (reduce risk of financial savings and outstanding loans, and improve the financial viability of federations and business units), social (build social capital and planning for post project).

Project Completion. During the final year of implementation, a project completion review process will need to be undertaken by the Government of Indonesia. A well-managed project completion process is of key importance for identifying the ways to enhance the sustainability of project interventions.

Project Management and Coordination. Despite improvement, there are still issues related project management, coordination and communication. As SOLID is a decentralized and geographically dispersed intervention stronger management and accountability mechanisms are required to ensure that the project is implemented in an effective and coordinated manner. Although there is overall improvement, the mission noted divergence between administrative layers and also between project management and service providers.

D. Overview and Project Progress

The overall assessment of project implementation and likelihood of achieving development objectives are both rated *moderately satisfactory* in accordance with IFAD's performance assessment methodology.

SOLID's monitoring dashboard indicates that good physical and finance progress has been made since the last review mission in November 2016. There is evidence that intensified social mobilization and strengthening of market-led investment is contributing to increased incomes and agricultural productivity. There remains need for greater emphasis on market access and value addition for the commodities produced with SOLID support. Key results achieved related to the objective to enhance food security and increase incomes of project beneficiaries includes increased beneficiary incomes (54% of beneficiaries increased incomes in 2017 compared with 19% of control group) and food security (85% of beneficiaries have improved food security and reduction in food shortages, and 56% have increased food sufficiency compared with 19% control group).

As at the 27 November 2017, the cumulative disbursement based on IFAD's data was 91% for the IFAD loan and 82% for the IFAD grant. Government contribution is 78% of the total expected amount. In addition, beneficiary contributions have been significant through the provision of land, labour and materials, and have been quantified to be in line with project design targets. In terms of the delivery of the 2017 Annual Work-plan And Budget, the project has achieved 74% of its 2017 annual targets with only one month remaining.

Under component 1, SOLID is now active in 224 villages in 2 provinces and 11 districts. A total of 2,240 groups have been formed (98% of target) benefiting a total of 27,187 households (80.91% of target). The project is mostly on track to meet component 1 targets although sustainability remains a concern. Based on internal assessments, the performance of groups has improved since the last review mission with the number of "good" performing groups increasing from 39% to 65% of total groups. Group savings and access to finance has also increased by 6.2% in Maluku and 16% in North Maluku since the last review mission indicating continued expansion of savings and other contributions.

Under component 2, significant progress has been made in increasing crop yields, diversifying production and increasing land cultivation areas. Most beneficiaries have increased their cropped area from around 0.25ha to 0.5ha and are generating more income from the sales of agricultural commodities. Beneficiaries report impressive increases in production for all target commodities including vegetables (80% of beneficiaries reporting increases in production, copra (75%), peanut (53%), nutmeg (52%), maize (44%), and rice (44%). Peanuts, banana and cassava are important crops in a villages visited by the mission and both cropped area and yields have significantly increased.

Under component 3, based on improvements in agricultural productivity, some progress has been made in developing locally identified market linkages. Market access for SOLID beneficiaries is predominantly local village and district markets, with some groups supplying larger regional markets. The project progress report indicates that over 50 formal marketing arrangements are in place, for instance with supermarkets and traders, for the supply for produce under the SOLID project. Stronger market linkages enhance the potential for sustainability. It is critical to ensure that any increase in agricultural production is driven by market demand.

Under component 4, the mission notes the improvement in the quality of project management with evidence of improved planning, reporting and a clearer focus results. Nevertheless, there is a need to strengthen coordination and communication at all levels to ensure better quality of implementation and enhancing the likelihood of the sustainability. As the project enters its final phase, achieving SOLID's overall objectives will require a consolidated effort by all project management, consultants and service providers and a focussed accountability framework for the delivery of results.

The 2016 review mission identified 15 agreed actions. An implementation support mission in March 2017 recommended an additional 7 actions to enhance project performance. 100% of the 2016 agreed actions have been completed and 80% of the March 2017 recommendations have been actioned.

Component 1: Community Development and Gender Component 1: Community Development and Gender is rated as *moderately satisfactory* (4). The objective of this component is to provide communities with *enhanced capacity for household food security and agriculture income planning*. The expected outputs are: (i) enhanced capacity of SHG members to sustain and manage group resources and (ii) group capacity to plan and implement agricultural production activities. There has been moderate progress on both the outputs and the outcomes of Component 1, with the recommended organisational changes from the last supervision missions generating results in SHG capacity, as well as beneficiary impact. Nevertheless, with only 14 months of implementation period remaining, there are concerns over the long term institutional sustainability of the SHGs and Federations established by the project.

Component 1 was originally designed to establish 3,300 SHGs with 49,500 members. This was reviewed and considered over-ambitious at the time of the mid-term review. Targets were reduced to 2,240 SHGs, with a total of 33,600 members. Progress in November 2017 is currently below the revised MTR targets, with the project having set up 2,192 SHGs (98%) with currently 27,187 members (81%). Interestingly, this is down from the reported 33,580 members in 2016, indicating a moderate number of drop outs from SHGs over the past 12 months. The current average number of members per group is 12 members compared with an original project target of 15. This is not surprising given the low population density and remote location of groups.

According to the November 2017 project progress report, the project has disbursed roughly IDR 36,500,000,000 (USD 2.7 million) for the matching fund (MF) and IDR 82,000,000,000 (USD 6 million) for Agriculture Revolving Funds (ARF).

SHG capacities for organisation, collective action and fund administration have increased over time since the start of the project. The June 2017 Participatory Self-Monitoring Assessment (PSME) shows that overall 6% of SHGs were rated as poor, 41% as average and 53% as good. To validate this assessment, the mission met with a number of SHGs, some of which had close to 15 active members, while others had much lower rates of active membership. Discussions with groups indicated the very varied levels of group consolidation, and also varied interest from SHG members. Some SHGs had empowered and enthusiastic members who had a disciplined approach to savings, and had availed multiple loans. Other SHGs appeared uninterested in group meetings, had not been able to save regularly, and had problems repaying loans. In some groups, members had dropped out, while in other cases, groups had dissolved completely. Some groups had bank accounts, while others did not, often reflecting the remoteness of project villages from banks. This wide variation in group quality and functionality poses a challenge considering the time left before completion. In terms of the use of loans, the vast majority of loans (80%) were being used for productive purposes (for example for purchasing gasoline for tractor use, for fencing against pests, or for herbicide) with only 20% of loans used for consumption.

The mission reviewed the 2017 AOS survey results and cross checked reported impacts with group members. Both the AOS results and also discussions with beneficiaries suggested that group members were satisfied with project services (only 1% of respondents were not satisfied), that they have been receiving training and agricultural inputs from the project, and that both production and income have increased when compared with control group households. The mission received a very positive impression from group members in many villages reporting increases in production. In one village visited by the mission overall production of the three main crops had increased more than 4 times from 9,500 kilograms in 2014 to 42,000 kilograms in 2017.

The project stopped forming SHG federations at the time of the MTR, given the fact that the project approach was not considered viable. Nevertheless, the mission visited some of the federations formed in the first 3 years. As with SHGs, the functionality of federations, in terms of their organisational and institutional development, was equally uneven. In some cases, federations were managing quite effectively, organizing bulk purchase of inputs, use of farm machinery, and marketing of products. However, in other cases, the governance connections between the SHGs and federations were weak, with little or no support to SHG members through marketing and service provision.

