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Invertir en la población rural

República de Indonesia
Evaluación del programa en el país

Nota para los representantes en la Junta Ejecutiva

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Para examen

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La presente evaluación del programa en el país se ha elaborado bajo la responsabilidad de Ashwani Muthoo, ex Director Adjunto de la Oficina de Evaluación Independiente del FIDA (IOE), quien contó con la colaboración de Oanh Nguyen, ex Oficial de Evaluación de la IOE, y de los consultores siguientes: Jayasankar Shivakumar (jefe de equipo), Dorte Kabell (actividades no crediticias), Mohinder Mudahar (agricultura), Sarath Mananwatte (evaluación de la cartera), Suwan Young (igualdad de género y desarrollo comunitario), Zafar Ahmed (gestión de programas) y Rauno Zander (financiación rural).

Los homólogos internos de la IOE encargados de este examen proporcionaron observaciones sobre el documento conceptual y el proyecto de informe. Linda Danielsson y Kendra White, ex Auxiliares del Director Adjunto, prestaron apoyo administrativo.

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Resumen

1. **Contexto del país**. Indonesia es un país de ingresos medios de rápido crecimiento en Asia sudoriental y es el cuarto país más poblado del mundo. Ocupa una superficie de 1 904 433 kilómetros cuadrados y abarca más de 17 000 islas, de las cuales 6 000 están habitadas. Más del 80 % del territorio de Indonesia está cubierto de agua. Su economía tiene una base macroeconómica sólida y en los últimos años ha demostrado tener capacidad de resistencia a las crisis externas y a la desaceleración económica mundial. Aunque la tasa de pobreza nacional se redujo al 12 % en 2012, gran parte de la población sigue siendo pobre y vulnerable. Aproximadamente una cuarta parte de los indonesios viven por debajo de la línea oficial de "casi pobreza" (que corresponde a 1,2 veces el gasto establecido para la línea de pobreza), mientras que dos quintas viven por debajo del umbral equivalente a 1,5 veces el gasto establecido para la línea de pobreza. En los últimos años, la mitad de los hogares pobres han visto empeorar su situación y han vuelto a caer en la pobreza. Casi el 50 % de la población de Indonesia vive en las zonas rurales.

2. La reducción de la pobreza rural, que constituye el mandato del FIDA, sigue siendo un tema central en Indonesia. La agricultura es una fuente importante de sustento e ingresos para los dos tercios de la población pobre del país. Por tanto, el crecimiento agrícola es fundamental para reducir la pobreza. Los desafíos con que se enfrenta este sector son la baja productividad; los déficits de capacidad en los servicios gubernamentales, que se ven agravados por la rápida descentralización; la insuficiencia de los presupuestos nacionales destinados a apoyar la productividad agrícola; la escasa participación del sector privado; los efectos del cambio climático; las cuestiones relacionadas con la seguridad alimentaria, y la falta de empoderamiento de los agricultores.

3. **Programa respaldado por el FIDA**. La cooperación entre el FIDA y el Gobierno de Indonesia comenzó en 1980 y, desde entonces, ha resultado en 15 proyectos financiados por el Fondo con préstamos por un total de USD 409,9 millones. Esta es la segunda evaluación del programa en el país (EPP) relativo a Indonesia realizada por la Oficina de Evaluación Independiente del FIDA (IOE). Abarca nueve años, cinco de los cuales (2004-2008) son anteriores al programa sobre oportunidades estratégicas nacionales (COSOP) aprobado en 2008, y los otros cuatro (2009-2012) están abarcados por el COSOP para el período 2009-2013. El COSOP tiene los tres objetivos estratégicos siguientes: i) aumentar el acceso de la población rural pobre a los activos productivos, las tecnologías adecuadas y los servicios de apoyo a la producción para intensificar la productividad agrícola y no agrícola; ii) mejorar el acceso de la población rural pobre a la infraestructura, los mercados de insumos y productos y los servicios financieros, y iii) fomentar la capacidad de la población rural pobre para participar en los procesos de políticas y de programación a nivel local.

4. La presente EPP abarca siete proyectos financiados por el FIDA. Dos de ellos, el Proyecto de Generación de Ingresos para Agricultores Marginales y Campesinos sin Tierra – Fase III y el Programa de Desarrollo Integrado Participativo en las Zonas de Secano en el Período Posterior a la Crisis, se completaron. El Programa de Fomento de la Capacidad de Acción de las Comunidades Locales en Kalimantan Oriental se canceló. Otros tres proyectos están en curso de ejecución, a saber: el Programa de Potenciación Rural y Desarrollo Agrícola en Sulawesi Central, el Programa Nacional para el Empoderamiento Comunitario en las Zonas Rurales y el Proyecto de Desarrollo de los Medios de Vida de los Pequeños Agricultores en Indonesia Oriental. Además, recientemente se ha aprobado el Proyecto de Fomento de las Comunidades Costeras. Las tres donaciones aprobadas por el FIDA durante el período abarcado por el COSOP están relacionadas con los tres proyectos en curso; Indonesia también participa en varias donaciones a nivel mundial y regional.

5. **Resultados de la cartera**. Los resultados generales de la cartera se han calificado de moderadamente satisfactorios. Los objetivos de los proyectos eran pertinentes, pero su diseño era complejo y su orientación, poco precisa. Los últimos proyectos abarcaron zonas geográficas muy vastas, con una baja densidad demográfica, y había déficits de capacidad a nivel subnacional. Por consiguiente, los recursos se dispersaron demasiado.

6. Los resultados de la cartera han sido prometedores en cuanto a la movilización social y las cuestiones de género con los grupos de autoayuda y el fortalecimiento institucional, que fueron características fundamentales de los siete proyectos financiados por el FIDA. También se han hecho notables progresos en la mejora de la infraestructura social. Sin embargo, los resultados relacionados con el fomento del desarrollo agrícola y no agrícola y la productividad agrícola han sido más limitados. A pesar de que el aumento de la productividad y la agregación de valor se incluyeron en el diseño de los proyectos, no se prestó atención suficiente a estas actividades durante la ejecución.

7. La sostenibilidad es un problema debido a la falta de capacidades en las aldeas y las comunidades, así como a la deficiencia de los sistemas de seguimiento y evaluación, lo que limita la capacidad de los gerentes de los proyectos de aprender de las experiencias y asegurar la sostenibilidad de los logros de los proyectos. Por lo que respecta a la innovación y la ampliación de escala, los dos proyectos cerrados —el Proyecto de Generación de Ingresos para Agricultores Marginales y Campesinos sin Tierra – Fase III y el Programa de Desarrollo Integrado Participativo en las Zonas de Secano en el Período Posterior a la Crisis— brindaron oportunidades al respecto, pero es poco lo que se ha logrado en la cartera actual debido a la escasa atención prestada en los proyectos al aprendizaje y la gestión de los conocimientos.

8. El cambio del FIDA a la supervisión directa y el apoyo a la ejecución está teniendo repercusiones positivas. En los últimos dos años se han logrado rápidas mejoras y la supervisión del FIDA ha acercado a su personal a la realidad sobre el terreno. Sin embargo, esta cuestión exige mayor atención, en particular la realización de más misiones periódicas de supervisión que cuenten con la participación de expertos adecuados. La supervisión directa tiene el potencial de ser aún más eficaz con los ajustes necesarios.

9. La gestión del programa del FIDA en el país fue deficiente durante la mayor parte del período abarcado por la EPP. Hubo una falta de atención de la dirección y de liderazgo, como demuestra el hecho de que no existe constancia de que el Director Regional haya viajado a Indonesia después de mediados de 2008. Sin embargo, el nuevo gerente del programa en el país (GPP) asignado a Indonesia en 2011 está haciendo un trabajo excelente para revitalizar la asociación bajo el liderazgo de la nueva Directora de la División de Asia y el Pacífico (APR). El FIDA tiene que comunicar más eficazmente sus fortalezas y limitaciones en relación con su programa en el país, especialmente en el contexto de la condición de Indonesia de país de ingresos medios.

10. El Gobierno se ha identificado con el programa del FIDA y se ha responsabilizado de este. Sin embargo, si bien el Gobierno se ha comprometido totalmente con el diseño y el concepto de los proyectos, se podría haber hecho más para apoyar los objetivos de los proyectos. El Gobierno podría haber sido más directo al solicitar al FIDA que limitara sus actividades a los pequeños agricultores y sus grupos, y que mejorara la productividad agrícola a través de la tecnología, el desarrollo de cadenas de valor y el empoderamiento de estos grupos.

11. **Actividades no crediticias**. Los resultados relacionados con las actividades no crediticias (como el diálogo sobre políticas, la gestión de conocimientos y la creación de asociaciones) fueron escasos, si bien estos son cada vez más importantes en vista de que Indonesia es un país de ingresos medios. Las

donaciones respaldaron las actividades relacionadas con los proyectos, pero tuvieron poca influencia adicional en la mejora de las actividades no crediticias. En general, las sinergias entre los proyectos y entre las actividades crediticias y no crediticias y las donaciones resultaron insuficientes.

12. El FIDA ha participado en muchos debates especiales a nivel de proyecto, pero no ha aprovechado los conocimientos generados mediante la ejecución para ampliar el diálogo sobre políticas. Durante la ejecución del COSOP se elaboró una estrategia de gestión de los conocimientos y comunicación para Indonesia, pero los esfuerzos desplegados en las actividades relativas a los conocimientos basadas en la web todavía tienen que surtir efectos. Las asociaciones no han sido estratégicas o selectivas. Por lo general, en Indonesia, el FIDA ha actuado como una organización basada en proyectos, y se necesita un cambio de paradigma para centrar la atención en la ampliación de escala de las innovaciones mediante las actividades no crediticias.

13. **Resultados del COSOP**. En términos generales, los tres objetivos estratégicos del COSOP son pertinentes y de gran alcance y logran un equilibrio entre el aumento de la productividad agrícola, la mejora de la infraestructura, el acceso a los mercados y el empoderamiento de las comunidades, lo que propicia la reducción de la pobreza rural; asimismo, se ajustan a las necesidades del país. Sin embargo, las prioridades relacionadas con los objetivos no se definieron, y el COSOP era demasiado ambicioso, con una asignación insuficiente de recursos para lograr los resultados previstos.

14. La gestión del COSOP ha sido deficiente: el COSOP no se utilizó como un "documento dinámico", con exámenes anuales; el marco de resultados era complejo; la revisión a mitad de período se llevó a cabo tardíamente, y el apoyo técnico para el programa en el país no fue suficiente. Parece que el FIDA no dedicó la atención que se requería de la dirección a la cooperación en Indonesia desde 2004-2005, aproximadamente, hasta hace poco (el nuevo GPP nombrado en 2011 ha empezado a remediar con éxito esta situación). Con un GPP destinado en Roma, la cooperación entre el FIDA y el Gobierno se ha visto afectada negativamente por la falta de una presencia en el país, pero ahora hay planes concretos de destinar a un GPP a Yakarta en un futuro cercano.

15. **Asociación general entre el FIDA y el Gobierno**. La asociación entre el FIDA y el Gobierno de Indonesia es sumamente apreciada por ambas partes, lo que refleja la confianza mutua y unas relaciones cordiales. Se valora el empeño del FIDA por reducir la pobreza entre la población rural pobre en Indonesia. El Gobierno ha renovado su compromiso con el FIDA duplicando su contribución a la Novena Reposición de los Recursos del FIDA (2011) en comparación con la Octava Reposición (2008).

16. En Indonesia, el FIDA se ha ganado la reputación de ser un organismo de las Naciones Unidas pequeño, amigo, no invasivo y con un interés genuino en la reducción de la pobreza rural. El compromiso del Fondo con la reducción de la pobreza entre la población rural pobre en Indonesia goza de reconocimiento, pero el FIDA no se conoce mucho.

17. Habida cuenta de que la agricultura sigue siendo un sector muy importante en la economía indonesia, hay grandes oportunidades de mejorar la eficacia de la asociación entre el Fondo y el Gobierno. El FIDA podría desempeñar un papel primordial en la promoción de una agricultura en pequeña escala productiva, competitiva y de alto valor.

Evaluación general de la asociación entre el Gobierno y el FIDA

	*Calificación**
Resultados de la cartera	4
Actividades no crediticias	3
Resultados del COSOP	3
Asociación general entre el Gobierno y el FIDA	**3**

* Escala de calificación: 1 = muy insatisfactorio; 2 = insatisfactorio; 3 = moderadamente insatisfactorio; 4 = moderadamente satisfactorio; 5 = satisfactorio, y 6 = muy satisfactorio.

18. En la EPP se formulan cinco **recomendaciones fundamentales**.

19. **Recomendación 1. Convertir a los pequeños agricultores en los beneficiarios principales del programa del FIDA**. El FIDA debería colocar a los pequeños agricultores y sus cultivos alimentarios y de alto valor en el centro de sus esfuerzos. Prestar atención al arroz no debería llevar a descuidar las necesidades de los cultivos de exportación de alto valor, como el café, el cacao y el caucho. Dado que sus recursos son relativamente escasos, el FIDA debería limitarse a los cultivos de alto valor producidos por los pequeños agricultores, y las cadenas de valor deberían desempeñar un papel adecuado y cada vez más importante.

20. Para respaldar estos objetivos, el FIDA debería diseñar y ejecutar un nuevo programa estratégico nacional de gran alcance en favor del desarrollo agrícola de los pequeños agricultores, con cuatro objetivos principales: i) abordar las cuestiones de ámbito nacional que afectan a la cartera de préstamos a nivel de proyecto y a las actividades de supervisión, y coordinar las actividades no crediticias, como el diálogo sobre políticas, la gestión de conocimientos y la creación de asociaciones, para todos los proyectos que integran el programa; ii) realizar un seguimiento de las innovaciones en los proyectos financiados por el FIDA y apoyar la ampliación de escala de manera tal que se fomente la participación de los proyectos de otros asociados y los programas gubernamentales nacionales; iii) ayudar al FIDA a hablar en nombre de los pequeños agricultores en los foros de políticas y de intercambio de conocimientos, y a granjearse el respeto en el desempeño de esta función, y iv) prestar apoyo a las iniciativas Sur-Sur del Gobierno relacionadas con la agricultura.

21. Este programa debería financiarse conjuntamente con fondos de donaciones del FIDA y donaciones de donantes bilaterales que trabajan en el sector agrícola en Indonesia. El FIDA debería desarrollar su cartera de préstamos y actividades no crediticias en consonancia con los objetivos indicados anteriormente, y alinear las inversiones, la asistencia técnica, el diálogo sobre políticas, los conocimientos y la labor analítica para influir realmente en la vida de los pequeños agricultores.

22. **Recomendación 2. Canalizar la financiación y el apoyo técnico hacia la agricultura básica**. La agricultura básica abarca principalmente los cultivos alimentarios y los cultivos comerciales de alto valor. El FIDA, mediante su próximo COSOP, debería establecer los límites de su programa en Indonesia en torno a las actividades de agricultura básica. Los objetivos estratégicos y los grupos objetivo también deberían ajustarse a estos límites. Las actividades de agricultura básica deberían tener por objeto el empoderamiento de los pequeños agricultores y sus grupos en las zonas en que hay un gran número de estos agricultores y donde se dan las condiciones previas necesarias para que la intervención de los donantes dé buenos resultados. Las operaciones del FIDA deberían centrarse en mejorar el acceso de los pequeños agricultores a las

tecnologías y los servicios agrícolas, y ayudarles a establecer vínculos entre las cadenas de valor y los mercados de insumos y productos. Esto permitirá a los pequeños agricultores incrementar su productividad y adaptarse al cambio climático.

23. **Recomendación 3. Fomentar asociaciones estratégicas sobre agricultura básica**. El FIDA debería evaluar las fortalezas y debilidades de las posibles asociaciones en sus esferas de interés relacionadas con la agricultura básica. Dado que la creación de asociaciones conlleva altos costos de transacción, la selectividad es fundamental. Las asociaciones con los donantes, la sociedad civil y el sector privado deberían centrarse en las actividades relacionadas con la agricultura básica y los pequeños agricultores.

24. **Recomendación 4. Fortalecer la gestión del programa del FIDA en el país**. El Fondo debería especificar con mayor claridad las responsabilidades de la gestión del programa en el país y los mecanismos necesarios, en el contexto de la descentralización, con miras a crear la capacidad necesaria para gestionar el COSOP en Indonesia. Se debería definir más rigurosamente la responsabilización en cuanto a los resultados y establecer incentivos para la obtención de resultados. En el COSOP también deberían incluirse recomendaciones sobre cómo establecer las competencias básicas en el FIDA para obtener resultados en el contexto descentralizado de la actuación nacional, manteniendo un equilibrio entre el acceso a los conocimientos especializados mundiales y los recursos humanos locales de alta calidad.

25. **Recomendación 5. Reforzar la función del Gobierno en las actividades apoyadas por el FIDA**. El desplazamiento de la atención hacia la agricultura básica ayudará al Fondo a establecer relaciones estratégicas específicas con las contrapartes técnicas principales del Gobierno. Los logros del FIDA en la reducción de la pobreza entre los pequeños agricultores dependen de su capacidad de fortalecer la capacidad en las aldeas, para que los pequeños agricultores puedan interactuar con los agentes principales de los departamentos gubernamentales, las entidades del sector privado y la sociedad civil. Además, la creación de capacidad a nivel de distrito tiene que ser el elemento central de todos los proyectos del FIDA a nivel subnacional. En el próximo COSOP debería establecerse un medio más práctico para utilizar la capacidad externa de seguimiento y evaluación, y luego aumentar gradualmente la capacidad en los proyectos.

Republic of Indonesia: Country Programme Evaluation Agreement at completion point

A. Introduction

1. This is the second Country Programme Evaluation (CPE) undertaken by the IFAD Independent Office of Evaluation (IOE) for Indonesia. The CPE covers nine years, of which five years (2004 to 2008) are prior to the Country Strategic Opportunities Programme (COSOP) approved in 2008, and four years (2009 to 2012) are part of the COSOP (which covers 2009-2013). The main CPE mission was undertaken in April/May, 2012. A CPE National Roundtable Learning Workshop was held in Indonesia on March 21, 2013 to discuss the findings and recommendations of the evaluation.

2. The main objectives of the CPE were to: (i) assess the performance and impact of IFAD-funded operations in Indonesia; and (ii) generate a series of findings and recommendations to serve as building blocks for the formulation of the forthcoming results-based COSOP to be prepared by IFAD and the Government of Indonesia.

3. The Agreement at Completion Point (ACP), reflects the understanding between the Government of Indonesia (represented by the Ministry of Finance) and IFAD Management (represented by the Programme Management Department). It comprises the summary of the main evaluation findings (Section B below), as well as the commitment by IFAD and the Government to adopt and implement the CPE recommendations within specific timeframes (Section C below). It is noted that IOE does not sign the ACP, although it facilitated the process leading up to its conclusion. The implementation of the recommendations agreed upon will be tracked through the President's Report on the Implementation Status of Evaluation Recommendations and Management Actions, which is presented to the IFAD Executive Board on an annual basis by the Fund's Management. In addition, this ACP will be submitted to the Executive Board of IFAD as an annex of the new COSOP for Indonesia.

B. Main evaluation findings

4. The partnership between IFAD and the Government of Indonesia is highly valued by both sides, reflecting mutual trust and cordial relations. IFAD's commitment to poverty reduction among the rural poor in Indonesia has been appreciated. The Government has reiterated its commitment to IFAD by doubling its replenishment contribution in the IFAD's 9th replenishment (2011), as compared to the IFAD's 8th replenishment (2008).

5. The importance of agriculture. Agriculture is and will continue to remain a very important sector in the Indonesian economy and for the Indonesian people, even after the country has transitioned into a middle income country, with important contributions from the mining, manufacturing, and service sectors.

6. IFAD performance has been mixed. IFAD in Indonesia has earned a reputation for being a small, friendly, non-intrusive, flexible UN agency with a genuine interest in reducing rural poverty. IFAD's commitment to poverty reduction among the rural poor in Indonesia has been appreciated but IFAD is not widely known.

7. Overall the portfolio has made encouraging achievements in social mobilization and gender with self-help groups and building institutions a key feature of all the seven

IFAD-supported projects. Marked progress has also been made in terms of investments for the enhancement of social infrastructure. However, results related to on-farm and off-farm development and agriculture productivity enhancement are more limited. Although productivity enhancement and value addition were included in project design, they did not get adequate attention during implementation.

8. Project designs were often complex with diffused focus, and covering large geographical areas straining limited sub-national capacities. Limited achievements have been made in piloting and scaling up innovations with insufficient attention to learning and knowledge management. The shift to direct supervision and implementation support by IFAD is making a positive impact. Rapid improvements have been made in the past two years, and has the potential of being even more effective, with the required adjustments. Results related to non-lending activities (policy dialogue, knowledge management and partnership building) were limited, even though these are increasingly important given Indonesia's MIC status.

9. The COSOP process did not provide an adequate foundation for the country programme. The IFAD country programme was not driven by a COSOP during 2004-08 and when a COSOP framework was eventually established in 2008 for the country programme, the COSOP was strong on goals and expectations but deficient on implementation design and mitigation of programme and internal IFAD risks. COSOP management was weak. IFAD appears not to have devoted the required management attention to its cooperation in Indonesia since around 2004-2005 until more recently when a new CPM was assigned in 2011 and has been making good start to remedying the situation. The IFAD-Government cooperation has been adversely affected by lack of a country presence, with a Rome-based CPM, though there are firm plans to outpost the CPM to Jakarta in the near future.

10. Government role could have been more effective. The Government could have been more directional in requesting IFAD to limit its activities to small farmers and their groups and the improvements to their agricultural productivity through technology and value chain development and through empowerment of these groups.

    IFAD could play a leading role in promoting productive, competitive and high value smallholder agriculture. This can be done by identifying, promoting, validating and scaling up viable agriculture innovations that are appropriate for smallholder agriculture but in active partnership with the Government, other strategic partners and stakeholders, including public private partnerships. Promoting efficient and productive smallholder agriculture will not only increase agricultural growth but will also reduce poverty, improve food security and empower women. Given rapid urbanization, a declining share of the farming population has to meet the rising demand for food, feed and agricultural raw materials over time. There is thus a great opportunity and a challenge for IFAD to develop a brand name as a key supporter of productive, competitive and high value smallholder agriculture in Indonesia through the instrument of a national programme for small farmers.

C. Agreement at completion point

11. The CPE makes five key recommendations: (i) make small farmers the principal beneficiary of the IFAD programme: (ii) channel funding and technical support to core agriculture; (iii) build strategic alliances on core agriculture; (iv) strengthen IFAD country programme management, (v) enhance the Government's role in IFAD-supported activities.

12. Recommendation 1:

    a) Make small farmers the principal beneficiary of the IFAD programme. IFAD should place small farmers, their food and high value crops at the centre of its efforts. The focus on rice should not result in neglecting the needs of

high value export crops such as coffee, cocoa, rubber, etc. Given relatively scarce resources, IFAD should limit its role to high value crops grown by smallholders with an appropriate and increasing role of value chains. To support these goals, IFAD should design and implement a new comprehensive national strategic programme for small farmer agricultural development, with four key objectives: (i) address national level issues that impact on the lending portfolio and supervision activities at the project level and coordinate the non-lending activities (policy dialogue, knowledge management, and partnership building) for all projects in the programme; (ii) monitor innovations in IFAD-financed projects and support scaling up involving other partners' projects and government national programmes; (iii) help IFAD to serve as the voice for small farmers in policy and knowledge exchange forums and establish a brand name for IFAD in this role; and (iv) support the Government's South-South initiatives relating to agriculture. This programme would be financed jointly by IFAD grant funds and grants from bilateral donors active in agriculture in Indonesia. IFAD should develop its lending portfolio and non-lending activities with the above objectives in mind, and align investment, technical assistance, policy dialogue, knowledge and analytical work to make a real impact on the lives of small farmers.

b) Proposed follow-up: At the request of the Government of Indonesia, IFAD has developed an Interim Country Strategy for Indonesia for the period 2014-2015 which responds to this recommendation. The interim strategy outlines some of the key elements of the country strategy such as strategic objectives, targeting approach, geographic focus, identification of potential investment opportunities for the next two years, partnership potential with funding agencies and the private sector. The strategy also focuses on IFAD's non-lending activities such as enhancing the performance of its on-going portfolio, knowledge management and policy advocacy. A new five year Results Based Country Strategic Opportunities Programme (RB-COSOP) will be developed to cover the period from 2015 to 2019. The introduction of an interim country strategy for the next one and half to two years enables IFAD to respond to the conclusions and recommendation of the CPE, and importantly, enables IFAD to fully align its next RB-COSOP with the Government of Indonesia's (GOI) new five year planning cycle expected to be initiated from 2015 onwards. The RB-COSOP 2015-2019 will also be informed by this ACP.

c) Deadline date for implementation: The Interim IFAD Country Strategy 2014-2015 will be finalized by 31st December 2013. A new five year Results Based Country Strategic Opportunities Programme (RB-COSOP) will be developed to cover the period from 2015 to 2019.

d) Entities responsible for implementation: Government of Indonesia including Bappenas, Ministry of Finance and respective line agencies; and IFAD.

13. Recommendation 2:

a) Channel funding and technical support on core agriculture. Core agriculture consists primarily of food and high value cash crops. IFAD, through its next COSOP, should draw the boundaries of its Indonesia programme around core agriculture activities. The strategic objectives and target groups should be in alignment with these boundaries. Core agriculture activities should be targeted on empowering small farmers and their groups, in geographical areas where there are a large number of small farmers and the preconditions for a successful donor intervention exist. IFAD operations should focus on improving the access of small farmers to agricultural technology and services, and help them to develop value chain links to input

and output markets. This will help small farmers raise productivity and adapt to climate change.

b) Proposed follow-up: This recommendation will be addressed in the Interim IFAD Country Strategy 2013-2015 and a new five year Results Based Country Strategic Opportunities Programme (RB-COSOP) covering the period from 2015 to 2019.

c) Deadline date for implementation: From 31st December 2013.

d) Entities responsible for implementation: Government of Indonesia including Bappenas, Ministry of Finance and respective line agencies; and IFAD.

14. Recommendation 3:

a) Build strategic partnerships on core agriculture. IFAD should evaluate the strengths and weaknesses of potential partnerships in the core agriculture areas of IFAD's focus. Given the high transaction costs involved in building partnerships, selectivity is key. Partnerships with donors, civil society and the private sector should focus on activities relating to core agriculture and small farmers.

b) Proposed follow-up: This recommendation will be addressed in the Interim IFAD Country Strategy 2013-2015 and a new five year Results Based Country Strategic Opportunities Programme (RB-COSOP) covering the period from 2015 to 2019.

c) Deadline date for implementation: From 31st December 2013.

d) Entities responsible for implementation: Government of Indonesia including Bappenas, Ministry of Finance and respective line agencies; and IFAD

15. Recommendation 4:

a) Strengthen IFAD country programme management. IFAD should specify with greater clarity country programme management responsibilities and mechanisms within the context of decentralization to install the necessary capacity within IFAD to manage COSOP in Indonesia. Accountability for performance should be more sharply defined and necessary incentives should be put in place. COSOP should also make specific recommendations on how to establish within IFAD, core competencies to deliver results in the decentralized context of country engagement, balancing access to global expertise with tapping high quality local resources.

b) Proposed follow-up: This recommendation will be addressed in the Interim IFAD Country Strategy 2013-2015 and a new five year Results Based Country Strategic Opportunities Programme (RB-COSOP) covering the period from 2015 to 2019.

c) Deadline date for implementation: From 31st December 2013.

d) Entities responsible for implementation: IFAD, together with Government of Indonesia including Bappenas, Ministry of Finance and respective line agencies

16. Recommendation 5:

a) Enhance the Government's role in IFAD-supported activities. Shifting the focus to core agriculture will assist IFAD in developing focussed strategic relationships with the main technical counterparts of the Government. The success of IFAD in alleviating poor small farmer problems depends on its ability to build capacity at the village level so that small farmers interact with key players from government departments, private sector entities, and civil society. The establishment of capacity at the district level and its effectiveness at the village level will have to be the centrepiece of all sub-

national IFAD projects. The next COSOP should come up with a more practical way of using outside capacity for M&E initially, and then gradually building up capacity within the projects.

b) Proposed follow-up: This recommendation will be addressed in the Interim IFAD Country Strategy 2013-2015 and a new five year Results Based Country Strategic Opportunities Programme (RB-COSOP) covering the period from 2015 to 2019.

c) Deadline date for implementation: From 31st December 2013.

d) Entities responsible for implementation: IFAD, together with Government of Indonesia including Bappenas, Ministry of Finance and respective line agencies

Signed by:

Andin Hadiyanto
Chairman of Fiscal Policy Agency
Ministry of Finance
Government of Indonesia

_____ **Date:**

and

Kevin Cleaver
Associate Vice President Operations
Programme Management Department
IFAD

_____ **Date:** 20 Feb 2014

Republic of Indonesia
Country Programme Evaluation

Contents

Currency equivalents and measures

Currency equivalents

Currency unit = Indonesia Rupiah (Rp or IDR)
US$1 = Rp 9,595
US$1 = 0.7676 Euro
(3 December 2012)

Measures

Metric System

Abbreviations and acronyms

ADB	Asian Development Bank
APR	Asia and the Pacific Division (IFAD)
BAPPENAS	National Development Planning Agency
BRI	Bank Rakyat Indonesia
BULOG	National Logistics Agency
CCDP	Coastal Community Development Project
COSOP	country strategic opportunities programme
CPE	country programme evaluation
CPM	country programme manager
EKLCEP	East Kalimantan Local Communities Empowerment Programme
FAO	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
GNI	gross national income
ICRAF	International Centre for Research on Agroforestry
IFAD	International Fund for Agricultural Development
IOE	Independent Office of Evaluation of IFAD
KUR	Smallholders Business Credit/Kredit Usaha Rakyat
M&E	monitoring and evaluation
MDG	millennium development goal
MIC	middle-income country
MTR	mid-term review
NGO	non-governmental organization
NMTPF	National Medium-Term Priority Framework
NTB	Nusa Tenggara Barat
NTT	Nusa Tenggara Timur
O&M	operations and maintenance
ODA	official development assistance
P4K	Income-generating Project for Marginal Farmers and Landless
PIDRA	Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas
PMU	project management unit
PNPM	National Programme for Community Empowerment in Rural Areas
READ	Rural Empowerment and Agricultural Development Programme
RPJMN	National medium-term development plan
SHG	self-help group
SOLID	Smallholder Livelihood Development Project in Eastern Indonesia
SPS	Sanitary and phyto-sanitary standards
UNDAF	United Nations Development Assistance Framework

Republic of Indonesia
Country Programme Evaluation

I. Background

A. Introduction

1. This is the second country programme evaluation (CPE) undertaken by the Independent Office of Evaluation of IFAD (IOE) for Indonesia since the inception of the Fund's operations in 1978 and its engagement in Indonesia in 1980; it follows the CPE of 2004. This CPE assesses the performance of IFAD's activities, including the project portfolio and non-lending activities, and the country strategic opportunities programme (COSOP) approved in 2008. The CPE covers nine years, five of which (2004 to 2008) are prior to the current COSOP, with the remaining four years (2009 to 2012) part of COSOP 2009-2013. The CPE gives several individual performance ratings, makes an overall achievement rating for the IFAD-Government partnership, and then makes recommendations regarding the building blocks for the next COSOP.

B. Objectives, methodology and process

2. Objectives. The main objectives of the CPE were to assess the performance and impact of IFAD-funded operations in Indonesia, and generate a series of findings and recommendations to serve as building blocks for the formulation of the forthcoming results-based COSOP, to be prepared by IFAD and the Government of Indonesia following completion of the CPE.

3. Methodology. CPE methodology (summarized in annex IV) focuses on assessing the performance of three mutually reinforcing pillars in the IFAD-Government partnership: (i) Project portfolio; (ii) Non-lending activities (policy dialogue, knowledge management, partnership-building and grants); (iii) 2008 COSOP. Performance in each of these three areas is rated on a scale of 1 to 6 (with 1 being the lowest score and 6 the highest). Throughout the CPE, every effort has been made to arrive at an understanding of the proximate causes of good or less-good performance, critical for developing future country operations/strategies in Indonesia. While each of the above-mentioned pillars has been assessed individually, synergies among the various projects financed by IFAD, and across lending and non-lending activities, have also been analysed during the evaluation.

4. The COSOP is assessed at its start and during implementation in seven areas: (i) Strategic objectives; (ii) Geographical priority; (iii) Subsector focus;(iv) Main partner institutions; (v) Targeting approach, including emphasis on selected social groups; (vi) Country programme mix; (vii) Country programme and COSOP management. It explores deficiencies that can be observed even without the hindsight that is currently available, and notes opportunities presented and taken or missed during COSOP implementation. The CPE assesses the lending portfolio and non-lending activities and their implementation against the objectives and targets in the original 2008 COSOP document and the specific objectives defined for each operation. The original COSOP document has been used as the benchmark, since the COSOP has not been systematically updated during its implementation and has not been treated as a living document. To gain broader perspective, the CPE not only assesses the COSOP document as originally written, but also whether and how well IFAD management has taken advantage of opportunities to make changes during its implementation in response to evolving challenges. It is also important to note that there was no COSOP for five years from 2004 to 2008.

5. The CPE reviews seven projects, three grants and other non-lending activities (policy dialogue, knowledge management and partnership-building) through these lenses. Another 10 global or regional grants, not directly linked to the IFAD

Indonesia programme, are not reviewed in depth. The current CPE also covers the projects under implementation or designed for after the completion of the previous CPE.