Overall mission observed good evidence of economic impact, increased production, crop diversification, increased food security, and increased income. Nevertheless, there are significant challenges regarding long term group sustainability, and with one year remaining until the end of the project, it is important to focus the remaining time on consolidating gains, and alerting groups that they need to prepare for life without project support.

Component 2: Support for Agriculture Production and Marketing Component 2 is rated as *moderately satisfactory (4)*. The expected outcome is *households with more food and cash crops available for both home consumption and/or sale*. There has been sound progress related to the achievements of outputs and the outcomes under Component 2. The 2017 annual outcome survey shows that 85% of SOLID beneficiaries have achieved improved food security with 56% of beneficiaries reporting significant improvements in food sufficiency within the past 12 months (control group 18%). The area of cultivation has also increased with 88% of SOLID beneficiaries increasing their area of productive land with 95% of beneficiaries now producing food for sale or consumption (50% control group).

Sub-component 2.1 (Food Production). The mission acknowledges the progress in enhancing the agricultural productivity of SOLID target beneficiaries. A number of districts are achieving very commendable production increases in food crop area and yields providing a platform for reliable, regular market supplies. For most crops promoted by SOLID, yields have increased (e.g. peanut yields have increased by over 60%, sweet corn by around 75%, vegetables by 80%, and rice 43%). This has contributed to an increased overall availability of food in target communities, resulting in an overall reduction in the frequency and duration of food shortages (87% of beneficiaries report food shortages of less than 2 weeks per year compared with 55% control group).

The SOLID design envisages that Agriculture Production Plans are prepared to guide technical support and to define a business plan for how but SHG members will market their produce. It is evident from mission interactions that there is not widespread familiarity with these plans, their content, or their linkages to the agriculture revolving funds. As many groups indicate challenges with marketing and being able to sell their produce, ensuring that groups have a coherent plan to access and engage with markets is important to provide incentives for increasing production and generating income for improved livelihoods. This will require targeted support from the SOLID agricultural consultants and from the agricultural extension staff (PPL). It is also evident from the field visits that there are opportunities to enhance the coordination at village levels to ensure that the projects efforts in mobilizing and strengthening groups is closely linked with the projects support for productivity enhancement and value chain development.

The Agriculture Revolving Funds are intended to finance activities that support the production and marketing objectives as defined in the Agricultural Production Plans. A total of IDR 82 billion (US\$ 6 million) has been disbursed so far. Most of these funds have been utilized for the purchase of tools and equipment. As recommended in the last supervision mission, there are now opportunities for investing in increased mechanization for production and processing and for transport for marketing. The mission recommends that the ARFs disbursed in 2018 will need to be based on Agricultural Production Plans with support from SOLID agriculture and value chain consultants.

In terms of agricultural extension, despite challenges with coordination and reporting data, the mission notes that training and demonstration activities have intensified over the past year. The Annual Outcome Survey reports impressive results related to the adoption of new technologies with 75% of SOLID beneficiaries adopting new technologies (9% control group). This has driven increases in agricultural productivity by SOLID beneficiaries. Considering the vulnerability of SOLID's target group, there should be an intensified focus during the final year of implementation on ensuring that the technical capacity of SOLID beneficiaries for enhancing productivity is improved, and that they receive intensified support for value addition and marketing.

Sub-component 2.2. Local Market Linkages. Market access for SOLID beneficiaries is predominantly local village and district markets, with some groups supplying larger regional markets. The project progress report indicates that over 50 formal marketing arrangements are in place, for instance with local supermarkets and traders, for the supply of produce from SOLID groups. Unfortunately, there has been no proper market assessment to assist SHGs or business unit to identify market demand and value addition opportunities. Stronger market linkages enhance the potential for sustainability. Based on the mission observations, it is crucial that all SHG production choices and output quality is driven by clear, strong market demand signals.

Component 3: Support for Estate Crops Value Chains Development and Marketing Component 3 is rated *moderately satisfactory (3)*. The outcome of this component is *increased household incomes from sales of three selected estate crops (coconut, cacao, nutmeg)*. Expected outputs are: (i) up to 3 value chains assessed as feasible for sustainable increases to household incomes; (ii) farmers with improved market linkages and understanding of market requirements; and (iii) federations established as sustainable business units with capacity to represent farmer interests in the market place and/or add value to any or all of the 3 selected products.

The mission notes the efforts to expand market linkages within the last 12 months. The AOS shows that 68% of SOLID households generated improved income from selling agriculture produce as compared with 24% of non-SOLID households. It is further reported that 58.9% of SOLID households have improved access to markets and 38.8% have established partnerships/contracts to market their produce. However, only 10% of these partnerships are generated through Federations.

Component 3 envisages an approach for SHGs and Federations to collect, store, process and market food and cash crop production. SOLID developed 224 Federations to primarily assist in achieving economies of scale for market access and the provision of services such as input supply. The mission observed that that the function and operations of Federations is highly variable with most yet to

develop a sustainable business model for how they can continue without project support. The introduction of "business units" in some districts is an interesting innovation, although they also require intensive technical support to improve the likelihood of sustainability.

The Village Implementation Teams (VIT) consist of the PPL, VFs and village commercial officer/marketing cadres, and are responsible for linking SHGs, federations and business units to larger markets and other possible private sector networks. The mission found that the VIT are not functional without any clear terms of reference or incentives to provide better support.

Agreed Action	Responsibility	Agreed Date
2. Project Completion Process Prepare an action plan that includes the key milestones for the project completion process. This will also clearly define the project M&E and KM requirements to inform the preparation of the PCR.	NPMO	12/2017
7. Project Management and Coordination. Based on the Exit Strategy, arrange an initial socialization and quarterly review process to improve project management coordination. Specifically prioritize and define responsibilities for 2018 delivery.	NPMO	12/2017
1. Exit Strategy. Develop a project exit strategy. This will define the key 2018 strategic priorities allocation of 2018 project resources. The Exit Strategy will include a detailed plan for project sustainability ¹ . Exit Strategy.	Lead: NPMO	01/2018
6. Agricultural Production and Marketing. Intensify technical support to SHGs and federations for post-project agricultural production and marketing planning. Each group should have a specific plan for post-project activities and support	NPMO, PPCU, DPIU, PPL	03/2018
4. Federations and Business Units Sustainability. Assess the capacity and likely sustainability of federations and business units. Provide targeted support, for instance for business planning to improve the likelihood of post-project sustainability.	NPMO, PPCU, DPIU, LSM	03/2018
3. SHG Sustainability. Intensify capacity building of the existing groups for enhanced group cohesion, administration, repayment of outstanding loans, and maintenance of regular savings discipline. Ensure as many group members as use bank accounts.	NPMO, PPCU, DPIU, LSM	06/2018
5. SHG/ Federation Graduation. Organize a graduation ceremony for each of the "active" Federations and all SHGs, handing over an accurate up to date group financial statement showing exact financial position of each Federation and each SHG.	NPMO, PPCU, DPIU, LSM	10/2018
8. Village Implementation Teams Review the function and performance of Village Implementation Team. Provide capacity building support and direction to improve village level coordination and communication.	NPMO.	

E. Project implementation

a. Development Effectiveness

Effectiveness and Developmental Focus

Effectiveness

Rating: 4

Previous rating: 4

Justification of rating

33. The project performance in terms of effectiveness is considered as moderately satisfactory. In terms of development effectiveness, SOLID has made sound progress since a revision of the project design at mid-term review in 2014. The approach of refocussing and simplifying project activities has enabled the project to gain momentum and generate stronger results. The project is mostly on track to achieve its objectives and main physical targets. The 2017 Annual Outcome Survey confirms that the project is achieving its key outcomes, although there needs to be a refined focus on quality and sustainability.

Log-Frame Analysis & Main Issues of Effectiveness

The objective of the project is to improve the livelihoods (incomes and food security) and reduce the incidence of poverty for people in the targeted villages in both Maluku and North Maluku. The main expected outcomes are: (i) village institutions and self-help groups and unions functioning effectively; (ii) target group farmers using improved, sustainable production systems and low levels of purchased inputs; (iii) target communities using improved natural resource management systems; (iv) self-help groups and unions/federations operating as successful elements of the value chains for the targeted commodities; (v) improved small-scale infrastructure available in the target villages with the community organisations undertaking their operation and/or maintenance; and (vi) project completion on time and within agreed budget.

As detailed above, the 2017 annual outcome survey confirms that SOLID has achieved sound results. The outcome survey shows that in comparison with control groups, SOLID beneficiaries have achieved increased physical and financial assets, improved agricultural productivity and diversification, higher food and nutritional security, better access to inputs including finance, land, technology and training, and have improved resilience. Key results related to the objective to enhance food security and increase incomes of project beneficiaries includes increased beneficiary incomes (54% of beneficiaries increased incomes in 2017 compared with 19% of control group) and food security (85% of beneficiaries have improved food security and reduction in food shortages, and 56% have increased food sufficiency compared with 19% control group).

The project is on track to achieve the main targets of Component 1. SOLID is now active in 224 villages in 2 provinces and 11 districts. A total of 2,240 groups have been formed (98% of target) benefiting a total of 27,187 households (80.91% of target). As detailed previously, the performance of groups has improved with the number of "good" performing groups increasing from 39% to 65% and groups access to finance has also increased between 6.2% and 16%. The main concern related to the sustainability of groups and benefits.

There has been improvement under Component 2 with respect to increasing crop yields, diversifying production and increasing land cultivation areas. Beneficiaries have increased their cropped area from around 0.25ha to 0.5ha and are generating more income from the sales of agricultural commodities. Beneficiaries report impressive increases in production for all target commodities including vegetables (80% of beneficiaries reporting increases in production, copra (75%), peanut (53%), nutmeg (52%), maize (44%), and rice (44%). Peanuts, banana and cassava are important crops in a villages visited by the mission and both cropped area and yields have significantly increased.

More modest progress has been made across the project under Component 3 in terms developing market linkages. Remoteness and limited access to markets is a key concern for many of the isolated SOLID communities. Nevertheless progress has been made in developing local and district market access, with some groups supplying larger regional and international markets. The projects facilitation of over 50 formal marketing arrangements (PPPP) is particularly impressive.

Project management has improved in terms of the submission of key project documents (progress reporting, AWPB, AOS etc), although, there is opportunity to strengthen coordination and communication at all levels.

There is now a need to focus on the quality of results and impact and ensuring that these benefits are sustainable.

Development Focus

Targeting and Outreach

Rating: 5

Previous rating: 5

Justification of rating

The project performance in targeting and outreach is considered as satisfactory. The project targeting approach has been effective in ensuring the participation of poor and the inclusion of indigenous peoples through adopting a series of measures combining geographic, procedural and enabling methodologies. All project villages targeted by the project have higher than national average rates of poverty and the approach for the selection and verification of households has been appropriate. The project is largely self-targeting in that the goods and services available are relevant to the poor target group and much less attractive to relatively wealthier farmers. The project effectively reaches out to the intended target group although the quantitative outreach targets will not be fully achieved due to the smaller rural population sizes and group sizes.

Main issues

The 224 project target villages all have poverty rates above the average for their sub-districts and households have been selected using both national poverty indicators and direct household verification. The project is largely self-targeting in that the goods and services available are relevant to the poor target group as was evident and frequently stated during the field visits. The attitudes and capabilities

of the project management towards targeting are one of commitment and thorough application of the project targeting tools, despite the limited time and budgetary resources that have been available. There was no evidence of participation from non-poor households. The intervention strategies, activities and capacity building support provided by the Project remain relevant and accessible to the original project target group.

At the project mid-term, the overall project outreach targets were reduced to 33,600 households and 2,240 self-help groups. Considering the lower that estimated at design population density in most of the targeted areas, the it was realized that the project design target to form 10 SHGs in each village would not be achievable. At the time of the mission in November 2017, the project has thus far benefitted 27,187 households which is 81% of the revised mid-term target.

A key issue facing the project is the reported decrease in participation of self-help group members. It is reported that in some areas the numbers of group members have reduced by approximately 25% within the past 12 months. The reasons for this are stated as people moving to other places or having passed away. It was observed from interactions with project beneficiaries that that people are also leaving the groups due to their waning interest in project activities and/or a lack of trust between members. Experience also shows that as smallholders capacity, access to inputs and interaction with markets improve, there is an incentive for them to invest further time in the their own agricultural activities. The project's strong results in farmer adoption and replication, together with the expansion in agricultural areas under cultivation may provide some insights for this.

The challenge for the the project during its final phase of implementation will be how to incentivize self-help group members to see value in remaining as contributing group members. The intervention strategies, activities and capacity building support provided by the Project should remain relevant and accessible to the project target group. It will be necessary for the project to strategize during the final year of implementation on how to stem the the loss of group members.

Gender equality & women's participation	Rating: 5	Previous rating: 5
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Justification of rating

The project's gender equality and women's participation focus in considered satisfactory. In a challenging geographic area, the project has made progress in promoting gender equality and women's empowerment. The project is mostly delivering on the objectives of its targeting strategy and the mission observed that proposed project activities are being taken up by the target sub-groups including women. The project is exceeding its targets for the inclusion and participation of women in that women's involvement is 52.5% (50% target) and women in leadership positions (788 women leaders in federations). The 2017 also indicated that women headed households represent 32% of households targeted.

Main issues

In line with the its design, the project has made a sustained effort to promote the social and economic empowerment of women. There is an overall positive emphasis on gender and gender participation rates have remained above design target. The importance of effective gender mainstreaming appears to have been accepted by project staff and internalised as routine management practice. Gender training is an integrated part of community development training.

The project continues to provide relevant livelihood options for women and a means for them to become economically and socially empowered. Women's active participation is evident from discussions and from mission field visits. With facilitation received from the project, women are actively participating in agricultural production (on-farm), processing and now also marketing. Importantly, women are facilitated to capture more of the benefits from the marketing of their agricultural production and have benefited from financial literacy training and the introduction of labour saving technologies and techniques. The impression from the mission is that women's groups are more cohesive, more able to act collectively and better at managing funds. In the mixed groups women tend to be full and active participants and the willingness to put forward their own priorities has improved according based on focus group discussions.

The M&E system is collecting sex-disaggregated data with some details on the on the project's progress with respect to gender equality and women's participation. Future Semester Reports should contain a situation analysis of the project gender status derived from the M&E system whilst the annual consultant's reports should also provide an overview of progress on gender and strategic options to further gender objectives.

In terms of project staffing, the number of women in project leadership positions has improved to approximately 30% and the number of female village facilitators remains at 50% in Maluku but only 25% in North Maluku. Considering the similar socio-cultural profile of the Provinces, it would appear possible to recruit women and given their positive performance a recommendation for North Maluku is to actively try to recruit women.