6. Process. The main CPE mission was undertaken between April and May 2012 and included field visits to Sulawesi and Maluku, specifically to the Rural Empowerment and Agricultural Development (READ) programme in Central Sulawesi, Smallholder Livelihood Development in Eastern Indonesia (SOLID) project in Maluku and National Programme for Community Empowerment (PNPM) in Southern Sulawesi. In Jakarta, the mission met with government counterparts in the Ministry of Finance, and representatives of the National Development Planning Agency (BAPPENAS), Ministry of Agriculture, Ministry of Home Affairs, Ministry of Foreign Affairs, Ministry of Marine Affairs and Fisheries, and National Land Agency.

7. During field visits, the mission met with government officials at the national level, as well as with provincial, district, subdistrict and village level officials, and interacted with project participants, beneficiaries and stakeholders. The mission consulted with the representatives of selected donor agencies and development partners (including the Asian Development Bank, Food and Agriculture Organization of the United Nations, United Nations Development Programme and World Bank), civil society groups and the private sector, as well as IFAD officials. The mission was an observer at a wrap-up meeting on a SOLID supervision mission and a learning event organized by IFAD in the Ministry of Agriculture. A full list of persons met is provided in annex VI.

8. A CPE national round table learning workshop was held in Indonesia on 21 March 21 2013 to discuss the report. The findings and recommendations of the report were broadly endorsed, and have been incorporated in the agreement at completion point between the Government and IFAD management on the adoption and implementation of the CPE recommendations within specific time frames.

Key points

- This is the second country programme evaluation (CPE) for Indonesia undertaken by the Independent Office of Evaluation of IFAD.
- The CPE covers nine years: five years (2004 to 2008), when there was no country strategic opportunities programme (COSOP), and the first four years (2009-2012) of the 2008 COSOP.
- This evidence-based report assesses the portfolio of projects, non-lending activities and 2008 COSOP.
- The main CPE mission to Indonesia was undertaken between April and May 2012.
- A CPE national round table learning workshop was held in Indonesia on 21 March 2013, which endorsed the main findings and recommendations from the evaluation.
- An agreement at completion point between the Government and IFAD Management on implementation of the CPE recommendations has been signed.

II. Country context

9. This chapter provides the contextual background for evaluating the IFAD programme in terms of the historical overview, recent economic developments, salient features of human development and key poverty indicators. An analysis of the agricultural and rural sector provides sector context, including the performance, need for revitalization, key issues and challenges, and role of donors. Recent government policies for reducing rural poverty, and promoting agricultural and rural development, are also presented.

10. With a per capita income of US$2,500 gross national income (GNI) (Atlas method, World Bank, 2010), Indonesia is a fast growing middle-income country (MIC) in South-East Asia. It is the fourth most populous country in the world (2012 population of 246.9 million) with an average annual population growth rate of around 1.2 per cent. More than 80 per cent of Indonesia's territory is covered with water. Indonesia's land area of 1,904,443 square kilometres extends over 17,000 islands, of which 6,000 are inhabited. The large number of islands dispersed over a wide area has given rise to a diverse culture and hundreds of ethnic groups, each with its own language, although Bahasa Indonesia is the national language of Indonesia.

A. Overview

Country features

11. From pre-colonial and colonial periods, Indonesia's history, politics and pattern of economic development have been linked to its geographic configuration, distribution of natural resources, patterns of migration, trade links, diverse religious and cultural influences, varied ethnicities and differing languages. The islands of Java, Bali, Kalimantan (which borders Malaysia), Sumatra, Maluku (with its spice trade history) and Papua are unique in their own way. The influences of Hinduism, later influx of Islam, spread of Christianity and governance by the Christian Church in some islands have led to the dispersal of different religions among the islands. Forging of durable communal harmony has been a hallmark, yet there have been sudden upturns of political and social unrest.

12. After independence, Indonesia was governed under strong centralized authority, which often led to demands for greater autonomy. The independence of Timor Leste after a protracted struggle was an expression of one such demand. In general, the response to demands for greater autonomy was to expand decentralization and consolidate democratic principles. After 2001, the role of central government agencies shifted from implementation to that of creating the enabling legal and policy environment for subnational governments to take the lead in implementing their own development agenda, and holding them accountable for results. The centre remained the source of funds and technical support.

13. Decentralization has also helped contribute to the peaceful resolution of regional and social conflicts (e.g. in Aceh, Papua, Maluku and North Maluku). The transition to democratic governance continues as does the decentralization of service provision. Nearly 500 provincial, district and city governments now play an important role in local administration, social and economic development, and in the delivery of public services. Together, these subnational governments are responsible for 40 per cent of public spending. The technical and management capacity of the staff of the decentralized governments remain a constraint to development, especially rural development, as does their dependence on central government funds.

14. Within the framework of this centre–subnational government relationship, thinly-stretched provincial and district authorities, and limited capacity at the village and community levels, the civil society organizations and non-governmental organizations (NGOs) could play a critical role in filling capacity and implementation gaps, and could also provide governance oversight. However, there are significant regional (island to island) and socio-economic inequities. The approach and mindset at the central authority levels have yet to come to grips with the realities of this chosen decentralized model of development.

15. The current context within which the IFAD and other agencies operate has been defined to a large extent by the features of Indonesia's unique geography and history. Spread over a vast archipelago of numerous islands, some localities and population groups are often very remote and hard to reach, while the bigger and more populated islands dominate the economy, politics, culture and many other

aspects of life. In addition, Indonesia's vulnerability to natural disasters and calamities puts segments of the population in very marginal conditions. The number of poor can multiply even with mild shocks and disturbances to the economy. Furthermore, the electoral cycle and next presidential succession and parliamentary elections, scheduled for 2014, will need to be factored into any future strategy formulation. It is within this backdrop of historical, administrative and decentralized realities that the IFAD strategy in Indonesia and its implementation by the Government are to be evaluated.

Development context

16. Economic performance. Indonesia's gross domestic product (GDP) growth has averaged about 5.6 per cent per year over 2004-2010, and the economy grew by 6.5 per cent in 2011, which was the highest recorded growth rate since 1996 and up from 6.1 per cent in 2010 (table 1). Based on solid macroeconomic fundamentals, the economy was better prepared to manage external shocks and the impact of the global economic slowdown on domestic growth. It weathered the recent global financial crisis relatively smoothly because of its heavy reliance on domestic consumption and commodity exports as the drivers of economic growth. Domestic investment, the manufacturing sector and foreign direct investment performed strongly. Manufacturing growth was 6.2 per cent in 2011— the strongest annual growth since 2004— driven by the food, beverage tobacco, transport equipment and machinery sectors. The broader price level (GDP deflator) growth was 7.9 per cent year-on-year at the end of 2011, similar to the previous two years. The preliminary estimate of the 2011 budget deficit was 1.2 per cent of GDP, with revenues of 16.2 per cent and expenditures of 17.4 per cent of GDP. Continuing conservative fiscal policy contributed to further reduction in Indonesia's debt-to-GDP ratio, to 24 per cent of GDP by the end of 2011. The composition of GDP in 2010 was dominated by industry (47 per cent) and services (37.6 per cent), while agriculture accounted for 15.3 per cent of GDP (World Bank, 2012a; International Monetary Fund, 2011).

17. The Government has introduced significant reforms in key areas of the economy, including the financial sector, tax and customs reforms, use of treasury bills, and capital market development and supervision. However, the country still faces challenges in areas such as poverty and unemployment, inadequate infrastructure, governance issues, a complex regulatory environment and unequal resource distribution among regions.

Table 1
Indonesia: Key economic indicators

Indicator	*2008*	*2009*	*2010*	*2011p*
Real GDP growth (per cent)	6.0	4.6	6.1	6.5
GNI per capita (current US$, Atlas method)	1 950	2 160	2 500	..
Gross investment (per cent of GDP)	27.8	31.0	32.5	32.9
Gross national saving (per cent of GDP)	27.8	33.5	33.3	33.1
Consumer prices (per cent change, period average)	9.8	4.8	5.1	5.7
Central government balance (per cent of GDP)	-0.1	-1.6	-0.6	-1.3
Money supply (M2; 12-month per cent change)	12.7	13.8	16.5	..
Gross reserves (months of imports)	5.7	5.2	5.9	7.4
Current account balance (US$B)	0.1	13.6	5.6	1.5
Current account (per cent of GDP)	0.0	2.5	0.8	0.2
Exports growth (per cent, US$ terms)	18.7	-14.0	31.2	23.5
Imports growth (per cent, US$ terms)	32.3	-24.7	40.8	26.7
Total external debt (per cent of GDP)	30.3	32.1	28.6	25.9

Source: International Monetary Fund, Article IV, 2011. Note: p = projected.

18. Human development. Indonesia ranked 121 out of 187 countries in the 2012 UN Human Development Index (HDI), and its HDI value has progressively increased from 0.572 in 2005 to 0.629 in 2012. Life expectancy at birth reached 68.9 years in 2010 (males, 67.3 years; females, 70.6 years), under-five mortality rate was 35.3 per 1,000 live births (2010) and adult literacy rate was 92.2 per cent (2008; age 15+. The labour force participation rate for men was at 84.2 per cent (2010; age 15+), while that of women was 51 per cent.

19. Millennium Development Goals (MDGs). Indonesia is on track to meet some of its MDGs. In 2006 it achieved the target of halving the proportion of people living on less than US$1 a day (reducing it to 10.3 per cent). The MDG for primary school net enrolment rate will also be met. There have been significant improvements in reducing under-five child mortality rates. The target for the proportion of the population with access to safe drinking water is likely to be reached, while the target for the proportion of households with access to adequate sanitation has been achieved. Indonesia has made improvements in protecting its environment, as reflected in an increase in the designation of protected forest areas. Indonesia is also committed to using alternative sources of energy to reduce greenhouse gas effects. However, other MDG indicators are not so positive. The maternal mortality rate (228 per 100,000) is one of the highest in South-East Asia, and Indonesia is unlikely to achieve the MDG target by 2015. Indonesia faces a significant struggle to reduce the proportion of the population suffering from severe malnutrition. While there is strong commitment and a supportive national framework, improving gender equality is still a challenge. Even as gender disparities have been significantly reduced, women lag behind men in areas such as health, labour participation, political representation, access to legal services and justice, and participation in the development process (United Nations, 2012).

Poverty

20. Indonesia has made progress in reducing poverty, but a large number of people still remain poor and vulnerable (table 2). Indonesia's national poverty rate has

fallen to 12.0 per cent in 2012. This statistic masks a worrying degree of vulnerability; much of the population is clustered just above the poverty line. Nearly a quarter of Indonesians live below the official "near-poor" line (1.2 times the poverty line expenditure); two-fifths live below 1.5 times the poverty line expenditure. These "near-poor" households are vulnerable to shocks such as food price increases, natural disasters or ill health, which can easily drive them into poverty. In late 2010, increasing inflation threatened to push millions of the near-poor below the poverty line. In recent years, half of all poor households have lost ground and moved back into poverty, while more than a quarter of all Indonesians have been in poverty at least once between 2008 and 2010.

21. The Gini coefficient, a measure of consumption inequality, has increased from approximately 32 in 1999 to 35 in 2009. Regional disparities in poverty also persist: eastern Indonesia lags behind other parts of the country, notably Java. The highest incidence of rural poverty is found in the eastern islands of Nusa Tenggara Barat (NTB), Nusa Tenggara Timur (NTT), Papua, West Papua and Maluku. There are also strong urban–rural differences in the incidence of poverty in Indonesia (e.g. in 2010, 9.9 per cent urban poverty rate and 16.6 per cent rural poverty rate).

22. There are three key features of poverty in Indonesia. First, a large number of Indonesians are vulnerable to poverty. Second, non-income poverty is a more serious problem than income poverty. When one acknowledges all dimensions of human well-being — adequate consumption, reduced vulnerability, education, health and access to basic infrastructure — then almost half of Indonesians would be considered to have experienced at least one type of poverty. Third, regional disparities in poverty are considerable, including disparities between urban and rural areas. Across the Indonesia archipelago, this is reflected in broad swathes of regional poverty, in addition to pockets of poverty within regions.

Table 2
Poor population

Indicator	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Total population (million)	217.3	219.8	221.3	224.2	226.7	230.0	232.8
Rural population (million)	123.6	113.6	113.8	115.9	117.1	118.9	120.3
Total poor population (million)	36.2	35.1	39.3	37.2	34.9	32.5	31.0
Poor rural population (million)	24.8	22.7	24.8	23.6	22.2	20.6	19.9
Poor female population (million)	18.1	17.7	19.7	18.6	17.6	16.3	15.7
Total population poverty rate (per cent)	16.7	16.0	17.8	16.6	15.4	14.1	13.3
Rural poverty rate (per cent)	20.1	20.0	21.8	20.4	18.9	17.3	16.6
Urban poverty rate (per cent)	12.1	11.7	13.5	12.5	11.7	10.7	9.9

Source: Government of Indonesia, National Socio-economic Survey (Susenas), March 2012.

B. Agricultural and rural development

Agriculture sector background

23. Agricultural indicators. An overview of the agricultural sector in Indonesia indicates the following: (i) Indonesia is a middle-income country and GDP per capita has increased almost threefolds since 1990; (ii) Relative share of agriculture in GDP has declined from 19.4 per cent to 15.3 per cent, which is consistent with economic development theory and empirical evidence across developing countries; (iii) Employment in the agricultural sector has declined to about 38 per cent; (iv) Share of agrifood trade in total trade (both exports and imports) has

increased; (v) Food and cash crops account for about 82 per cent of the agricultural GDP (consisting of crops and livestock only); (vi) Arable land has increased from about 20 million to 24 million hectares (almost 20 per cent increase over a 10-year period), a large share of which has been in the outer islands; (vii) Share of irrigated land has also increased significantly, from 6.3 million to 9.2 million hectares, an almost 46 per cent increase over 10 years. Despite this significant increase in irrigated area, agriculture remains subject to the vagaries of nature, including floods, droughts and/or weather risks due to emerging climatic change factors. However, despite the critical role of agriculture, there has been underinvestment in the agriculture sector by both the public and private sectors. Further details on agricultural and rural development in Indonesia are given in annex VIII.

24. Critical role of agriculture. The agricultural sector continues to play a significant role in the Indonesian economy. It accounts for over 15 per cent of the GDP and provides employment to about 38 per cent of the workforce. Agrifood exports, with rising share, account for about 21.5 per cent of total exports. Rice is an important food crop, and palm oil, rubber, coffee and cocoa are important cash/export crops. In the rural areas (over 50 per cent of Indonesia's population is rural), agriculture is a major source of livelihoods and income, particularly for two thirds of the country's poor. Agriculture provides food to all Indonesians and thus contributes to food security at the household and national levels. Finally, growth in agriculture is instrumental for poverty reduction, particularly in rural areas. The significant contribution of agricultural growth to poverty reduction is well documented in the World Bank's World Development Report 2008. Over the next 20 years, the Indonesian economy is expected to expand rapidly (sixth largest in the world by 2030) and urbanization is expected to increase. This will have significant implications for the agricultural sector and demand for food.

Agricultural policies and strategies

25. Government priorities. The national priorities in Indonesia include increasing food security, competitiveness of agricultural products and income level of farmers, and conserving the environment and natural resources. At present, Indonesia is importing about 2.3 million tons of rice annually, which is the staple food of the country.

26. Strategy to achieve priorities. The strategy to achieve priorities for agriculture consists of (i) Acceleration of human resource development and entrepreneurship empowerment; (ii) Social investment by strengthening decentralization, community self-help, and empowering social institutions and communities; (iii) Revitalization of broad spectrum agricultural productivity increase through agricultural research and development, and diversification; (iv) Support for competitive and efficient agribusiness, and developing related and profitable industrial zones; (v) Empowerment and strengthening of the growth and productivity of the rural non-agricultural sector; (vi) Strengthening sustainable natural resource management.

27. Public expenditure in agriculture. Even though the level of public expenditure in the agricultural sector has increased in the last few years, overall it still remains low. According to the World Bank (2010), the share of public spending on agriculture has increased from 2.7 per cent in 2001 to 5.6 per cent in 2009. About half of the expenditure (excluding subsidies) is executed at the level of the central government and the remaining half at the subnational levels. The priority government programmes that are designed to increase crop production have received the largest share of the budgetary allocation (table 3). The main goals of the Government are: (i) Increase food security; (ii) Enhance competitiveness and the value added of agriculture products; (iii) Improve farmers' welfare.

Table 3
Public expenditures in agricultural sector in Indonesia in 2009

Item	*Rp. trillion*	*Per cent share*
Agriculture	16.1	26
Central (includes extension)	6.6	11
Subnational	9.6	16
Irrigation	10.2	17
Central	6.5	11
Subnational	3.7	6
Research and development (central only)	0.7	1
Subsidies	34.5	56
Fertilizer	18.5	30
Others	16.0	26
Total National	61.5	100

Source: World Bank (2010).