Agricultural Productivity	Rating: 5	Previous rating: 4
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Justification of rating

The project's performance with respect to enhancing agricultural productivity is considered satisfactory. The project has an explicit focus on improving agricultural productivity and has achieved strong results in terms of increasing production and promoting the diversification of agricultural activities. Good progress has been achieved in increasing crop yields, diversifying production and increasing land cultivation areas. Data shows that most beneficiaries have increased their cropped areas from around 0.25ha to 0.5ha and are generating more income from the sales of agricultural commodities. Beneficiaries report impressive increases in production for all target commodities including vegetables (80% of beneficiaries reporting increases in production, copra (75%), peanut (53%), nutmeg (52%), maize (44%), and rice (44%). Peanuts, banana and cassava are important crops in a villages visited by the mission and both cropped area and yields have significantly increased.

Main issues

The mission acknowledges that the project has achieved good results in increasing agricultural production and improving household food security (for instance as evidenced during the 2016 El Nino where households benefiting from SOLID support were more food

insecure and resilience than those non-project households).

The mission regards the establishment of sustainable production base as an important pre-requisite for both household food security and sustained market engagement. While good progress has been made towards strengthening food security, more focus is required to build sustainable market access. Stronger market linkages enhance the potential for sustainability. While there is already around 50% of production being directly sold off farm, as production increases the project will need to focus more on value adding, processing and marketing to ensure that investments in improving agricultural productivity translate into increased incomes for project beneficiaries. SHG groups are mostly (80-100%) marketing homestead production as individuals while production from SHG plots is marketed jointly by the SHG. In the mission's observations, there is limited (less than 15%) of output being processed or value added and almost nil (< 5%) of food crop surpluses being marketed by federations.

Nutrition

Rating: 4

Justification of rating

The performance in promoting improved nutrition is considered as moderately satisfactory. Although the project design did not explicitly include an objective related to improving beneficiary nutrition, considering the nutritional status within the project areas, this was implied within the projects broader focus on food security. Nutrition-sensitive interventions are being implemented in most planned activities and the annual outcome survey shows that outcome survey shows that 85% of project households enjoy food sufficiency and the project has made good progress in improving resilience in reducing the frequency and length of 'hungry seasons'. There has been some significant reduce for food shortage period since they join the project. The project did not monitored annually the reduction in prevalence of child malnutrition. It was reported at baseline RIMS report and will be measured later during the impact RIMS survey.

Main issues

The project is having a positive overall impact on food security in that 75% of beneficiary households stated that there was no hunger or malnutrition because food stocks were available and 95.9% reported that food prices in their village were stable and affordable. Only 25% of SOLID households reported food shortages compared to 32% of non-SOLID households, also with a much shorter duration of inadequate access to food on average. Increased food security is an result of both increased volumes of production, increased incomes from production sales and crop diversification.

Recent research shows that the average rural diet in Maluku and North Maluku has inadequate energy, micronutrients and protein leading to high wasting and stunting in children and high levels of malnutrition in young women. Assessments undertaken by the project, coupled with mission observations, confirm that as a result of project there has been some improvements in beneficiary diets and consumption patterns. As there was no specific objective related to nutrition, the project has not been thoroughly tracking beneficiary consumption of nutritious foods. However, from focus group discussions, the mission did note that there had been noticeable changes in consumption patterns in the villages visited in Maluku. In the past beneficiaries mainly consumed sago and other type of roots/tubers crops for their meals. With increased nutritional knowledge and awareness beneficiaries are now including different vegetables and protein in their diets. They are also using their increased income to buy other food such as rice, vegetables and fish.

An area requiring improvement relates to balancing the sale and marketing of nutritious foods with promoting their consumption by smallholders. Project progress reports indicate that only 10% of fresh produce is set aside by project beneficiaries for consumption. Smallholders generally market higher quality produce and retain poor quality for consumption. There is opportunity for the project to strengthen nutrition extension messages to encourage the farmers to consume more of their production, especially when they are producing high nutrient foods. In addition, although the initial selection of priority commodities targeted by the project did not take into account the nutrition there is remains potential to promote the production and marketing of more nutritious foods.

In recognition of the need to improve nutrition, SOLID has received additional support from two other IFAD grant funded projects. The FoodStart+, implemented by CGIAR centres CIAT and CIP, is facilitating the production and marketing of new varieties of root/tubers crop with higher nutrition value. Additionally, the Government of Germany has sponsored IFAD undertaking a Nutrition Sensitive Value Chain Assessment to identify the specific nutritional problems of people living in Maluku and North Maluku and to analyse the potential for developing nutritionally sensitive value chains. This work will contribute to a guide for IFAD entitled Nutrient Sensitive Value Chain Development.

Adaptation to Climate Change

Rating: 4

Previous rating: 5

Justification of rating

The project support for adaption to climate change is considered moderately satisfactory. Given that the project was approved before IFAD developed its strategic approach to mainstreaming climate change in its investments, SOLID does not have an explicit focus on climate change mitigation or adaptation in its design. However, the 2015 drought, which coincided with the first year of project investments in the agriculture activities, sensitized the project staff as to the need to factor climate change into implementation choices, and has resulted in a number of project activities that enhance the resilience of beneficiaries to climate shocks. These interventions aim to reduce the vulnerability of households, to the impacts of climate change, by increasing climate resilience, through increased ability to adapt to, or absorb, climate change stresses, shocks and variability and/or by helping to reduce exposure to them.

Main issues

Following the 2015 drought, the project enabled farmers to invest in irrigation water pumps which significantly improved household resilience to drought and the associated food security challenges. In fact, with one year of implementation remaining, the 2017 AOS survey indicates that 85% of SOLID farmers are now food sufficient, compared with 74% of non-SOLID farmers. Only 14% of SOLID farmers suffer food shortages for 3 weeks or more, compared with 46% of non-SOLID farmers. Cropping improvements, the introduction of new species of cassava and sweet potato (both ideal for dry rainfed agriculture), combined with the enhanced savings accumulated by SHG members are further reducing vulnerability and enhancing resilience of beneficiaries to possible future climate shocks. Furthermore, by enhancing returns from production in home plots, it appears that the project is reducing incentives for farmers to engage in slash and burn agriculture in neighbouring forest areas. Finally, the project is promoting organic fertilizer and raising

awareness of the importance of crop rotations for soil health. Improved agricultural practices such as these will improve soil water holding capacity and hence climate resilience.

b. Sustainability and Scaling up

Institutions and Policy Engagement	Rating: 3	Previous rating: 3
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Justification of rating

Institutions and policy engagement is considered moderately unsatisfactory.

Main issues

The project design did not envisage specific engagement with respect to policy support or engagement. However, there was an expectation that the project would demonstrate a decentralized model of development for remote and vulnerable rural communities. This would be achieved through strengthening rural institutions and building agricultural livelihoods.

The project has had a moderate influence on local policy and institutional frameworks through the enhancement of smallholder participation in local policy processes and increasing the capacity of local governments to design and implement policies. The project has established a large number of local institutions that represent the interests and have given voice to marginalized beneficiaries. Through the project's planning, prioritization and investment process, the mission observed the project's close engagement with district administrations and village leadership, and the influence that the project has in influencing planning and investment decisions. Frequently, the investments made by SHG and federations leverage additional local government resources and financing.

Partnership-building	Rating: 4
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Justification of rating

Partnership-building is rated as moderately satisfactory. Building and leveraging successful partnership at various levels is fundamental for the success of SOLID.