28. Subsidies dominate agriculture expenditure. The allocation for agricultural subsidies has increased from 30 per cent in 2001 to 56 per cent in 2009 of the total budget for agriculture. Fertilizer subsidies account for over 50 per cent of all the agricultural subsidies. However, the main driver of agricultural productivity in Indonesia is public investment in irrigation, agricultural research, agricultural extension and rural roads. Despite high potential payoffs, public investment in these activities is very small and this trend needs to be reversed.

Agricultural problems and performance

29. Key agricultural problems. Key agricultural problems that need the urgent attention of policy makers in Indonesia include:

- Despite enormous potential for growth in food production, Indonesia is a net importer of rice, maize, soybean and meat. Given this, Indonesia is extremely concerned about food security, particularly after the 2008 experience of a spike in international prices and shortages of rice, maize and wheat in the international market. According to the Asian Development Bank (ADB), a 10 per cent rise in food prices results in a 1.9 per cent rise in the poverty rate in developing Asia (ADB, 2012). About three quarters of the poor, including small farmers, are net food consumers. Hence promoting food self-sufficiency has become a national priority of the Indonesian government.
- Malnutrition and undernutrition remain very high, particularly for the poor, young children, the elderly and women. This has direct implications for health and labour productivity in the country. Availability of adequate food may be a necessary condition, but certainly not a sufficient condition governing proper nutrition for citizens.
- Agricultural productivity, as reflected by the total factor productivity (TFP) index, remains low and has stagnated over time. During the 1970s and 1980s, increase in agricultural productivity was credited with increasing agricultural growth and reducing rural poverty. The main reason for the decline in the TFP index has been low public expenditure in agricultural research and development (R&D), extension and improved irrigation, which are the drivers for enhancing agricultural productivity.

- There are high post-harvest losses, limited value added and loss of competitiveness for food and cash crops (palm oil, rubber, coffee, cocoa, etc.). Indonesian farmers/companies continue to exploit the natural agroecological comparative advantage and often unsustainable use of natural resources. Emphasis on high-value agriculture, such as fruits, vegetables (other than cash crops) and livestock, is still limited.

30. Agricultural performance. The main reasons for lagging performance of the agricultural sector in the past 10-15 years include:

- The level and quality of public expenditure in the agricultural sector is low. Furthermore, a large share of this public expenditure is allocated to cash transfers and input subsidies, rather than to public goods that are responsible for enhancing and sustaining agricultural productivity.
- While they are trying to gradually adapt to the new realities of decentralization, the main agricultural institutions remain bureaucratic, top-down and centralized. The capacity in the agriculture departments of district governments, particularly the impact at the village level, is weak. There is a need to improve coordination, not only between central and subnational governments, but also between departments in the same institutions.
- The enabling agricultural policy environment, economic incentives for improving performance and productivity, and enforcement of policies, rules and regulations, are essential to lay the foundation for modern agriculture. At present, there is heavy bias in favour of irrigated rice, and support is provided through fertiliser and irrigation subsidies. Rice distribution programmes such as Raskin (subsidized rice for the poor) are costly (World Bank, 2012d). In general, policies do not promote sustainable use of limited natural resources, but rather are responsible for promoting extraction and depletion.
- The majority of farmers are smallholders and operate a farm less than 0.5 hectares. Given this, there is a need to reduce land fragmentation (particularly for rice farmers) and provide land tenure security to smallholders. At present, only about 25 per cent of the traditional agricultural land parcels have been formalised with land certificates. Furthermore, a large share of the land outside Java is communal and communities feel that private titling of that land may work against the interests of the poor and may even increase conflict.
- Given the large geographical spread across islands, relatively poor infrastructure and market access, and high cost of reaching farmers through agricultural extension agents, there is a need to promote the use of information and communication technology (ICT) in agriculture to provide information related to weather, prices, markets, extension, technology and innovations.
- Product quality is extremely important, especially for export crops, for increasing competitiveness and receiving higher prices in international markets. Related to this is the issue of sanitary and phytosanitary standards (SPS) for exports and domestic consumption. There is a need to strengthen and objectively enforce these SPS, as well as food safety standards.

Revitalization of agriculture

31. Goals and priorities for revitalization. In 2005, the Indonesian President decreed the revitalization of agriculture, fisheries and forestry as a national policy priority. The specific goals of the initiative were (i) Realization of a competitive industrialized agriculture; (ii) Solid and self-reliance of food security; (iii) Full employment opportunities of farmers; (iv) Poverty eradication in the agricultural sector, with a farmer income of US$2,500 per year. The National Medium-Term

Development Plan (RPJMN) 2004-2009 indicated that revitalization of agriculture would be implemented through four main measures: Increasing farmers' capability and strengthening supporting institutions; Strengthening food security; Increasing productivity, production, competitiveness and value added in agriculture and fisheries products; and, Using forest and fisheries/marine development for diversification of economic activities and supporting food production.

32. Underlying the goals for implementing the revitalization of agriculture policies was the triple-track strategy of "pro-growth, pro-employment and pro-poor". Other priority areas identified for implementation were: (i) Emergency preparedness and disaster damage control; (ii) Small-scale, community-based agribusiness enterprise development; (iii) Efficient and effective financial and marketing services; (iv) Land use and irrigation infrastructure maintenance; (v) Innovation and technology (keys to agricultural productivity and prosperity), capacity development through education, training and extension.

33. Reducing vulnerability and improving sustainability. According to the Central Bureau of Statistics, there were about 25.5 million farmer households, 40 per cent of which were considered very poor and 20 per cent were headed by women. Ensuring food security, especially for the poor, became an important element of the agricultural development strategy in Indonesia. Related to this was to innovatively increase agricultural productivity with improved technologies that would ensure environmental sustainability (natural resource management and promotion of agroecologically friendly technologies) and safety for both producers and consumers. Furthermore, in order to promote commercial and high-value agriculture for exports, some fundamental changes in the regulatory regime were introduced. These included the adoption of SPS measures, good agricultural practices and good manufacturing practices in agricultural production and processing.

34. Framework for external assistance for agriculture. The National Medium-Term Priority Framework (NMTPF) 2010-2014 for Indonesia's external assistance in the agricultural sector was prepared by BAPPENAS, with support from the technical ministries, including the ministries of agriculture, finance and marine affairs and fisheries. According to NMTPF, the relative shares of agriculture subsectors in agricultural GDP in Indonesia were as follows:

Table 4
Agriculture subsector shares

Subsector	*Per cent share in 2003*	*Per cent share in 2007*
Food crops	49.6	49.5
Cash crops	16.1	15.8
Livestock	12.7	12.8
Forestry	7.0	6.7
Fisheries	14.4	15.3

Source: National Medium-Term Priority Framework (2010-2014).

35. All the sub-sectors are important, but food crops alone accounted for half of the agricultural GDP. Furthermore, over the four year period from 2003 to 2007, there was no significant shift in favour of any of these five subsectors. According to Indonesia's agricultural census, during 1983 to 2003, average landholding per farmer declined from 1.3 to 0.7 hectares. Other constraints indicated by the census were deteriorating infrastructure, poor water management, inadequate knowledge sharing and extension service, poor post-harvest handling, poor governance and institutional support, and inappropriate decentralization policies. The Presidential Decree (2005), RPJMN (2004-2009), RPJMN (2010-2014) and NMTPF (2010-2014)

were designed to address some of these agricultural problems and constraints. Detailed analysis of agriculture and rural development in Indonesia has been provided in annex VIII.

C. Public policies and programmes for rural poverty reduction and donor assistance

36. Rural poverty reduction. The RPJMN for 2010-14 is the second phase of the implementation of the National Long-Term Development Plan (2005-20). The overarching goal is to realize a prosperous, democratic and just Indonesia. The RPJMN national development priorities include bureaucracy and governance reform, education, health, poverty alleviation, food security, agriculture, infrastructure, investment and business climate, energy, environment and disaster management, least developed, frontier, outer and post-conflict areas, and culture, creativity and technological innovation. The regional strategies stress the development of all islands through improved connectivity and inter-island trade, and the development of the more remote, post-conflict and disaster prone areas. The strategy emphasizes equitable growth and strengthening the pro-poor agenda.

37. The RPJMN for 2010-14 accords high priority to poverty reduction. The aim is to reduce absolute poverty from 14 per cent in 2009 to 8-10 per cent in 2014, and improve income distribution. Core programmes under this objective include Integrated Social Assistance, PNPM Mandiri, Smallholders Business Credit (Kredit Usaha Rakyat - KUR) and Team for Reducing Poverty (revitalization of the National Committee for Reducing Poverty). National community grant programmes have reduced poverty by allowing the poor to help themselves. The Government scaled up PNPM-Mandiri between 2007 and 2009 to provide block grants to rural and urban subdistricts (kecamatan) that support community-level development projects, and has recently scaled up the programme to provide national coverage.

38. Donor assistance. Over the period 2004-2010, Indonesia received over US$21 billion in official development assistance (ODA) from bilateral and multilateral donors. Japan has been the leading donor, followed by Australia and the USA (table 5). Of the multilaterals, International Development Association (IDA) of the World Bank Group, ADB special funds and EU provide substantial resources (apart from non-ODA loans). However, agriculture has not been a major focus of donor funding.[1]

[1] For example, the average total ODA by OECD's Development Assistance Committee (DAC) countries to Indonesia in 2007-2008 was US$2.7 billion, whereas aid to the agriculture sector for the same time frame was only US$169 million.

Table 5
Indonesia: Gross official development assistance disbursements (US$M) by top donors (2010 ranking)

Donors	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Total	1 576.2	2 854.8	2 978.2	2 899.0	3 528.8	3 679.4	3 525.8
Japan	584.0	1 342.8	1 018.3	1 058.1	1 323.8	1 415.9	1 593.7
Australia	106.1	184.7	240.2	335.1	325.2	342.1	356.2
France	36.0	29.3	33.2	37.6	222.4	303.4	348.1
United States	162.9	157.9	281.2	243.7	239.0	274.0	263.4
Germany	182.2	200.3	225.9	254.6	237.5	159.4	184.6
IDA	121.8	67.2	315.4	219.1	493.6	243.7	142.3
ADB special funds	54.7	69.0	109.5	139.9	59.9	180.2	115.3
EU institutions	42.6	72.1	137.2	132.6	54.5	113.1	105.5
Global Fund	18.2	22.9	34.9	10.3	43.0	88.7	83.2
IFAD	4.3	1.1	2.7	6.0	4.5	2.4	10.7

Source: Organization for Economic Cooperation and Development.

39. Middle-income status for Indonesia. Indonesia's GNI per capita passed the Organisation for Economic Co-operation and Development (OECD) threshold in 2005 and the country was classified as a MIC, and as of 2008, new soft loans and grants from the development banks practically ceased. Net ODA in recent years has dropped to about 20 per cent of GNI and per capita net ODA received hovers around US$5 (table 6).

Table 6
Overall official development assistance to Indonesia

Indicator	*2008*	*2009*	*2010*
Net ODA received (% of GNI)	25.0%	20.1%	20.3%
Net ODA received per capita (current US$)	5.24	4.41	5.81
Net ODA received (current US$M)	1 230.6	1 046.5	1 393.4
Net financial flows, IBRDa (NFLb, current US$M)	146.7	908.6	1 177.4
Net financial flows, IDA (NFL, current US$M)	466.6	212.8	110.0
Net financial flows, multilateral (NFL, current US$M)	921.5	1 110.6	1 367.1
Net official flows from UN agencies, IFAD (current US$M)	0.7	-1.5	6.9

Source: World Bank (2012f).
[a] IBRD – International Bank for Reconstruction and Development.
[b] NFL – Net flows.

Key points

- Indonesia's GDP growth has averaged 5.6 per cent over 2004-2010, and the economy grew by 6.5 per cent in 2011.
- Indonesia has weathered the recent global economic slowdown due to strong macroeconomic policies.
- It has met some of the MDGs and is on track to meet many others.
- Yet, a large number of Indonesians remain poor and vulnerable, and agriculture growth is closely related to rural poverty reduction.
- Agriculture remains an important sector for the Indonesian economy and revitalizing agriculture is a top government priority.
- In addition to low productivity, agriculture is facing four critical challenges: food security, subnational decentralization, empowering farmers and climate change.
- Public expenditure in agriculture is low; about 60 per cent is for subsidies, diverting scarce resources away from high payoff public investments.
- Larger public spending on agricultural research, operations and maintenance for irrigation and ICT for disseminating information to farmers will have high payoff.
- Given the large size of the agricultural sector, private investment remains low.

III. IFAD country strategy and operations

40. This chapter describes the relevant contents of the written 2008 COSOP (covering the 2009 to 2013 period), to be used as the basis for rating lending and non-lending activities in the subsequent chapters. If the COSOP were a living document, country strategies and operations would have been continuously updated. However, this was not the case.

A. Country strategy

COSOP 2009-2013

41. The 2008 COSOP had the overarching goal of empowering poor rural women and men to achieve enhanced food security, increased incomes and poverty reduction with a focus on smallholder agricultural and rural development, enhancement of the competitiveness of agricultural smallholders and producers, growth of the rural economy and addressing the key determinants of rural poverty.

42. COSOP strategic objectives. Within this overall goal, the strategy had three strategic objectives:

- Strategic objective 1: Increase the access of rural poor people to productive assets, appropriate technology and production support services to boost on- and off-farm productivity. To be achieved by:
    - Assisting smallholders in obtaining secure access to individual or communal (adat) land;
    - Promoting pro-poor, low-cost technical change using local and appropriate knowledge;
    - Intensifying and diversifying agricultural and food production and sources of income;
    - Improving on-farm water management;
    - Building skills for non-farm employment generation; and,
    - Improving productive service delivery by private and public providers, with a focus at the village level, by using temporary village agents and

embedding agricultural extension expertise and animal health services into village organizations.

- Strategic objective 2: Enhance the access of rural poor people to infrastructure, input and output markets, and financial services. To be achieved by:
  - Supporting key small-scale, community-based rural infrastructure at the village level, and other public goods that can improve the livelihoods and agricultural production of the rural poor;
  - Building linkages with markets and the private sector, and promoting value chain development, post-harvest management, agroprocessing and small rural enterprises; and,
  - Promoting access by the rural poor to financial services, establishing group revolving funds to help build up the members' financial assets for investment or emergency purposes, and helping to link these groups to microfinance institutions and the formal banking sector.
- Strategic objective 3: Build the capacity of rural poor people to engage in local policy and programming processes. To be achieved through two sets of activities:
  - Social development and empowerment of rural poor women and men as an essential entry point to enable the poor and near-poor to participate more effectively in the development process, and to manage their own social and economic development; and,
  - Formation and capacity-building of self-help groups, other affinity groups and community-based organizations, and subsequently linking these groups to form apex organizations to enable them to become rural institutions that are viable in terms of ownership, accountability and sustainability.

43. The COSOP targeting approach. The 2008 COSOP targeted geographical areas where the incidence of rural poverty was high and the status of the MDGs most in need of improvement, there were large numbers of poor rural households, there were opportunities to improve agricultural/rural productivity and develop strategic partnership with other agencies, and there were no major ongoing externally-financed agricultural and rural development programmes. Furthermore, COSOP target groups included poor rural households with access to only small areas of land that lack other productive assets and have limited off-farm employment opportunities, and ethnic minority communities and other marginalized groups. In particular, the strategy focused on the poor, food insecure and ethnic minority communities in rainfed, upland, coastal and other marginalised areas with a high incidence of rural poverty in eastern Indonesia. The country programme committed to continuing the support for mainstreaming gender as a crosscutting theme to enhance the role of women as agents of change and bring about a gradual transformation of gender relations in the process of social and economic development.

B. IFAD-supported operations

44. The COSOP envisaged that the objectives would be delivered through a variety of interventions, including the implementation of the project portfolio and non-lending activities (knowledge management, partnership-building, policy dialogue and grants). These plans, proposals and intentions are summarized below.

45. Project portfolio. A programmatic approach was proposed to develop a pipeline of projects. It was expected that two to three projects would support improvements in smallholder agricultural productivity, allowing for flexibility in targeting, scope, subsector focus, delivery mechanisms, size and sequencing.

Under the overall rubric of the smallholder agriculture productivity improvement programme in eastern Indonesia, there would be synergy between objectives and components. The broad scope of engagements would include improving access to productive assets and support services, increasing food crop production, intensifying and diversifying agricultural production, improving management of natural resources, strengthening post-harvest management, building skills, investing in small-scale infrastructure, etc. Within this framework, three unspecified potential engagements were contemplated in agreement with the Government. There was no specific guidance on either the process for project preparation or whether these would be selected from the list of existing pre-conceived and designed projects from the Government's shelf.

46. Policy dialogue. The 2008 COSOP proposed a far-reaching agenda for policy dialogue on climate change, response to rising food and commodity prices both in the short and long term (e.g. assessing the impact of food price increases and food shortages in severely affected areas, targeting the vulnerable and food-insecure population, and supporting rice/food bank programmes for vulnerable and poor people), and biofuels (e.g. increase biofuel production, enable rural poor people and smallholders to access the necessary technologies, training and basic infrastructure, and improve efficiency of land use and planning for food and biofuel production). Strengthened capacity of central and local governments for evidence-based policymaking in favour of the rural poor was a key objective of the 2008 COSOP. IFAD planned to provide relevant institutional support to the Government and other stakeholders, in collaboration with development agencies, to promote policy and institutional changes that benefit the rural poor. The aim was to provide support enabling public institutions to make informed policies for rural poverty reduction that reflect the perspectives and priorities of the rural poor and contribute more effectively to in-country policy dialogue with the Government and other development agencies.