Main issues

Overall the project is meeting most expectations in terms of potential partners and there is good partnership momentum, although the project does not necessarily have a specific strategy for leveraging those partnerships. The project has generated partnerships with the private sector and other government and non-government organizations that are delivering results for the project's target group. While the mission found that at the field level, collaboration is functioning well, coordination between the different administrative levels of the project could be improved. The mission found strong support of the respective Governors and District Mayors (Bupati), which is important not only for implementation but also sustainability. This relationship should actively be managed. The mission further observed some partnerships with the private sector seed company in North Halmahera. But these are ad-hoc and not facilitated by the project.

Human and Social Capital and Empowerment	Rating: 5	Previous rating: 4
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Justification of rating

The project's performance in human and social capital and empowerment is considered as satisfactory. Poor rural women and men are being supported to develop and their organizations were strengthened. They gain some control over economic relations and institutions and actively participate in local decision-making processes. They are now in a better position to gain access to essential social and productive services. Through the project support, their overall capacity of both men and women, individually and collectively have been built, strengthened and expanded to allow beneficiaries to have control over their economic and social development.

Main issues

The project continues to provide support to strengthen group management and institutional capacity. Generally SHGs and federations have improved their technical capacities (production, processing and involvement in value chain and market development), organisational capacities (group institution and relations) as well as managerial capacities; i.e. group have general knowledge on administration (book keeping) and rudimentary financial management. They also have shown more independence in their capacity to plan SHG activities, as well as their internal governance and fund management guidelines. They are actively participating in decision making process on their livelihood activity options. Nevertheless, despite an improvement, most of the SHGs are still clearly dependent on the project facilitators and agricultural extension workers to motivate their participation and guide decision-making. As the project enters its final stages, more intensive support is required to ensure that the institutions established with project support have the necessary capacity, incentives, and financial means to sustain and develop.

Quality of Beneficiary Participation	Rating: 4	Previous rating: 4
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Justification of rating

The quality of beneficiary participation is considered moderately satisfactory. There are mechanisms in place to ensure that all project activities are demand driven and respond to specific needs and feedback from project beneficiaries. Beneficiary contributions have been significant through the provision of land, labour and materials, and have been quantified to be in line with project design targets. The

mission observed the high level of project beneficiary engagement and enthusiasm for the project, and the high expectation that SOLID will deliver sustainable development results. The main challenge for the project is ensure that the high degree of ownership and participation is rewarded with strong project results.

Main issues

The project has achieved reaching 81% of its expected target beneficiaries. Considering the limited implementation period remaining, it is unlikely that the project will be able to expand on this results. In addition, as indicated above, there has been an increase in the number of group members withdrawing from project activities. The project management, working with the NGO service providers will need to ensure that the quality of facilitation and project support remains high to incentive the continued participation of group members. In addition, In terms of the performance of groups, according to the latest annual Participatory Self-Monitoring Evaluation (PSME) 1166 SHGS are ranked as good, 889 as average and 137 as poor. This also shows that there is room for improving beneficiary participation and engagement.

Responsiveness of Service Providers	Rating: 4	Previous rating: 4
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Justification of rating

Responsiveness of service providers is considered as moderately satisfactory. The project engages a number of main service providers including an NGO in each province, a team of consultants who are assigned at national, provincial and district levels, and agricultural extensionists at the field level. The quality of services are generally good, but there is some variation with the quality of delivery of the NGOs, the agricultural extension workers and the consultant teams.

Main issues

As SOLID engages a number of different service providers, it is important that the project management more actively manages its service provision. The mission observed tensions between some service providers and the project management highlighting an opportunity to enhance the planning and coordination of inputs; and particularly to strengthen the integration of services being provided to project beneficiaries. For example, in a number of villages visited by the mission, the lack of service delivery integration was apparent between the village facilitators delivering social mobilization support, the agricultural extension workers delivering extension support, and the project consultants providing technical inputs, all in isolation. Given the limited time the project has remaining, it is critical for the project to focus on how to strengthen coordination to ensure the support delivery is managed in a more effective and integrated way.

Environment and Natural Resource Management	Rating: 4	Previous rating: 4
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Justification of rating

Environment and natural resource management is considered moderately satisfactory. The project is implemented in a remote fragile environment where risk and vulnerability for the project beneficiaries is high. The project has contributed to a modest improvement of the resource base as a result of SOLID activities and there is no apparent negative impact on the environment as a result of the project.

Main issues

SOLID was originally rated as a Category B project at the time the project was approved, given the perceived minimal potential for negative environmental impact at the time of project design. This rating has been confirmed during implementation. On balance, the project has positively impacted on the environment and natural resources. The improvements in food and cash crop production brought about by the project have reduced incentives for shifting agriculture. Most of the farmers met by the mission were engaged in organic or low input production practises with only very few applying herbicide and no cases reported to the mission of pesticide use. Indeed, this has enabled farmers to market products such as ground nuts as organic. Farmers are cultivating drought tolerant staple crops such as cassava and sweet potato. Through linking with CIAT, the project is also experimenting with raised bed cultivation of improved varieties of cassava, which should further enhance drought tolerance. The project emphasis on generating household savings is further reducing vulnerability. Based on farmers' reports, the income smoothening effect of savings and loan activities along with homestead gardens are allowing households to get through drought periods without having to cut back on meals.

Exit Strategy	Rating: 3	Previous rating: 3
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Justification of rating

Exit strategy is rated a moderately unsatisfactory. Despite joint review recommendations dating back to 2015, a project-wide exit strategy has not yet been developed and clear stakeholder support still needs to be obtained.

Main issues

As detailed above, the immediate priority for the project is the development of an exit strategy. SOLID must urgently develop an exit strategy defining the critical path to increase the likelihood of sustainability and providing clear direction for the allocation of project resources, both human and financial, during the final year of implementation. This exit strategy should prioritize practical action related to the key aspects to promote sustainability including: (i) institutional sustainability (e.g. actions to ensure that groups receive targeted intensive support to increase likelihood of institutional sustainability), technical (intensive support provided to sustain productivity improvements and business relationships), financial (reduce risk of financial savings and outstanding loans, and improve the financial viability of federations and business units), social (build social capital and planning for post project). The exit strategy must also define how SOLID will ensure that post-project support continues either through local government contributions and/or partnerships with private sector.

Potential for Scaling-up	Rating: 4	Previous rating: 4
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Justification of rating

The potential for scaling up is considered moderately satisfactory. There is strong interest from the Government, particularly at the provincial and district levels for the scaling up the project approach and project benefits. During the mission, commitments were made by local government authorities to invest their own resources to ensure that the project continues and is further replicated.

Main issues

While the project has good potential for scaling up and replication, until there is greater evidence of sustainable outcomes and a clearer strategy towards managing project exist and transition, this outcome remains unlikely. As a part of the exit strategy the project management should invest in engaging with provincial and district government authorities to facilitate the dialogue and process around scaling up. in Maluku and North Maluku. Strengthening the management of knowledge will be key to facilitate the scaling up of interventions.

c. Project Management

Quality of Project Management	Rating: 4	Previous rating: 4
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Justification of rating

The quality of project management is rated as moderately satisfactory. Although there has been continued improvement in the quality of project management, and pleasingly there has been stability in the project management personnel for the previous two years, there remains room for improvement particularly with respect to promoting more effective coordination, proactively addressing implementation issues, and providing the necessary guidance and leadership for the achievement of the project objectives.

Main issues

Overall, there has been a improvement in project management performance since the previous joint review mission. The NPMO has continued to try to build effective engagement with provincial and district teams, project monitoring and reporting has slightly improved, and there now a clearer focus on expected project results. The NPMO has been making concerted efforts to improve coordination between the various administrative layers of the project management structure and there has been progress with the integration between the project management staff, consultants and the NGO teams, although there is still an urgent need of improvement.