47. Knowledge management. Suggested activities to improve arrangements for knowledge management and communication during the COSOP period included annual assessments of service providers by local communities to feed into the annual project planning process, policy analysis and studies to inform the Government's policymaking, and annual sector policy and institutional assessment of the rural development sector framework under the performance based allocation system (PBAS). IFAD's regional programme of Electronic Networking for Rural Asia/Pacific (ENRAP) would also support the country programme and serve as a platform for dissemination.

48. Partnership-building. The IFAD country programme planned continuation of the development of strategic partnerships with community-based organizations, government agencies, external development agencies, farmers' organizations, NGOs, private sector and civil society organizations, to ensure continuous improvements in country programme performance, enhanced impact on rural poverty reduction and achievement of the strategic objectives. The Ministry of Finance was identified as the representative of the borrower responsible for financial regulations, procedures and fund flows. Close partnership with BAPPENAS would focus on planning, policy guidance and coordination at the national level and also with regional governments. Continued partnerships with other United Nations agencies would advocate for increased investment in agricultural development and rural poverty reduction within the United Nations Development Assistance Framework (UNDAF). Partnerships with bilateral and multilateral development agencies under the overall coordination of the Government would continue to mobilize resources to support national priority programmes for rural poverty reduction, and agricultural and rural development. It proposed a number of partnerships with community-based organizations, NGOs, private sector, civil society organizations, Rome-based United Nations organizations (World Food

Programme/WFP and Food and Agriculture Organization/FAO), and other United Nations organizations within the UNDAF.

49. Grants. The 2008 COSOP proposed that the programme would also include the selective use of grants where they have significant comparative advantages over loans and enhance the loan programme itself. These would be applied to finance interventions with elements of innovation, for enhancing and informing the policy dialogue, and strengthening institutional development where larger scale loan investments might not be appropriate. An additional advantage of using grants would be to include recipients such as civil society actors and community-based organizations who would not be eligible for direct loans. Finally, Indonesia could also benefit from several of IFAD's global grants programmes and activities. Grants could be either project-related or non-project related regional grants.

C. Country programme management

50. Accountability for performance. The COSOP envisaged that the country programme management team would be accountable for the management and implementation of the programme. The team would work closely with all stakeholders to monitor and improve programme performance, and resolve any emerging issues and mitigate risks. Annual country programme performance reviews would identify constraints on programme implementation, share experiences and lessons learned among projects, and make recommendations on policy and operational issues. It was also planned that a mid-term review (MTR) of projects would ensure that projects aligned with the new strategic objectives. There would be close involvement of IFAD in supervision and implementation of the country programme and individual projects, and the gradual establishment of an IFAD country presence to provide opportunities for IFAD to work more effectively with the Government, project management teams and co-financiers. Working with local governments to strengthen their capacity and systems was also a priority. A MTR and completion review for the COSOP was also planned.

51. Financing envelope. The COSOP envisaged an indicative allocation of US$100 million (which was subsequently reduced) in new lending over 2009-2013 (after deducting US$68.53 million of IFAD financing approved in September 2008 for the PNPM) to be provided through 2-3 projects. The COSOP included an illustrative concept note for the projects with a potential list of 14 options for the components. The COSOP did not specify grant resources that may be provided or administrative budget requirements. There were no implementation details or specific resources allocated for the proposed policy dialogue, partnership-building and knowledge management agenda.

52. Results management framework. The COSOP included a results management framework (RMF) for each of the three COSOP strategic objectives, separately for projects and institutional/policy objectives. The indicators for projects were divided into "milestones for progress" and "outcomes which COSOP seeks to influence". The RMF planned to use poverty reduction strategy paper, medium-term development plan, MDG and project-specific indicators to assess outcomes and progress in terms of achieving the strategic objectives. As part of the results monitoring arrangements, baseline and targets would be established for the outcomes and milestones for the strategic objectives, and data analysed from project monitoring and evaluation (M&E) and the Results and Impact Management System (RIMS) reports. There would also be annual reviews of COSOP implementation progress (including client survey results) by the country programme management team and representatives of key government ministries, project management teams, project beneficiaries, cooperating institutions, selected external development agencies, NGOs and civil society organizations.

Key points

- The 2008 COSOP had three strategic objectives: to boost on- and off-farm productivity, improve infrastructure and services, and empower local communities.
- This COSOP targeted poor rural households, ethnic minorities and other marginalized groups that lacked productive assets and had limited off-farm employment opportunities.
- It targeted geographic areas with a high incidence of rural poverty in eastern Indonesia and where there were no major ongoing externally-financed programmes.
- The proposed mix of interventions included projects and non-lending activities (policy dialogue, knowledge management, partnership-building and grants).
- Only broad guidelines were provided for selection and focus of projects and non-lending activities.
- Productive partnership between the Government and IFAD was envisaged and the Government had a dominant role in leading this partnership.
- IFAD's country programme management team was held accountable for COSOP implementation.

IV. Portfolio performance

53. **Composition of IFAD portfolio.** The current CPE covers seven IFAD-funded projects. For each project, the project cost, IFAD loan, vital milestones and cooperating institution responsible for project supervision are summarized below.

Table 7
Projects covered by CPE

Project	*Total Cost (US$M)*	*IFAD Loan (US$M)*	*Date*			*Cooperating institution*
			Approved	Effective	Closing	
Income-Generating Project for Marginal Farmers and Landless – Phase III (P4K)	145.7	24.9	04 Dec 1997	09 Jul 1998	30 Jun 2007	ADB
Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA)	27.4	23.5	04 May 2000	31 Jan 2001	30 Sep 2009	IFAD
East Kalimantan Local Communities Empowerment Programme (EKLCEP)	26.5	20.0	11 Dec 2002		Cancelled in 2005	UNOPS
Rural Empowerment and Agricultural Development Programme (READ) in Central Sulawesi	28.3	21.5	02 Dec 2004	18 Nov 2008	30 Jun 2015	IFAD
National Programme for Community Empowerment (PNPM) in rural areas	1 283.6	68.5	11 Sep 2008	17 Mar 2009	30 Sep 2016	World Bank
Smallholder Livelihood Development Project (SOLID) in Eastern Indonesia	65.0	50.2	11 May 2011	05 Jul 2011	31 Jul 2019	IFAD
Coastal Community Development Project (CCDP)	43.24	24.2	21 Sep 2012	23 Oct 2012	30 Jun 2018	IFAD

Source: IFAD Project Portfolio Management System.

54. **Written COSOP used as benchmark.** As mentioned earlier, the IFAD portfolio, summarized in table 7, was evaluated by this CPE on the basis of the 2008 COSOP. The Income-generating Project for Marginal Farmers and Landless – Phase III (P4K) and the Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA), which were previously included in the 2004 CPE but not yet completed at that point in time, were rated by the 2012 CPE across all evaluation criteria used currently. The East Kalimantan programme (EKLCEP) was approved in

March 2004, but cancelled in 2005. The CPE assessed this project in terms of relevance. The implementation of READ, PNPM and SOLID is ongoing. The CPE assessed READ and PNPM across all the evaluation criteria, except impact and sustainability. It is important to note that thus far only SOLID was prepared and approved under COSOP 2008. Given that SOLID became effective only in July 2011, this project was just rated in terms of relevance, as was the Coastal Community Development Project (CCDP), which was approved after this CPE was completed.

55. Positive elements of the portfolio. While overall portfolio evaluation will be reported in the following sections of this chapter and in annex IX, it is important to briefly highlight the positive elements of the portfolio here. These are (i) IFAD has succeeded in setting a stage for raising productivity and accessing market economic opportunities; (ii) IFAD operations have empowered women to raise their economic activity levels and succeed under difficult circumstances; (iii) Successes have been attained in social infrastructures; (iv) Direct IFAD supervision has shown rapid improvements in the past two years and has the potential of being effective, with the required adjustments.

A. Core performance

Relevance

56. The stated objectives of all seven projects were generally in alignment with the IFAD country strategy, Government priorities and the needs of the rural poor. For example, P4K envisaged reducing poverty through the creation of new income-generating activities for the marginal and landless poor. PIDRA's objectives were relevant in supporting Government's programme of integrated rainfed agricultural development in the provinces having substantial rainfed potential. SOLID aligned with the policies and priorities of the Government for agriculture and rural development, and rural poverty reduction included in the National Medium-Term Development Plan 2010-2014.

57. However, the focus on agriculture productivity enhancement and value added in the portfolio is relatively limited. The projects are heavy on empowerment, rural institution building and income generation, livelihoods improvement with on-farm and off-farm development. These are useful, fulfilling a long-felt need of the rural poor. However, as mentioned previously, the focus is rather limited in agricultural productivity aspects, which is IFAD's comparative advantage and specialization.

58. Overall, the special focus of projects on the rural poor, particularly women, has been important for enhancing their livelihoods. It was observed that the three projects under implementation during the 2008 COSOP (i.e. READ, PNPM and SOLID), deal primarily with social mobilization, community empowerment and community infrastructure. Agriculture development, though implicitly included as the end objective, was not a central focus of these projects, particularly during implementation. However, these social activities appeared to be giving the rural poor some social and economic gains.

59. Another issue related to the relevance of project design was that the recent projects covered very large geographical areas, where population density was low and there were capacity deficits at the subnational level. Resources were therefore spread too thinly.

60. Overall relevance of the portfolio. Given the above, the relevance of the total portfolio is considered moderately satisfactory, 4.

Effectiveness

61. Out of seven projects during the 2004-2012 period, EKLCEP was cancelled, CCDP was approved only recently, READ, PNPM and SOLID were at different stages of implementation, and P4K and PIDRA were closed (P4K in June 2007 and PIDRA in September 2009). The assessment of effectiveness (the extent to which the project

objectives have been achieved) for individual projects is given in annex IX, and the overall assessment of the effectiveness of the project portfolio is summarized here. In order to accomplish this, the assessment of effectiveness focuses on the following crosscutting issues: Savings and credit system; Self-help groups and institution building; Livelihoods improvement of the poor; Enhancement of social infrastructure; On-farm and off-farm development; and, Value chain development and partnerships with the private sector.

62. First, all projects dealt with forming self-help groups (SHGs) at the village or community level. The main purpose of SHGs was to establish a savings and credit system to promote local development and women's empowerment. SHGs under P4K successfully strengthened credit delivery. The project also facilitated the economic and social empowerment of poor women by facilitating access to financial capital from formal credit institutions, group formation and capacity building on livelihoods development. The Government considered P4K Phase III as one of the successful national projects using a participatory approach. Regarding the other projects PIDRA, READ and SOLID formed SHGs at the village level, PNPM had community groups and CCDP envisaged forming various groups at the village level, some of which will initiate savings and credit operations.

63. However, some issues remain. READ has faced challenges mainly due to non-adherence to the design, which called for the recruitment of NGOs for village facilitation. Instead, district-level state employees have been used for mobilization of the poor. Project management sees this partly as a cost saving mechanism advocated by district management and partly as a senior management decision within the Ministry of Agriculture. Lack of suitable NGOs in the remote districts has contributed to this as well. The present system practised by READ, SOLID and PNPM has resulted in a lack of inclusiveness in pro-poor focus and gender mainstreaming. However, having been raised as an issue in several review missions, the projects are taking speedy action recruiting suitable NGOs at the district level (e.g. an NGO for READ was recruited in August 2011).

64. Second, SHGs and building institutions was a key feature of all seven projects, although the outcomes were found to vary from project to project. P4K successfully organized target SHGs and the majority of them remained active until the end of the project. However, replication of the successes of P4K and PIDRA appeared slower in READ or SOLID. Adequate facilitation for SHGs was a notable weakness in READ, SOLID and PNPM. Projects generally missed an opportunity to focus on farmers and enterprise groups to enhance agricultural productivity and the value chain.

65. Third, all the projects dealt with livelihood improvements of the poor. Perhaps the most successful livelihood interventions were small investments made by SHG members. Under P4K, SHGs were involved in raising livestock and running small shops. P4K directly benefited 81 per cent of target beneficiaries through capacity building, savings mobilization and access to credit from Bank Rakyat Indonesia (BRI). Under PIDRA, food security was achieved in project areas, not only through investment in agriculture, but also through other income-generating activities. The project promoted a total of 22,446 microenterprises. READ, SOLID and PNPM, while including agriculture as an objective at design, remained focused on social mobilization and community infrastructure during implementation. After the MTR, there were attempts to restructure these projects to focus on agriculture, including productivity and the value chain.

66. Fourth, there has been marked progress in making investments for the enhancement of social infrastructure, particularly in PIDRA, READ, SOLID and PNPM. Investment in social infrastructure is important to empower women, reduce poverty and improve the quality of life. However, there appear to be quality problems related to community infrastructure, as well as with operations and

maintenance after infrastructure is built. In any case, the design of community infrastructure components has been generally weak and not directly related to agriculture or enterprise development.

67. Fifth, projects had limited results related to on-farm and off-farm development and productivity enhancement. This was partly due to the fact that infrastructure was easier to build and given priority by both the project authorities and beneficiaries. Results of READ in this area were limited, implementation of SOLID only started in 2011 and little was accomplished under the agriculture component of PNPM.

68. Sixth, as far as value chain development and partnership with the private sector are concerned, READ has successfully established collaboration with a private company (Mars) for the improvement of cocoa grown by smallholders. Such public-private partnerships need to be replicated in other projects. Overall, the concept of the value chain is not yet fully understood in SOLID.

69. Overall effectiveness of portfolio. The effectiveness of the portfolio is rated as moderately satisfactory, 4.

Efficiency

70. The determination of efficiency is a rather more complex exercise than assessment of the other performance indicators, since particular conditions of implementation for individual projects are not necessarily comparable. The operational efficiency of the IFAD portfolio is determined based on the following criteria: Elapsed time between loan approval and effectiveness; Time overruns; Cost economies in social infrastructure; Disbursement of funds; Project management costs; Cost per beneficiary household; Internal rate of return at the farm level; and, Internal rate of return for the project. Details are provided in annex IX.

71. Internal rate of return at the farm level. P4K facilitated the preparation of 161,529 group business plans, out of which 17 per cent were able to obtain loans under the P4K credit facility, indicating that the incomes from micro livelihood enterprises were adequate to defray costs for their household expenses. Therefore, in the case of P4K, project efficiency at the farm level was not an issue. In the case of PIDRA, benefit cost ratios and internal rate of return of “without project” and “with project” situations for several selected on-farm and off-farm activities by districts were carried out in the project completion report (PCR). The results showed an improvement in the “with project” situation for a number of activities. This was true for many activities carried out under the project. The benefit cost ratios for some of these investments were also reasonable, including agricultural product processing. For the two completed projects, the findings showed an acceptable internal rate of return at farm level. This may or may not hold for the projects that are currently under implementation since the main focus of investments in these projects remains social mobilization, empowerment and community infrastructure.

72. Internal rate of return for the projects. There are some factors that have an impact on efficiency across the board for the IFAD portfolio: Time elapsed between loan approval and effectiveness; Erratic counterpart fund availability during the first few years of implementation;[2] Frequent staff turnovers; and, Time overruns. These factors impacted negatively on the actual economic internal rate of return (EIRR) for the project. Economic analysis was not undertaken for P4K at completion. The project had an M&E system basically focused on tracking and monitoring the performance of its lending portfolio rather than the performance of productive activities. As a result, the calculation of EIRR was not possible. In the case of PIDRA, an economic analysis was undertaken at completion and the EIRR was found to be in the range of 40-49 per cent in the three targeted provinces, based

[2] For example, the adequacy and timeliness of counterpart funds provided by the Government was considered less than satisfactory by the mid-term review mission of the READ project.

on the cost-benefit analysis of the various on-farm, off-farm and non-farm investments. None of the other projects are yet complete. However, PIDRA could provide guidance for future projects to systematically collect data to be used to recalculate the EIRR at project completion. The limited findings from P4K, PIDRA and READ have shown that returns to investment in social infrastructure are relatively high.

73. Elapsed time between loan approval and effectiveness. The average time between loan approval and loan effectiveness was 17 months, which is higher than the IFAD average of 14.5 months, and the Asia and Pacific regional average of 11.4 months reported in the evaluation of IFAD's regional strategy (EVEREST). However, for EKLCEP and READ the time elapsed was even higher, i.e. 29 and 47 months, respectively. In the case of EKLECP, the gap was due to the delay in resolving the onlending mechanism between the Ministry of Finance and local government of East Kalimantan. The inability to resolve the onlending issue led to cancellation of the project. The READ project was approved by IFAD without negotiations with the Government. As a result, the Government did not agree to all the provisions of the project. The time taken for redesigning the project caused the delay in loan effectiveness. However, the elapsed time was only eight months for PNPM and two months for SOLID. In addition, there were delays in establishing project implementation units (PIU) for individual projects and appointing qualified staff to help implement these projects. The long delays observed in EKLCEP and READ, however, were considered exceptional due to various unforeseen administrative issues.

74. Time overruns. Time overruns were experienced in both P4K and PIDRA. The late start, low disbursements during the early years of project implementation and frequent staff transfers were some of the reasons that resulted in the projects requiring additional time beyond the planned date of completion. Although there were frequent staff transfers in provincial and district management, relatively quick replacements minimized staff turnover in P4K and PIDRA enabling them to maximize management efficiency. P4K closed 21 months later and PIDRA six months later than their planned closing dates. With the exception of PNPM-Rural, disbursements for READ and SOLID have been slower than expected and may also require extension of the closing date.

75. Cost economies in social infrastructure. The analysis of available cost data for PIDRA, READ and PNPM (also see annex IX) indicates the cost of building community infrastructure by the community has been lower than the corresponding commercial estimates, and community contributions have been positive in terms of labour and material, which account for 10 to 30 per cent of the total cost of community infrastructure for different projects. However, community infrastructure in some projects has faced two issues: the quality in a few isolated cases has been poor; and the operations and maintenance (O&M) for community infrastructure remains a problem. This is primarily due to inadequate institutional arrangements before decisions are made to invest in community infrastructure.

76. Disbursement of funds. P4K utilized US$49.281 million, or only 63 per cent of the total ADB loan, after four progressive cancellations of US$29.3 million. IFAD, as co-financier, disbursed 84.38 per cent of the loan by the end of 2008. Similarly for PIDRA, the overall expenditure at completion was 89.4 per cent of the estimates. In both cases, there was also non-availability of timely proportionate amounts of counterpart funds. In spite of the above delays, these two projects recorded reasonable achievements at completion. Disbursement in other ongoing projects has also been behind schedule.

77. Project management costs. Measurement of the funds used for project implementation units at project completion against the budgeted funds at appraisal is an indicator of operational efficiency. There were savings of US$1.65 million in

P4K at completion from the budgeted funds. In the case of PIDRA, however, the project management costs exceeded estimates by US$1.5 million at completion. For READ, at MTR, only 18 per cent of the budgeted project management unit (PMU) costs had been utilized, thereby indicating slow implementation of project activities. PIDRA management costs were higher and required transfers from other development work with no additional work undertaken.

78. Cost per beneficiary household. Another indicator of efficiency is to measure the cost per beneficiary household. For P4K and PIDRA, the actual costs per beneficiary household were US$126 and US$698, respectively. For the other five projects, only the corresponding estimates at appraisal are available. For SOLID, the estimate is US$1,414, while for CCDP it is US$618 per household, indicating high transaction costs due to the scattered nature of the target areas– Maluku and North Maluku for SOLID, and Sulawesi, East Kalimantan, Maluku and Papua for CCDP. These figures show that the costs per beneficiary household are above the normal range of expectations for such interventions. The data also show that the average costs per beneficiary household for microcredit programmes are relatively low. Delivery of microcredit through the network of BRI has been cost effective. There are two reasons for the very low cost per beneficiary household in the PNPM, when compared to the others. First, PNPM operates through a mechanism of community mobilization using state extension staff as well as external facilitators, while in all the other projects there is a high degree of social mobilization and formation of SHGs. The other reason is that all PMU costs are being borne by the co-financier, the World Bank.

79. Overall efficiency ratings for the project portfolio. The overall efficiency ratings for the IFAD project portfolio in Indonesia are estimated to be moderately satisfactory, 4.

B. Rural poverty impact

80. For the project portfolio, the rural poverty impact assessment is based on the following impact domains: Household income and assets; Human and social capital and empowerment; Food security and agricultural productivity; Natural resources and the environment (including climate change); and, Institutions and policies (also see annex IX).

Household income and assets

81. The emphasis of P4K and PIDRA was on food security for target beneficiaries rather than increased income. However, while achieving food security, both P4K and PIDRA registered positive increases in household incomes and assets. Although there was no data available on such increases to make a direct correlation, increased spending on house renovations and improvements, and purchases of household appliances and cellular phones – which were common among the target group – were seen as positive indicators in terms of household income and assets. In addition, the group profits from small and medium enterprises in P4K were used to upgrade the equipment used (e.g. fruit and fish dryers, sealers and fryers), thereby increasing productivity and profitability.

82. The incidences of borrowing from moneylenders at the village level for P4K and PIDRA target groups were drastically reduced. This too was considered as a positive contribution of the strong saving culture instilled among members of the SHGs, which helped to improve household financial assets.

83. Overall, P4K enabled poor beneficiaries to gain access to financial services, including savings and loans. PIDRA facilitated an increase in household income for project beneficiaries. However, there were issues with respect to the sustainability of these economic and credit activities. As far as READ, PNPM and SOLID are concerned, community assets are being created through community infrastructure and individual household assets through either SHGs or revolving fund groups. The

M&E systems for these projects are either not in place or not quite adequate to collect and analyse the necessary information.

84. Rating. The performance under household incomes and assets is 4, moderately satisfactory, based on the performance of the two completed projects. It is still too early to assess the three ongoing projects, but what has been observed is giving concern related to this impact domain.

Human and social capital and empowerment

85. P4K has contributed to a culture of group activity and collective responsibility. The project also enhanced access of SHG members and their households to better nutrition, health care services and higher education for their children, which facilitated the potential improvements in household welfare.

86. The most important impact of PIDRA has been on the formation of SHGs and federations to facilitate saving, lending and marketing. PIDRA interventions helped rural people to improve their social status, and build confidence and self-reliance. They pioneered participatory processes to foster group and community development actions. They empowered communities to plan and prioritize their infrastructure needs and then to contribute to cost-effective and timely construction.

87. READ, PNPM and SOLID are also promoting empowerment of the rural population, including women. One of the major problems facing these projects, however, is that social mobilization is being done by extension staff at the district level. Unlike NGOs, extension staff is not professionally trained to undertake social mobilization and training. However, arrangements are being made to recruit NGOs from the respective areas to undertake this responsibility.

88. Rating. The performance under human and social capital and empowerment is rated 4, moderately satisfactory, based on the performance of the two completed projects.

Food security and agricultural productivity

89. In P4K, the majority of the beneficiaries owned little or no land, and were therefore purchasing food rather than producing it for their own consumption. The additional income generated by the SHG members from their microlivelihood projects were mostly used to defray costs for household food expenses. The project was also found to reduce poverty among SHG members' households; the proportion of poor SHG members' households decreased from 22.5 per cent in 2002 to 15.7 percent in 2005.

90. At project completion, it was found in PIDRA that between 71 and 87 per cent of the respondents reported an increase in income from agriculture and livestock; all the respondents reported improved marketing of produce and increased food security; between 33 and 82 per cent of the respondents reported an increase of cultivable area. An important dimension of programme impact is the fact that, according to the 2008 IFAD supervision report, 4 888 families had access to land, which could be considered as a pre-condition for any programme aimed at agricultural advancement.

91. A total of IDR 40.5 billion of SHG loans were directed to agriculture. The total area in which crops were intensified or diversified was 23,445 hectares. There were 14,000 farmers involved in adaptive trials and 34,000 adopted organic farming practices. There was a need to provide adequate veterinary care, as there were several villages where livestock and poultry had died of diseases. PIDRA had trained village-level veterinarians that operated on a fee-for-services basis. Despite the problems encountered in becoming viable service providers, this can be considered an important contribution of PIDRA to agricultural development. As has

been discussed above, the main focus of READ, PNPM and SOLID was community infrastructure.

92. Rating. The performance under food security and agricultural productivity is 3, moderately unsatisfactory, given the limited impact on agricultural productivity of P4K and the fact that the three current projects have had limited focus, particularly during project implementation, on investments in agriculture to promote productivity enhancements and value added.

Natural resources and the environment

93. Given its scope, P4K did not directly contribute to protecting or rehabilitating the natural resource base, nor did it contribute to resource depletion. However, protection of natural resources and the environment (including adaptation to climate change) received a prominent place in PIDRA. Budget was allocated to promote these activities. The 2007 IFAD supervision mission referred to the increase in awareness of communities about the importance of watershed management, and hence dedicated soil conservation initiatives were undertaken on the most vulnerable spots on community land.

94. READ and PNPM do not have activities designed to directly address natural resources development. However, SOLID has a component related to natural resources management. In any case, where SHGs are involved in production agriculture, they are being trained in ways to conserve soil and water. Similarly, investment in irrigation infrastructure has also promoted conservation and better use of water for irrigation. However, the overall impact of the project portfolio on natural resources and the environment has been limited.

95. Rating. The performance under natural resources and the environment is 4, moderately satisfactory, based on the fact that the projects were not intended to focus on these areas (except two), but have not caused any negative impacts.

Institutions and policies

96. P4K had a positive impact in terms of strengthening the capacity of the Agency for Agricultural Human Resource Development in the Ministry of Agriculture, BRI, local dinas and district governments to service the rural poor. At the start of project implementation, the methodology was largely determined by the executing agencies and involved little or no participation from the direct beneficiaries. However, the participatory rural appraisal (PRA) methodology introduced midstream in the project enabled them to develop skills in participatory strategies and bottom-up approaches to planning and implementation that can be applied to other projects. BRI was also able to develop innovative financial products for the poor as a result of the project.

97. PIDRA was successful in influencing government to introduce some of the successful experiences of its strategy in anti-poverty programmes. It also refers to the importance of PIDRA in supporting the decentralization process initiated by the Government of Indonesia, promoting the participation of the poor in local planning and enhancing the role of NGOs and other social structures in local government plans.

98. In the 2008 IFAD supervision report, reference was made to the fact that the NGOs that cooperated with the PIDRA agreed to remain in the project area. This was an important institutional change that PIDRA helped achieve. According to the same supervision report, the linkage of the programme with the private sector remained an “unresolved issue”; likewise PIDRA lacked a strategy for linkages with financial institutions and banks. These issues may be considered as a missing opportunity for the project to generate change in the institutional setting in the project area.

99. Rating. The overall performance under institutions and policies is rated moderately satisfactory, 4.

Overall rural poverty impact

100. Given all the above, the overall rating for rural poverty impact of the portfolio is moderately satisfactory, 4.

C. Other evaluation criteria

Sustainability

101. P4K has strengthened the link between SHGs and BRI to promote participation of beneficiaries in financial services from BRI. A large number of SHGs from P4K have availed themselves of loans from BRI. However, this formal banking linkage has not been regular over time or across all SHGs. After the closure of P4K, in districts with high payment performance, BRI entered into Memorandums of Understanding with the district governments (e.g. Cirebon, West Java) to continue credit services to the SHGs through revolving the credit funds. While graduation of some SHG members into the formal banking system has been a positive contribution by the project, this does not necessarily mean it will be sustained in the long term. Five years after project closure, BRI data reveals that 4,357 SHGs from P4K have availed themselves of loans from BRI from its various credit programmes, including group lending, individual lending and lending on commercial terms (compared to 44,945 SHGs active at the completion of the project).

102. The Food Security Agency of the Ministry of Agriculture has shown that a number of SHGs of PIDRA have formed into federations and registered as cooperatives. The creation of these institutions has contributed to sustainability of some PIDRA activities. The PIDRA experience was a special case and measures have been taken by the management to replicate some of the lessons learned in projects under implementation, such as READ, PNPM and SOLID. In other projects, with relatively more emphasis on community infrastructure, the issue of O&M needs to be addressed.

103. In general, the limited capacity at village and community levels, which has been mentioned before in this report, will also affect the sustainability of the portfolio. The weak M&E system has limited the ability of project management to learn from experiences and take action to ensure the sustainability of project achievements. The complex design and the wide geographical coverage of the current projects (see also the section on project relevance) are also factors that will affect sustainability in the long run.

104. Rating. The overall assessment of sustainability, based on the two closed projects and the ongoing experience of recent projects, is 3, or moderately unsatisfactory.

Innovation and scaling up

105. In February 2008, one year after the closure of P4K, BRI started implementing the KUR microcredit programme of the bank, which extended a maximum loan to individuals amounting to Rp.5 million at an interest rate of 1.125 per cent per month without collateral. This is a pro-poor innovation of P4K, where the clientele are marginal farmers with a lack of fixed assets. However, in the absence of a microfinance policy for Indonesia, it is doubtful whether the Government has learned key lessons from the P4K experience in order to replicate or scale up this experience. Even though it is too early to judge, READ, PNPM and SOLID remain focused on social mobilization, community empowerment and community infrastructure.

106. Unlike P4K, the experience of PIDRA has found a place in a national village food sufficiency programme, Programme Desa Mandiri Pangan, which commenced in 2007 and is being implemented by the Food Security Agency. It is being

implemented in 1,500 villages in 24 provinces and 250 districts. Each village is allocated a sum of Rp.50 million. Under the direction of the district Bupatis (elected regents), NGOs facilitate the capacities of the state extension officers, who in turn are responsible for the formation of the community-based organizations among the villagers. After three years of extensive agriculture development in one village, another village is adopted. This is a clear example of scaling up one concept of PIDRA into an ongoing national programme of the Ministry of Agriculture. In special instances such as in NTT, there are other donors; Australian Agency for International Development (AusAID) and United States Agency for International Development (USAID) are continuing some aspects of the SHG model in village development.

107. Rating. Based on the above, the overall assessment of the portfolio in terms of pro-poor innovation and scaling up is assessed as being moderately satisfactory, 4.

Gender equality and women's empowerment

108. Mainstreaming gender, strengthening empowerment and enhancing participation are key objectives of COSOP in Indonesia. The country programme emphasizes enhancing the role of women as change agents in the process of social and economic development, and enabling more women to become leaders and take active part in decision-making at all levels. The gender approach adopted in P4K and PIDRA was in accordance with IFAD's main operational objectives to promote gender equality, women's empowerment, and greater representation in community affairs and local institutions. The role and participation of women in the family and public activities changed in a positive way with women beneficiaries setting up microenterprises (increasing their decision-making and financial management capabilities in the households), enhancing social capital with savings and credits, forming SHGs and village development associations (VDAs), undertaking functional literacy and awareness training, and easing women's workload through the village infrastructure components.

109. The ongoing READ, PNPM and SOLID programmes are further contributing to gender equality and women's empowerment. Women SHGs are benefiting from the development of microenterprises and improving households' financial capacity, as well as building capacity for responsible loan servicing through skills training (e.g. basic bookkeeping) by village facilitators. Under PNPM, rural women's savings and group loans are linked with the "open menu" programme in suggesting rural infrastructure facilities. New income opportunities are emerging from the infrastructure construction building components. The most beneficial infrastructure from the community's point of view is road construction, irrigation and water supply (the latter, if located in strategic places inside the village or hamlet, has a strong gender perspective). Women's proposals in infrastructure are often concentrated on health and education facilities (e.g. school buildings, kindergarten facilities, and village level pre- and post-natal health posts) and implemented successfully as long as there are strong women role models in the respective communities (i.e. female engineers, female village heads, women facilitators).

110. Rating. Key lessons going forward include the effective way in which SHGs have enhanced the role of women. Cooperation with NGOs is critical. However, there is a tendency to take a body count approach relating to gender equality and participation of women at the project level, rather than adequately addressing women's concerns. Participation at higher levels (e.g. districts) is limited by capacity and project management constraints. Overall, the portfolio has promoted expanding the role of women and empowering them. However, it would have been even better to further enhance the role of women in non-traditional activities. Thus, the performance for gender equality and women's empowerment is rated moderately satisfactory, 4.

D. Overall achievement

Portfolio performance summary

111. Based on the above analysis and details provided in annex IX, the overall achievements of the project portfolio and the performance ratings for individual elements are summarized in table 8. The portfolio performance is mixed. P4K and PIDRA have successful examples that received state patronage for scaling up. It is too early to comment on the final achievements of the others, such as READ, PNPM and particularly SOLID. SOLID has been under implementation for only about a year. Although these projects are focused more on investments in community empowerment and community infrastructure, and not on the critical issues necessary for directly revitalizing agriculture in Indonesia, their contribution to rural poverty reduction has been positive. Given this, the overall portfolio performance is assessed as being moderately satisfactory, 4. However, it should be noted that this rating partly reflects recent improvements in supervision ratings. This of course will require further validation based on future M&E results, particularly for READ, PNPM and SOLID.