There remains some important gaps between the role and function of the provincial staff and their expected contribution in supporting district level implementation. Ensuring that the provincial staff coordinate in assisting the NPMO engage with districts, and visa versa, should be a prime objective. The district management teams continue to mostly perform well, although there are challenges with respect to the flow of important information and data to support project management decision making.

As the project enters its final phase, the key emphasis for project management at all level is to concentrate on improving

Knowledge Management	Rating: 3	Previous rating: 3
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Justification of rating

Knowledge management is rated moderately unsatisfactory. The project does not have a clear knowledge management strategy or plan, however some activities are included in the AWPB, with minimum budget allocated. The mission notes that there has been more effort over the past year to document and share project results and learning, however this remain somewhat ad hoc. Responsibilities for knowledge management are not formally assigned, however some project staff see the benefits of KM, and take the initiative to ensure activities are planned and implemented. Learning systems are weak and project experience is not being sufficiently well documented and shared. The mission observed a number of good practices that had been generated from project implementation that were unfortunately not captured or documented and communicated effectively. The project management at all levels has been making effort to more actively promote the project activity and share success stories through publications and social media.

Main issues

The objective for knowledge management should be to assist the project to build practical and actionable knowledge and know-how that leads to improved project performance and results, and supports innovation, scaling up and country-level policy engagement. As SOLID is designed as a model for remote such as in Maluku and North Maluku, ensuring that knowledge and lessons learned are capture and disseminated is important. There are pockets of innovation across the project that should be captured and shared. For instance, in East Seram the success in developing village businesses and public and private partnerships to support building market linkages is an example that should be captured and shared with other districts. With respect to monitoring outcomes and impact, the M&E system currently is still not being leveraged as an information source that support the knowledge and learning agenda. The 2017 annual outcome survey has reported good results and it is therefore it is important for the project to start collecting the right data and results information to present the project impact in the final year of implementation.

Value for Money	Rating: 3
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Justification of rating

Value for money is rated as moderately unsatisfactory. Project investments represent only moderate value for money, particularly given the significant reduction in project outreach approved at the time of the mid-term review.

Main issues

When SOLID was approved in 2011, the economic internal rate of return generated in the EFA was estimated at 15%. The total number of beneficiaries was estimated at 198,000 (49,500 farm families with four members per family). With an IFAD loan of USD 49.11 million, the cost per beneficiary of the IFAD loan was originally USD 248. This was not unexpected, given that the project was located in a very remote project area, with a low density population scattered across a number of islands. Furthermore, while on the high side, it was not that much higher than the IFAD average of USD 176. Nevertheless, at the time of the mid-term review, the outreach target was reduced from 49,500 farm families to 33,600 farm families given the difficulty of finding sufficient members for SHGs in low population density areas. This has now further dropped to the current total of 27,737 farm families (with 4 persons per family, this translates as 110,948 beneficiaries). In other words, the cost per beneficiary of the IFAD loan has risen from USD 248 to USD 443. This significant increase in unit cost per beneficiary almost certainly has caused a drop in the economic internal rate of return. In spite of this, the mission was impressed by the growth in crop production, and by the increases in incomes reported by the AOS survey, and remains confident that the financial rates of return on individual household activities will be good.

Coherence between AWPB and Implementation

Rating: 4

Previous rating: 3

Justification of rating

The coherence between the AWPB and implementation is considered moderately satisfactory. As at the time of the mission, the project had achieved 74% of its expected annual work plan and budget estimates. The project experienced some delays related to its 2017 budget release due changes of nomenclature as a result of the institutional changes at the National and Sub-National level; revision to government's Chart of Accounts; and revised output (targeted village).

AWPB Inputs and Outputs Review and Implementation Progress

The project's 2017 annual workplan and budget estimates a total budget of IDR 110.57 billion consisting of loan, grant and GOI counterpart funds. The main activities budgeted as a part of the AWPB relate to support for: (i) agriculture production and marketing; (ii) institutional strengthening and project management; and (iii) community development and gender, (iv), equipment to support Component 2, and (v) trainings, study, workshops.

As in previous years, delays in the confirmation and release of government budget has effectively led to both delays in implementation (3 month delay at the start of the financial year) and also a bunching of project activities towards the end of the year creating pressure on project management and a risk to the quality of implementation.

Performance of M&E System

Rating: 4

Previous rating: 3

Justification of rating

The performance of the project monitoring and evaluation (M&E) system is moderately satisfactory. The M&E system is acceptable and regularly reports on progress at different levels (outcomes, outputs, activities, etc.). There are issues with respect the reliability of data and information and its utility in informing project planning and decision making processes.

M&E System Review

Monitoring and evaluation has been a persistent issue for the project since inception. Despite significant investment in technical support and the allocation of specialist technical consultant inputs, the project still struggles with ensuring that project management has the right information to inform project progress and results and to make effective decision making.

On the positive side, the project is able to report on a regular basis basic information related to activities and outputs. Data is generally aggregated by gender, age group and other characteristics of the target group. Additionally, the project has also been able to institute an annual outcome survey that provides invaluable information regarding the achievement of higher level results. However, delays, inconsistencies in data and a failure to properly analyse and utilize this information for management purposes undermines the good effort.

There remains a focus within the project M&E system on collecting large amounts of data that is either underutilized or not relevant for project management purposes. As the project enters its final year of implementation, there is now an urgent need to focus the M&E system on collecting data and information related to outcomes and impact – and to ensure that the project generates the necessary knowledge on lesson learned. As a part of the project exit strategy and preparation for project closing (PCR), the project management should identify the various assessments and studies that will be required to inform on project performance and results. These activities should be planned and adequately resourced within the 2018 Annual Work Plan and Budgeting exercise.

Requirements of Social, Environmental and Climate Assessment Procedures (SECAP)

Rating: 4

Justification of rating

The rating for the requirements of SECAP is moderately satisfactory. Although the project design pre-dates IFAD's SECAP requirements, as detailed in earlier sections, during implementation, the project has been able to adapt to enhancing social, environmental and climate opportunities and reducing any potential adverse impacts on local communities. Rather than the compliance based approach of SECAP, the project design did include some enabling measures to ensure that mechanisms are in place to guide the project implementation with respect to social, environmental and climate.

d. Financial Management & Execution

Disbursement by financier

Type	Name	Current Amount	Disbursed Amount	Actual Rate
Domestic Financing breakdown	National Government	\$14,811,402		

Acceptable Disbursement Rate

Rating: 5

Previous rating: 5

Justification of rating

Acceptable disbursement rate is rated as satisfactory. This rating is automatically calculated by IFAD's Operational and Results Management Systems (ORMS). The moderately satisfactory rating means the disbursement rate is greater than or equal to 70% and less than 95% of the IFAD's Project Disbursement Profile for the Rural Development type of project. The disbursement rates has improved since the last supervision mission. As at 11 October 2017, the loan disbursement rate has increased from SDR 23.82 million to SDR 26.52 million, a 9% increase.

Fiduciary Aspects

Quality of Financial Management

Rating: 4

Previous rating: 4

Justification of rating

Quality of financial management is rated as moderately satisfactory. The mission noted improvements in the financial management performance as compared to previous years particularly with respect to the overall disbursement rate, budget monitoring, quality of the project's financial reports, submission of Withdrawal Applications and project's audit reports. The mission observed moderate shortcomings in the project's financial management performance including inter alia slow initial 2017 budget utilization mainly due to delays in the budget revision; weaknesses in the community level bookkeeping and the project's financial reports; lack of village facilitators' mentoring and monitoring; and long outstanding BPKP audit findings.