Table 8
CPE ratings of the project portfolio and benchmarking with the ARRI

Evaluation criteria	*Portfolio assessment*	*Percentage of projects in the portfolio with a moderately satisfactory (4) or better rating*	*Percentage of IFAD projects evaluated between 2002-2012 in all regions with moderately satisfactory (4) or better (rating from the 2013 ARRI)*	*Average rating of IFAD projects in the Asia and Pacific Division, evaluated between 2002-2012*
Project performance				
Relevance	4	86	93	4.8
Effectiveness	4	50	72	4.3
Efficiency	4	50	56	4.0
Project performance	**4**	**50**	**78**	**4.3**
Rural poverty impact				
Household income and assets	4	100	79	4.5
Human and social capital and empowerment	4	100	75	4.3
Food security and agricultural productivity	3	50	75	4.3
Natural resources, the environment and climate change	4	100	60	4.0
Institutions and policies	4	100	64	4.1
Rural poverty impact	**4**	**100**	**76**	**4.3**
Other performance criteria				
Sustainability	3	0	53	3.8
Innovation and scaling up	4	50	72	4.2
Gender equality and women's empowerment	4	100	81	4.3
Overall portfolio achievement	**4**	**50**	**75**	**4.3**

Note: ARRI - Annual Reports on Results and Impact of IFAD Operations.

IFAD and PSR ratings for the portfolio

112. IFAD supervision ratings. It is worth noting that the current portfolio (which was under implementation in 2011, including READ and PNPM) was rated as less than satisfactory by the supervision missions. In 2011, both of these projects were labelled as "problem" projects. The implementation of the third project, SOLID, had only started in 2011. However, these three projects were rated as moderately satisfactory during 2012 supervision missions.

113. The ratings for IFAD-funded individual projects for the project portfolio in Indonesia are summarized in annex I. Finally, the ratings for individual projects, as reported in the available project status reports (PSR), are summarized in table 9. It is clear from the PSR ratings table that the quality of the portfolio has declined over time.

Table 9
Project status report ratings of Indonesia portfolio

Project/assessment category	*'03*	*'04*	*'05*	*'06*	*'07*	*'08*	*'09*	*'10*	*'11*	*'12*
P4K (approved 12/97; completed 12/06)										
Likelihood of achieving the development objectives					5					
Overall implementation progress					5					
PIDRA (approved 05/00; completed 03/09)										
Likelihood of achieving the development objectives	4	4	4	4	5	5	5			
Overall implementation progress	5	4	4	4	5	4	4			
READ (approved 12/04; ongoing)										
Likelihood of achieving the development objectives								3	3	4
Overall implementation progress								3	3	4
PNPM (approved 09/08; ongoing)										
Likelihood of achieving the development objectives								4	3	4
Overall implementation progress								4	3	4
SOLID (approved 05/11; ongoing)										
Likelihood of achieving the development objectives										4
Overall implementation progress										4

Notes: Depending on the project and missions, project status reports were prepared anywhere from 2 to 33 months after the supervision mission. For P4K, only one project status report is available for 2007 which was updated in April 2009; all the ratings were 4 except quality of project management, which was rated 3; however, both likelihood of achieving the development objectives and overall implementation progress, are rated 5.

Reflections on the current portfolio

114. According to the MTR report for READ (December 2011), NGOs and village facilitators were mobilized only in July/August 2011 (the project became effective in 2008), and the project was characterized by limited participation by poor villages, very few productive activities, weak linkages to agricultural productivity, delay in undertaking the baseline survey (done at the end of 2011), inconsistencies in key documents, and unreliable, incomplete and non-evaluative progress reports. The MTR rating for implementation was 3 (moderately unsatisfactory), the project management performance and procurement were rated as 2 (unsatisfactory,) and actual output for component B (farm and off-farm enterprise development) was rated as 1 (highly unsatisfactory). Given the history of poor performance, it would

be difficult for project authorities to address all these critical issues in a limited amount of time. The mission recommended redesigning the project with a main focus on farmers' empowerment, and enhancement of agricultural productivity and value added.

115. The main issues identified by the MTR mission for PNPM-Agriculture in April/May 2012 were limited understanding of project design, lack of implementation guidance, lack of strategic focus, procurement delays, failure to engage the private sector, and a vague and rudimentary results monitoring framework (M&E performance was rated as unsatisfactory). Farmer beneficiaries were yet to obtain any benefits, project impact was limited and the project had been described as little more than cash-for-work. Most positions for facilitation had not yet been filled.

116. According to the Aide Memoire of the Implementation and Support Mission (April 25 to May 12, 2012) for SOLID, there was limited progress except related to community empowerment. However, the mission indicated that there was a lack of qualified community facilitators and lack of understanding of key concepts related to productivity and value chains. Only 5 per cent of the IFAD loan was disbursed (not necessarily spent) and there were serious delays in procurement. There was an M&E plan but the M&E officer was due to transfer out of the project. The financial management system was viewed as highly complex. During the quality assurance (QA) review, several risks were identified, including underperforming institutions, poor quality of infrastructure, the chance that technology uptake might not materialize and delays in procurement. In the absence of an appropriate mitigation strategy, these risks remain as valid now as they were during that review.

Key points

- Seven IFAD-supported projects during the CPE period: two completed, one cancelled, three under implementation and one recently approved.
- Of these, two were under the earlier COSOP, three approved without a COSOP and two were under the current COSOP.
- Projects objectives are relevant but the design is complex with a diffused focus. Recent projects cover large geographical areas straining inadequate subnational capacity.
- Good results were achieved in community empowerment and social infrastructure, but less on agricultural productivity.
- Sustainability is an issue. There are several examples of scaling up of the two closed projects (P4K and PIDRA).
- The overall portfolio performance rating is 4, moderately satisfactory. Although quality of the portfolio has been declining over time during the CPE period, there have been recent signs of improvement.

V. Performance of partners

117. The Government of Indonesia and IFAD are the main partners for the country programme. This chapter deals with the performance of IFAD and the Government in this partnership. It also reflects responses to questionnaires sent to the Government and IFAD, and filled in by key staff of both organizations through self-assessment as well as other assessments (see annex XII).

A. IFAD

118. 2004 Indonesia CPE. The two overarching recommendations of this CPE were to better balance the focus on empowering the poor with efforts to raise farm and

non-farm productivity, and to increase inputs devoted to non-lending activities, namely policy dialogue, knowledge management and partnership-building. The CPE noted that given limited staff and lending resources, IFAD should see its role "primarily as an innovator in policy, institutional and operational terms rather than a purveyor of fairly routine projects", and "being a progenitor of well-tested innovative ideas and approaches that can be expanded nationwide by those with greater resources".

119. The 2008 COSOP. This incorporated the broad recommendations of the 2004 CPE. However, it did not establish a robust and detailed framework for future country operations and therefore missed the opportunity of laying down sharper parameters governing IFAD operations in Indonesia at the design stage. To remedy the situation, there was a need for nimble and effective IFAD programme management during COSOP implementation, particularly given the rapidly evolving country situation and need for strong dialogue with the Government. This was absent until a proactive country programme manager (CPM) was appointed more recently in 2011. As a result, its current portfolio was below par and its non-lending activities were insufficient (see also chapter VI).

120. Dealing with multiple government agencies. IFAD worked as a partner with several government agencies and a wide range of counterparts in different government ministries and various levels of government (central, provincial, district and even subdistrict). This included the ministries of agriculture, marine affairs and fisheries, home affairs, foreign affairs and finance, and BAPPENAS. Despite this challenge, government and IFAD cooperation during COSOP implementation was characterized by mutual trust and cordial relationships, and IFAD country management projected IFAD's commitment to rural poverty reduction. However, it was less successful in delivering results and demonstrating to government partners where their comparative advantage lay and how the Government could optimize the benefits of partnership. The IFAD programme required interaction with a number of government implementers. Reducing the number of government partners by focusing on agriculture and limiting geographical coverage would have made the IFAD programme more effective and manageable, and the projects simpler to implement.

121. Synergy between national and subnational activities. The structure of the IFAD programme envisioned in the COSOP comprised a "Smallholder Agricultural Productivity Improvement Programme in Eastern Indonesia", under the auspices of which individual projects should have been implemented. This programme was never fully put in place and its parameters did not establish the boundaries of individual projects, which in the end were thinly spread over a large geographical area, promoted multiple activities and had weak agricultural content.

122. IFAD's performance in terms of project design. In regard to IFAD portfolio preparation, upstream project development was not given importance. IFAD country programme management did not proactively identify future projects. Indeed, in the case of PNPM and CCDP (fisheries), IFAD had little influence. More upstream involvement would have helped to link the projects better to national policies, in particular food security, climate change and decentralization; build strategic alliances with partners and donors; fine-tune project priorities and design; scale up successes of past IFAD projects; and focus better on ground-level implementation issues. Technical content in respect to agriculture was light in the portfolio. IFAD should have been more involved in the design and guided the projects in the same direction with the COSOP, in order to avoid focus bias and to promote more focus on agriculture. Sustainability issues were not adequately addressed. For example, IFAD developed rural finance components to support without exploring fully the sustainability implications of a weak national rural finance framework. M&E arrangements were overdesigned without acknowledging capacity constraints, and therefore underimplemented.

123. Project supervision. Though supervision missions were generally adequately staffed, they were not characterized by regularity and continuity of staffing. Given IFAD's limited resources, capacity and the high demands that adequate supervision of complex projects dispersed over large geographic areas require, management could have defined project parameters more modestly and strategically, and reduced the number of districts covered. Supervision of PNPM by the World Bank, on behalf of IFAD, was unsatisfactory, although more recently supervision efforts have been stepped up. Management of supervision missions by IFAD country programme management has improved but more needs to be done. These missions generally did not plug into national agricultural issues relevant for the projects or promote cross-fertilization across projects. Direct IFAD supervision has shown rapid improvement in the past two years after a hesitant start, and has the potential of being effective with the required adjustments.

124. IFAD country programme management has been weak for most of the period covered by the CPE. There has been a lack of management attention until recently. For example, based on travel information from 2005-2012, there is no record of travel by the regional director to Indonesia after mid-2008, until 2012. IFAD's country presence in Indonesia is a consultant acting as country programme facilitator responsible for facilitating implementation support to the country programme. The consultant is responsible for providing logistical support for supervision and review missions, and represents the CPM at coordinating and other meetings. However, there is no direct technical support provided to the projects. The new CPM assigned in 2011 is making excellent efforts in re-energizing the partnership under the leadership of the new Asia and Pacific Division (APR) Director. There is a plan for the current CPM to be out-posted to the country, which will hopefully bring more positive change to the portfolio. The overall performance of IFAD is assessed as being moderately unsatisfactory, 3.

B. Government

125. In principle, the Government assumed ownership and responsibility for the IFAD programme. However, the Government's appreciation of IFAD's strengths and constraints needed to be better informed. This was particularly true with respect to optimizing benefits from IFAD projects and adequately mitigating the risks that threaten results in the subnational government. Instead, the Government encouraged IFAD to provide large funding (US$68.5 million) for the PNPM programme that provided little opportunity for any value added by IFAD, and also steered IFAD towards supporting the Coastal Community Development Project, which may have similar inadequacies as earlier projects (i.e. a project area so vast that capacity-building needed to implement the project would be daunting, let alone efficient supervision by IFAD). The Government promoted involvement in technical areas where IFAD had limited competency. The Government could also have done more to simplify post-COSOP communications with IFAD, given the number of agencies involved.

126. Given the leverage exercised over IFAD decisions, the Government could have been more forceful in asking IFAD to improve its contribution to Indonesia's development by narrowing its activities to small farmers and their groups, and improving their agricultural productivity through technology and value chain development in input and output markets, sharper geographical focus and empowerment of farmers' groups in addition to the rural community at large. It could have provided more guidance to IFAD on implementation support to address the capacity deficits in the subnational government.

127. Coordination within Government. While the finance ministry and BAPPENAS led impressively on policy and planning matters, the Government was less effective in coordinating the large number of government departments and agencies operating at the national and subnational levels of project implementation. All the projects under implementation generally worked in silos, even when these projects were

implemented by the same ministry. For example, both READ and SOLID were being implemented by two different departments in the Ministry of Agriculture. There was limited coordination and exchange of information to learn lessons from each other for expediting project implementation. There were also problems related to ownership, responsibility, accountability and incentives at the subnational levels that made it difficult for the subnational governments to address the implementation problems expeditiously. The weak capacity and limited experience in implementing projects funded by development partners also negatively impacted the pace of implementation.

128. Subnational activities. The Government could have pressed IFAD to focus more resources on implementation support to address the capacity deficits in the subnational governments and at the village level, and offered guidance on how civil society and private sector capacity could be tapped to cover capacity deficits, as well as how information and communication technology could be used more aggressively to bridge capacity deficits and improve communications with small farmers. Another area where the Government could have helped was in national-provincial-district budget fund flows, where bottlenecks still persist, and clarity related to onlending policy. As a result, during 2004-12 one IFAD project was cancelled and one was delayed by two years. Most importantly, the Government needed to focus on sustainability of project operations at the subnational level.

129. Government reporting. As far as various project reports were concerned, such as progress reports, financial reports and audit reports, there were generally delays. This was mainly due to the fact that final reports were consolidated at the central level, but were based on information and reports received from the districts and provinces. However, even if late, the reports were submitted as required. Preparation of quarterly reports provided an opportunity to the project management units to take stock, identify major bottlenecks to implementation, and design a strategy to expedite implementation in order to improve performance. However, generally this was not done. Furthermore, appropriate and adequate M&E information was generally missing since most projects did not have fully operational M&E systems.

130. Counterpart funding. The amount of counterpart funding provided by the Government for the projects included in this evaluation ranged between 14 per cent (PIDRA) and 24 per cent (READ), except for PNPM which was a special case. This is rather low especially given that Indonesia is a middle-income country.[3] There have also been instances when counterpart funds were released later than required. Adequate and timely provision of counterpart funds for the project portfolio was important for project implementation.

131. Government response to IFAD supervision. While the Government was fully committed to the design and concept of the projects, more could have been done to support project goals. For example, READ was under implementation for three years and was rated less than satisfactory by the IFAD supervision missions because it was not implementing all the agreed project activities. Similarly, the Ministry of Home Affairs was hesitant to implement the agriculture component under PNPM in Papua and West Papua. The institutional capacity of project management units was generally weak and the required staff not always appointed to work full time on the projects. The weak management staff, inadequate staff skills and delay in releasing counterpart funds had direct implications for the degree of success and development impact of the project. Project management units did their best to implement all the actions following supervision missions. However, projects were not modified effectively during implementation and there were substantial delays in completing all the actions. On the other hand, the CPE

[3] For example, the percentage of counterpart funding by the Government for the portfolio in Pakistan is around 56 per cent, and that in Nigeria around 40 per cent. The average figure for IFAD is around 27 per cent (as of June 2011).

mission was told that sometimes the list of actions identified by the supervision missions was too long to handle in the given amount of time. In any case, there were generally delays in getting all the actions completed.

132. The overall performance of the Government is assessed as being moderately unsatisfactory, 3.

Key points

- IFAD country programme management was weak for most of the period covered by the CPE. There was a lack of management attention until recently. However, the new Indonesia CPM assigned in 2011 has been making excellent efforts to re-energise the partnership under the leadership of the new APR Director.
- The IFAD-Government partnership, characterized by mutual trust, is operating below potential and the level of effectiveness can be significantly improved.
- IFAD needs to more effectively communicate both its strengths and limitations in relation to its programme in Indonesia, particularly in the context of Indonesia's MIC status.
- Though supervision missions were generally adequately staffed, they were not characterized by regularity and continuity of staffing.
- In principle, the Government assumed ownership and responsibility for the IFAD programme.
- While Ministry of Finance and BAPPENAS led impressively on policy and planning matters, the Government was less effective in coordinating the large number of government departments and agencies operating at national and subnational levels.
- Government's limited capacity at the district level is a factor affecting the performance of projects.
- As far as various project reports are concerned, such as progress reports, financial reports and audit reports, there have generally been delays.
- While the Government was fully committed to the design and concept of the projects, more could have been done to support the project goals.

VI. Assessment of non-lending activities

133. Indonesia's development has accelerated since 2004, and graduation from IDA and status as a MIC has changed the nature of the development partnership. Access to knowledge, science and technology, research, capacity-building, policy advice, South-South cooperation, etc., are taking on increased importance. IFAD's contribution to these aspects of the partnership is delivered through IFAD's non-lending activities, which include policy dialogue, knowledge management, partnership-building and grants. The increased importance of these activities for Indonesia is acknowledged and well reflected in the 2004 CPE where two recommendations related specifically to non-lending activities: (i) Increase inputs devoted to knowledge generation, advocacy and policy dialogue, and (ii) IFAD's lending and non-lending activities should be linked in a mutually reinforcing and strategic manner.

134. Despite this, during COSOP preparation there was no rigorous analysis, diagnostic study or strategy formulation for the individual elements of non-lending activities, their internal consistency and links to lending activities. This resulted in a number of missed opportunities described below. To ensure continued relevance, a stronger strategic positioning, better visibility and sustainable impact of IFAD's engagement in Indonesia, the new COSOP should rigorously assess the potential contribution that IFAD might make through non-lending activities to Indonesia's development process.

135. To improve visibility and leverage its operational experience in a policy context, IFAD could consider organizing jointly with the Government two annual events: a round table on the state of Indonesian small farmer agriculture and a workshop on innovations emerging from small farmer development programmes countrywide that offer potential for scaling up. Grants could help finance the preparation of documents for both these events.