Main issues

Financial Reports. The mission reviewed the project sources and use of funds for the year ended 31 December 2016 and observed the following: (i) there is no breakdown by source of financing; (ii) the equivalent US\$ amount is not available; (iii) incorrect use of cost category of IDR 1,197,643.600 under IFAD Loan is reported as category 7 – unallocated; and (iv) there is no disclosure on the project's assets register. The mission also noted that cumulative advances reported in the Designated Account Activity Statements do not reconcile with IFAD's records.

Payment verification (internal control). The mission reviewed payment verification processes in the project offices at provincial and district levels for payments related to NGOs, SHGs, travel, and procurement of goods. Based on the transaction review results, the mission noted that, in general, the invoices were supported with adequate supporting documents.

Financial Management Performance at Community Level (internal control). The mission reviewed samples of payment verifications and documentations in the villages visited. The mission noted several weaknesses such as incomplete and unavailability of adequate supporting documents, incomplete bookkeeping, inaccurate records, delay in records, previous years records are missing, long delays in submission of the federation's accountability reports, and high cash on hand balance.

Some Agricultural Revolving Fund (ARF) issues noted during the mission, include the high rate of idle funds, long overdue repayments, low loan repayment rates, and that some SHGs have not established their own policies on meeting schedules, repayment schedules and grace period. Based on interview with SHGs' head of groups and treasurers, the mission noted limited knowledge and lack of understanding on the financial management of ARF.

Village Facilitators Performance. The mission noted the limited understanding by village facilitators on the project financial management aspects, particularly for those newly recruited/replacements village facilitators. Poor mentoring skills, long absence/infrequent visits, and lack of knowledge on rating the SHGs' FM performance were also noted. . More support from provincial coordinator and district supervisor is still needed to improve the facilitators' performance including inter alia random spot checks to monitor the village facilitators' performance by comparing their reports against the actual conditions, mentoring activities during the regular district coordination meeting, and improved project technical guidelines/manual.

Assets Management. Based on the applicable government regulations, procurement of goods that met criteria for capital expenditures are recognized as assets (account code no.53), recorded in the Accounting System of State Assets (SIMAK-BMN), updated and reconciled periodically with the Directorate General of State Assets Management (DJKN), Ministry of Finance (MoF). SIMAK-BMN can only generate assets register at the working unit (*Satuan Kerja*) level without tracking at the project level. Each working unit may manage more than one project. The mission was informed that the project offices maintains the assets register manually in a spread sheet by reconciling their SIMAK-BMN's report with the relevant payment advices (SP2D).

Procurement of goods intended for transfer to community groups/regional government are recognized as supplies (account code no.5263), recorded in the Accounting System of State Supplies, updated, and reported to the DJKN periodically. The project offices also maintain the list of transferred assets manually.

Agreed Action	Responsibility	Agreed Date
9. Financial Reporting Improve the quality and presentation of the project sources and use of funds and Designated Accounts Activity Statements	NPCO	04/2018
11. Financial Management. Perform random oversight checks by provincial coordinator and district supervisor as per the project guidelines. Random check results should be used to monitor and assess facilitators' performance.	PPCU, DPIU, and LSM	06/2018
10. SHG Monitoring. Ensure continuous quality monitoring and assistance by village facilitators to SHGs and Federations	PPCU, DPIU, LSM	06/2018

Quality and Timeliness of Audit

Rating: 4

Previous rating: 4

Justification of rating

Quality and timeliness of audit is rated as moderately satisfactory. The 2016 BPKP audit report was submitted to IFAD on time with an unqualified opinion. The audit reports substantially comply with agreed terms of reference IFAD guidelines and acceptable auditing standards. The 2016 audit covers 9 out of 11 targeted districts (or 81.8% of the project locations).

Main issues

Findings noted by BPKP among others are internal control systems need to be improved particularly in the areas of payment verification (such as overpayment, overpricing, incomplete and inadequate supporting documents), contract management, project monitoring, and procurement. Among the findings, refund to the State Account (*Kas Umum Negara*) totalling IDR 485 million is required.

Based on information provided by the NPCO as of 11 October, 2017, the number of outstanding findings is 25 cases. A total of 63 cases from 88 cases (or 72%) have been followed up by the project. There are five long outstanding findings from FY2012-FY2014 audit totalling to IDR 250 million. 11 out of 25 unresolved audit findings are from South Buru District.

The NPCO's BPKP reconciliation report is a good tool to monitor and track follow-up of audit findings. However, the report only includes financial findings and is without the necessary information on the source of financing for each financial finding. Thus, it's difficult to assess the improvements on the internal control system and determine the required amount to be recovered to the project's Designated Accounts.

The project is not using the internal audit services provided by the Inspectorate General of Ministry of Agriculture (MoA) due to its limited capacity. The mission is informed that the Inspectorate General only requests for copies of the previous BPKP audit reports for consolidation and monitoring of audit findings at the ministry level. There have been no separate internal audit assignments carried out specifically for the project.

Agreed Action	Responsibility	Agreed Date
12. Audit Findings. Follow up the audit findings and ensure that clearance letter is received from the BPKP regional offices. The project should inform IFAD about the status. The NPCO should also work on the internal control weaknesses as reported by the auditor and improve the internal control system	NPMO	12/2017
13. Audit Reconciliation. NPCO to improve the BPKP reconciliation report to track findings based on source of financing and include non-financial findings	NPMO	12/2017

Counterparts Funds

Rating: 5

Previous rating: 5

Justification of rating

Counterpart funds is rated as satisfactory. The cumulative actual amount of government counterpart funds used to finance project expenditures as of 11 October 2017 was IDR 121 billion or equal to 78% of the cumulative amount of government budget of IDR 155 billion.

Compliance with Loan Covenants

Rating: 5

Previous rating: 5

Justification of rating

Compliance with loan covenants is rated as satisfactory. Most of the covenants have been complied. Out of 19 covenants, 17 are fully complied, 1 is partially complied, and 1 is not yet due related to project closing.

Procurement

Procurement

Rating: 4

Previous rating: 4

Justification of rating

Procurement is rated as moderately satisfactory. There are some delays in the procurement process for FY2017 mainly caused by delay in the Government Budget (DIPA) revision due to change of nomenclature for the working units at provincial and district level. The change of nomenclature results in the delay of the revision for activity budget code (DPA) at the district budget level (APBD). The mission reviewed sample of procurement documents for vehicles and advise the project to implement the Government of Indonesia's Procurement Regulation, i.e. Presidential Decree 54/2010 and the relevant amendments.

<i>Agreed Action</i>	<i>Responsibility</i>	<i>Agreed Date</i>
14. Contract Register. Ensure that Contract Registers are regularly updated and shared with IFAD on a monthly basis.	NPMO, PPCU, DPIU	01/2018

F. Relevance

Relevance

Rating:

G. Agreed Actions

Agreed Action	Responsibility	Agreed Date
2. Project Completion Process Prepare an action plan that includes the key milestones for the project completion process. This will also clearly define the project M&E and KM requirements to inform the preparation of the PCR.	NPMO	12/2017
12. Audit Findings. Follow up the audit findings and ensure that clearance letter is received from the BPKP regional offices. The project should inform IFAD about the status. The NPCO should also work on the internal control weaknesses as reported by the auditor and improve the internal control system	NPMO	12/2017
13. Audit Reconciliation. NPCO to improve the BPKP reconciliation report to track findings based on source of financing and include non-financial findings	NPMO	12/2017
7. Project Management and Coordination. Based on the Exit Strategy, arrange an initial socialization and quarterly review process to improve project management coordination. Specifically prioritize and define responsibilities for 2018 delivery.	NPMO	12/2017
1. Exit Strategy. Develop a project exit strategy. This will define the key 2018 strategic priorities allocation of 2018 project resources. The Exit Strategy will include a detailed plan for project sustainability ¹ . Exit Strategy.	Lead: NPMO	01/2018
14. Contract Register. Ensure that Contract Registers are regularly updated and shared with IFAD on a monthly basis.	NPMO, PPCU, DPIU	01/2018
4. Federations and Business Units Sustainability. Assess the capacity and likely sustainability of federations and business units. Provide targeted support, for instance for business planning to improve the likelihood of post-project sustainability.	NPMO, PPCU, DPIU, LSM	03/2018
6. Agricultural Production and Marketing. Intensify technical support to SHGs and federations for post-project agricultural production and marketing planning. Each group should have a specific plan for post-project activities and support	NPMO, PPCU, DPIU, PPL	03/2018
9. Financial Reporting Improve the quality and presentation of the project sources and use of funds and Designated Accounts Activity Statements	NPCO	04/2018
10. SHG Monitoring. Ensure continuous quality monitoring and assistance by village facilitators to SHGs and Federations	PPCU, DPIU, LSM	06/2018
11. Financial Management. Perform random oversight checks by provincial coordinator and district supervisor as per the project guidelines. Random check results should be used to monitor and assess facilitators' performance.	PPCU, DPIU, and LSM	06/2018

3. SHG Sustainability. Intensify capacity building of the existing groups for enhanced group cohesion, administration, repayment of outstanding loans, and maintenance of regular savings discipline. Ensure as many group members as use bank accounts.	NPMO, PPCU, DPIU,LSM	06/2018
5. SHG/ Federation Graduation. Organize a graduation ceremony for each of the “active” Federations and all SHGs, handing over an accurate up to date group financial statement showing exact financial position of each Federation and each SHG.	NPMO, PPCU, DPIU,LSM	10/2018
8. Village Implementation Teams Review the function and performance of Village Implementation Team. Provide capacity building support and direction to improve village level coordination and communication.	NPMO.	

Smallholder Livelihood Development Project in Eastern Indonesia

Logical Framework

Results Hierarchy	Indicators							Means of verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Annual Result	Cumulative Result	Cumulative Result %	Source	Frequency	Responsibility	
Outreach	1.a Corresponding number of households reached							Progress Reports	Annual	Project	
	Non-women-headed households			33600	27060 (2016)						
	Women-headed households										
	1 Persons receiving services promoted or supported by the project							Progress Reports	Annual	Project	
	Males			16800		12930 (2016)	77.0% (2016)				
	Females			16800		14130 (2016)	84.1% (2016)				
	Groups receiving project services							Progress Reports	Annual	Proejct	
	Group			2240		2192 (2016)	97.9% (2016)				
Goal To enhance food security and increase incomes in beneficiary household	Households with improvement in HH assets ownership index							Impact Assessments	3 x	project	Project Managers at all levels are effective and engaged in SOLID implementation.
	Households			33600							
	40% reduction in the prevalence of child malnutrition							Impact Assessments	3 x	project	
	Reduction in the prevalence of child malnutrition			40							
Objective Improve livelihoods and to reduce the incidence of poverty	HHs reporting increase in food security							Impact Assesment	Annual	Project	Project Managers at all levels are effective and engaged in SOLID implementation.
	Households			26880							
	Households										

Outcome Communities with enhanced capacity for households food security and agriculture income planning											
Output SHGs capable of managing and sustaining group resources (both human & financial)	SHG trained and operational							Progress Reports	Annual	Proejct	Facilitation NGO operational by 1.11.14; VFs are respected and effective in facilitating the CD process; PPLs and VFs work together effectively
	SHG trained and operational			2240		2192 (2016)	97.9% (2016)				
Output SHGs capable of planning and implementing their production and post-harvest activities	Village/community plans formulated							Project	Annual	project	Facilitation NGO operational by 1.11.14; VFs are respected and effective in facilitating the CD process; PPLs and VFs work together effectively
	Plan			330	224 (2016)	672 (2016)	203.6% (2016)				
	Community groups with women in leadership position							RIMS	Annual		
	Groups with women in leadership position			850	0 (2016)	696 (2016)	81.9% (2016)				
	People in saving and credit groups formed/strengthened							RIMS	Annual	Project	
	Females			16800		14130 (2016)	84.1% (2016)				
	Males			16800		12930 (2016)	77.0% (2016)				
	People accessing advisory services facilitated by the project							RIMS	Annual	Project	
	Males			16800		12930 (2016)	77.0% (2016)				
	Females			16800		14130 (2016)	84.1% (2016)				
	1.1.5 Persons in rural areas accessing financial services							RIMS	Annual		
	Total persons accessing financial services - credit										

	Women in rural areas accessing financial services - credit			16800		14130 (2016)	84.1% (2016)	Progress Reports	Annual	Project	
	Total persons accessing financial services - savings										
	Saving groups formed/strengthened										
	Saving groups			2240		2192 (2016)	97.9% (2016)				
Outcome Households with more food and cash crops available for both home consumption and/or sale	50% HHs reporting regular market sales of food and cash crops							Annual Outcome Survey	Annual	Project	Adequate support provided by NGO, extension staff (PPL), traders and SOLID Project District Staff. Favourable seasons & growing conditions (pest, disease, drought).
	Households			50							
Output Increase in household income as a result of increased sales of agricultural products.	75% of HHs reporting 30% increase in annual cash income from sale of food and cash crops.							Outcome Surveys	3 x	Project	PPLs actively engaged in implementation; PPLs equipped with full set of skills; Farmers actively engage in activities; S&L funds operate transparently for all members with borrowers willing to repay loans in full, on time.
	Households			75							
	1.1.4 Persons trained in production practices and/or technologies							Progress Reports	Annual	Project	
	Men trained in crop			16800		12930 (2016)	77.0% (2016)				
	Women trained in crop			16800		14130 (2016)	84.1% (2016)				
Outcome Increased household incomes from sales of 3 selected estate crops (coconut, cacao & nutmeg)	50% of village crop producers reporting a 20% increase in monthly cash income from sale of estate crop related products							Annual Outcome Survey	Annual		Market stability in 3 selected VCs.
	Village crop producers (SHGs)			1120							
Output Farmers with improved market linkages & understanding of market requirements	2.1.5 Roads constructed, rehabilitated or upgraded							RIMS	Annual		
	Length of roads			330	27 (2016)	69 (2016)	20.9% (2016)				

	2.1.2 Persons trained in income-generating activities or business management						RIMS	Annual			
	Females			16800		14130 (2016)					84.1% (2016)
	Males			16800		12930 (2016)					77.0% (2016)
Output Federations established as sustainable business units with capacity to represent farmer interests in the market place and/or add value to any or all of the 3 selected products	2.2.3 Rural producers' organizations engaged in formal partnerships/agreements or contracts with public or private entities						Progrees Reports	Annual	Project	Market stability in 3 selected VCs.	
	Women in leadership position										
	Number of POs										
	2.1.3 Rural producers' organizations supported						Progress Reports	Annual	Project		
	Females										
	Rural POs supported										