A. Policy dialogue

136. Weak policy dialogue. The 2004 CPE concluded that IFAD could "assume a position of knowledge and influence" in the donor-government dialogue by leveraging its operational experience to contribute to policy change. This, however, required a budget, clear agenda and strategy, well-focused activities and strong M&E; weaknesses in all these elements have resulted in missed opportunities for IFAD. No budget was set aside for policy work. The policy agenda laid out in the assessment made for the PBAS did not provide a clear agenda, nor did the COSOP. It was overly ambitious and not prioritized, leading to lack of focus in activities. Weak M&E meant experience and results were not well documented and opportunities for generating knowledge missed. IFAD's strength was on project experience, but project-level knowledge was not leveraged for policy dialogue. A stronger programme review process could and should have helped identify and draw the attention of the Government to the broader systemic issues that hamper progress.

137. An example of a policy area where IFAD might add value to the policy dialogue is the balance between creating social capital versus agricultural productivity and growth. IFAD should bring to bear its global good practices and experience, and draw on available in-country research and knowledge to seriously analyse how to improve its support to agricultural productivity, determine where and how IFAD can best add value, and what kind of policy dialogue is needed to support this.

138. Working with partners. Policy dialogue is strongest if conducted with partners, yet two factors hamper this. One is IFAD's traditional project focus, which provides few incentives for the CPM to prioritize policy dialogue. The other is the fact that the CPM has hitherto been based in Rome and hence IFAD has limited day-to-day engagement in the donor community. With a field-based CPM, IFAD may play a stronger role in the informal coordination group on agriculture and the high-profile working group on food security. Stronger technical support provided to the CPM from IFAD, or through IFAD grants, would help ensure the quality and relevance of policy engagement.

139. Rating. Given the lack of clear objectives and activities relating to policy dialogue, the lack of budget allocation for this purpose and appropriate feedback loops from operations to policy level, policy dialogue is rated as unsatisfactory, 2. The establishment of a country office holds one key to strengthen policy dialogue, but needs to be accompanied by a clear strategy, budget and appropriate incentives.

B. Knowledge management

140. Demand for knowledge. IFAD is a knowledge-based institution and it is acknowledged that strong knowledge management is essential to fulfill IFAD's mission. This is reflected in IFAD's knowledge management strategy.[4] Knowledge management is also key in scaling up, which has recently received a strong focus and been labelled "mission-critical" for IFAD.[5] On the Government side, a request has been made for support to evidence-based policymaking, both through better domestic knowledge management and South-South cooperation, thereby demonstrating the importance attached to this. There is indeed a large potential for

[4] http://www.ifad.org/pub/policy/km/e.pdf.
[5] http://www.brookings.edu/research/papers/2010/10/ifad-linn-kharas.

greater cooperation as Indonesia is currently the co-chair of the G20 (Group of 20) on South-South and Triangular Cooperation.

141. Planned activities. In the 2008 COSOP, knowledge management was reflected in a range of specific activities or expressed intentions:

- Annual assessments of service providers by local communities will feed into the annual project planning process;
- Policy analysis outputs and other relevant studies will inform the Government's policymaking;
- Annual meetings will be held to review the performance of country programme and individual projects to share lessons and best practices among project staff, government counterpart agencies, co-financiers and cooperating institutions; and,
- Annual sector policy and institutional assessment of the rural development sector framework under the PBAS will be updated.

142. Progress at mid-term. The MTR of the COSOP, after a review of each of the above activities, concluded that (i) Due to the ineffective M&E activities across the portfolio there was insufficient evidence of good practices and solid, reliable learning from projects, and (ii) There was a lack of space and systematic opportunity for knowledge-sharing among key partners and stakeholders. This hindered both project performance and the overall programme and its impact. According to the MTR, no policy analysis or specific studies had been conducted due to weak M&E (also see annex X), jeopardizing IFAD's possibility to meet the Government's request for support to evidence-based policymaking.

143. Knowledge partnerships. IFAD's project-based intervention model has some limitations in terms of knowledge management. There is a need for wider knowledge partnerships, which is now also recognized in the Knowledge Management and Communication Strategy for Indonesia, approved in 2011. The criticality of knowledge and the need to ground knowledge in Indonesian institutions are fully acknowledged by other development partners in Indonesia. The World Bank, for example, explicitly aims to ensure that analytical and technical support strengthens national institutions and country systems, and increasingly will have this type of work led by, and based within, Indonesian institutions (World Bank 2008).

144. Knowledge products. IFAD has a range of knowledge products and activities that play a useful role in promoting knowledge about the programmes it supports. One key platform for knowledge management has been ENRAP, now transformed into IFADAsia. A scan of the website however reveals little information about individual projects or sharing of lessons learned. There is more information on regional projects than on individual projects, and there is limited information and no discussion. Three projects are mentioned: IFAD support to PNPM-Rural project for which no information is available; IFAD support to READ for which the link in the website leads to the knowledge management strategy and not to any project information; and the SOLID project where it is stated that there is more information in Bahasa Indonesia on the project website. There is no link to the project website. The usefulness of this platform therefore should be assessed and improvements made to make it worthwhile.

145. Role of M&E systems. Key knowledge should be generated through projects' M&E systems, yet there is little evidence to demonstrate effective learning loops that improve the relevance and performance of the programme. Similarly, no clear evidence has been found to show that IFAD's global experience of scaling up and replication of innovative practices is systematically and effectively disseminated and used in Indonesia.

146. Rating. As is also acknowledged in the IFAD self-assessment, knowledge management is still a "work in progress" in the Indonesia country programme. Knowledge management is rated moderately unsatisfactory, 3, based on the weak M&E systems, poor sharing of knowledge and lack of strong knowledge partnerships. The recent knowledge management strategy gives hope for change, but if constraints identified in this evaluation are not addressed the development of the necessary knowledge base for an effective country programme and development impact will be jeopardized.

C. Partnership-building

147. Corporate guidance. At the corporate level there has been little guidance to staff on partnership-building, yet this has been recognized as central to meeting IFAD's mandate for a long time. This is supported by the fact that the results framework for the 9th replenishment has an indicator on partnerships and IFAD has committed to being more selective and systematic in its partnership-building. A new partnership strategy has been developed in 2012,[6] which it is hoped will fill the void in terms of guiding staff.

148. Partnership with the Government. The partnership between IFAD and the Government is highly valued by both, reflecting mutual trust and cordial relations. IFAD's commitment to poverty reduction among the rural poor in Indonesia has been appreciated. The Government has reiterated its commitment to IFAD by doubling its replenishment contribution in the IFAD's 9th replenishment (2011), as compared to the 8th replenishment (2008).

149. According to COSOP, the Government has noted that for many years IFAD's partnerships with the Ministry of Finance, BAPPENAS and Ministry of Agriculture and its agencies have been productive, and that working arrangements have generally been effective. Partnerships with subnational governments have been a particular challenge, given the wide geographical coverage of the programme and the high transaction costs of maintaining close relationships. The Government's decentralization policy has strong implications for these partnerships, something that needs to be more closely examined. For example, the role of IFAD's traditional national partners has shifted from implementation to creating an enabling legal and policy environment; this significantly changes the institutional structures that IFAD has to work with and points to a need for more capacity development of new implementing partners. Furthermore, NGOs play a key role in project implementation and have made useful contributions, but better knowledge of their role and performance is needed.

150. Partnerships with donors. The COSOP included an annex with a list of complementarities and potential synergy with key donors, and specifically committed IFAD to build strategic partnerships with other Rome-based United Nations agencies (i.e. FAO and WFP), and to work with other United Nations agencies within the framework of UNDAF. No apparent use was made of the information in the annex, nor have opportunities for working more as a part of the United Nations team been fully utilized. Yet, several donors have conducted important policy work or produced knowledge products that could help strengthen IFAD's interventions.

151. Once a country presence has been established in Jakarta, it would be important to explore the implications of being a more active member of the United Nations team and possibly part of UNDAF, and to strengthen relations with the donor community through existing formal and informal thematic working groups. One of the objectives of the current UNDAF is "Increasing opportunities for sustainable livelihood in the poorest provinces of Indonesia", well in line with IFAD's mandate. Also, AusAID is implementing a programme for revitalizing Indonesia's knowledge

[6] https://webapps.ifad.org/members/eb/106/docs/EB-2012-106-R-4.pdf.

sector for development policy. As part of the design process, a range of diagnostics on Indonesia's knowledge sector and a knowledge needs assessment were conducted. It is essential that IFAD seeks and shares information with in-country peers to a larger degree, but in a strategic and cost-effective way.

152. Cost-effective partnerships. Partnership-building in fact has high transaction costs in the short term, and IFAD has had neither the resources nor the local presence required to do this effectively. Partnership-building has not been part of the operational strategy and, not surprisingly, client surveys undertaken in 2010 and 2012 showed very limited knowledge about IFAD among partners. In the self-assessment made for the CPE, the Government rates partnership-building lowest of all dimensions, while IFAD rates it somewhat higher based on the recent establishment of some new strategic partnerships. Clearer boundaries for its activities would help ensure that partnerships could be strategic, win-win and easier to manage.

153. Partnerships at the project level. Three projects evaluated have various partnerships. PIDRA was supported by the WFP, International Centre for Research on Agroforestry (ICRAF) and Asian NGO Coalition; these partnerships were helpful. The P4K project was implemented in partnership with ADB and the experience was positive. The READ project included partnerships with a number of organizations, including ICRAF, International Rice Research Institute and Assessment Institute for Agriculture Technology, but benefits were not evident. Lastly, a large number of collaborating institutions have been involved in implementing the PNPM-Agriculture in Papua and West Papua. These, however, have seemed ad hoc and opportunistic, rather than strategic and based on a clear analysis of costs and benefits.

154. There is a perceived trade-off in terms of efficient implementation and the desire for partnerships, as co-financing arrangements complicate project design and implementation, such as in the PNPM project. There are experiences as well, for example with World Bank project execution, that have been less than satisfactory.

155. Partnerships with research institutions. There are high quality research institutes and academic institutions, such as ICRAF and Centre for International Forestry Research in Bogor. These provide the potential to strengthen the analytical base of IFAD work. Cooperation could be further strengthened and go beyond ad hoc project support to a more strategic policy agenda.

156. Partnerships with the private sector. IFAD has recognized that Indonesia's graduation to MIC status holds much potential for cooperation with the private sector and has recently put some effort into strengthening such relationships. In particular, it sees a niche in terms of working on corporate social responsibility issues. There are opportunities to engage more broadly in promoting public and private partnerships, particularly in assisting the Government to create a stronger policy environment. Current cooperation with Mars (an international food products company) seems to hold potential for this niche. However, the relationship with the private sector has not as yet benefited from a visible engagement strategy needed to avoid ad hoc and dispersed efforts.

157. Rating. Partnership-building is rated as moderately unsatisfactory, 3. Although IFAD has been able to maintain and build a fairly strong partnership with the Government and a few other key partners (in particular the partnership with Mars), there has not been any strategic approach to development or management of partnerships. A key reason for weak outcomes is the absence of any strategic framework or clear implementation of COSOP objectives in this regard. This has resulted in ad hoc relationships without a clear strategic focus or any performance criteria, making effective management of these partnerships difficult. The establishment of a country office and better guidance from headquarters in the form of a clear policy, however, give hope for positive change in the future.

D. Grants

158. Grants policy. In 2003 IFAD developed a Policy for Grant Financing that outlined the importance for the grant programme to adhere to two basic principles: (i) It should focus on interventions where grants have a significant comparative advantage over loans as a financing instrument; and (ii) It should complement the loan programme. In terms of comparative advantage, the grant-financed interventions address elements of pioneering innovation, policy dialogue and institutional development involving opportunities that preclude larger scale loan investment. Also, since grants are smaller than loans and more straightforward to design, they take less time to formulate and process; furthermore, their recipients can include certain civil society actors and community-based organizations not commonly eligible for financial assistance directly through the loan instrument. In terms of complementarity, grants may not necessarily be directly linked to existing loans, but in many cases can usefully contribute to the design of future interventions.

159. List of country grants. The following grants have been approved by IFAD during this COSOP period:

- Grant 726-ID: This grant is with the READ project in Central Sulawesi (Project ID: 1258, Loan 645). The grant is for US$500,000. The grant is being used for five policy studies identified: (i) Community empowerment, (ii) Microfinance, (iii) Natural resource management, (iv) Appropriate technology and (v) Development of value chains.
- Grant 1053-ID: This grant is with the PNPM-Agriculture Project (Project ID: 1341, Loan 755). This grant, equivalent to US$400,000, is being used to facilitate the start-up and implementation in Papua and West Papua, and recruit technical consultants to coordinate project implementation in the two provinces to be funded by the IFAD grant.
- Grant G-1-C-835-ID: This grant is for the SOLID project in eastern Indonesia (Project ID: 1509, Loan 835). The rationale for providing an IFAD grant is to finance the costs of technical assistance associated with the value chain development component, and some associated capacity-building, studies and workshops.

160. Global/regional grants. Indonesia has had some involvement in several global/regional grants (see annex III). These grants cover most of the sectors of interest to IFAD. While these grants are often for worthy purposes, they do not seem to be an integral part of the programme. In many cases, the supervision of the grant-supported projects by the concerned central department of IFAD seems to be limited, and the involvement of the CPM equally limited. Grant projects are de facto delinked from the operational programme and non-lending activities, missing opportunities for synergy effects. The regional and global grants are driven by corporate priorities and therefore cannot be evaluated in the context of a country-level evaluation.

161. In sum, while many of the grants have been useful and most were given for worthwhile activities, an overall guiding strategic vision for the design and use of these grants was largely absent. Their monitoring and supervision could also be strengthened. Furthermore, project grants did not deliver results that differed much from non-grant project components and their potential was therefore not fully tapped. The opportunity cost of not using such grants to drive the non-lending agenda in the country was high; grants should have been used strategically to strengthen IFAD's knowledge management and policy dialogue activities.

E. Overall assessment

162. IFAD non-lending activities contributed little. The evaluation found that the relevance, effectiveness and efficiency of the combined efforts of IFAD and the

Government to promote policy dialogue, knowledge management, and partnership-building were limited, including in terms of resources set aside for these activities.

163. With respect to policy dialogue, IFAD has mainly participated in ad hoc project-level discussions, but not leveraged implementation-generated knowledge for boarder policy dialogue. The 2008 COSOP did not provide clear guidance on policy dialogue, and no corporate guidance exists. For knowledge management, guidance was not developed until 2011, and project-level knowledge has not been well utilized due to weak M&E and dissemination of lessons. The 2008 COSOP did not provide a strategic framework for partnerships, and a corporate policy has only recently been developed. Partnerships have been ad hoc rather than strategic, and opportunities for IFAD to leverage its knowledge and influence through partnerships were lost. Overall, IFAD management has been remiss in not providing adequate guidance on the objectives and agenda for strategic partnerships and on implementation support to forge meaningful partnerships. Given IFAD's budget and staff constraints, partnerships that are not strategic and selective with clear results have a high opportunity cost and should be avoided.

164. Prospects. Indonesia deserves more attention and support in its own right, but also deserves attention as an example of the potential and pitfalls that IFAD faces when positioning itself in a growing number of MICs. Recognizing this may help contribute to increased interest among corporate-level policymakers and strategists, thus also giving Indonesia the support and priority needed for effective implementation of the programme in all its dimensions. Knowledge management has received more attention lately, the Government is clearly demanding more non-lending activities, new partnerships are being explored, and not least, the opening of a country office will significantly increase IFAD's potential for management of all dimensions of non-lending activities. The opening of a field presence, however, is a necessary but not sufficient condition to improve effectiveness. The office has to be staffed with the right skills mix, incentives have to be in place, and support provided from headquarters to enable the office to play its role in full.

165. Rating. Non-lending activities is rated as moderately unsatisfactory, 3. IFAD has not sufficiently heeded the 2004 CPE recommendation to pay more attention to non-lending activities, nor has it sufficiently defined in the COSOP the elements of non-lending activities, the synergy among them, and the relationship to lending and grants. Yet, two factors clearly contribute to the increasing importance of non-lending activities: Indonesia's graduation to MIC status on the one hand and IFAD's reduced lending volume to Indonesia on the other. Both were stressed by the Government during the wrap-up meeting of the CPE mission. Non-lending activities therefore should have a much more central place in the next COSOP, to ensure that IFAD remains a valued and relevant partner to Indonesia.

Key points

- Little strategic guidance and resources were provided in the COSOP for policy dialogue, knowledge management and partnership-building. Without a properly staffed and managed country office, non-lending activities are difficult to design and implement.
- IFAD has mainly participated in ad hoc project-level discussions, but not leveraged implementation-generated knowledge for broader policy dialogue.
- A knowledge management and communications strategy for Indonesia was prepared during COSOP implementation; the start made on web-based knowledge activities has yet to make an impact.
- Partnerships have not been strategic and selective.
- The impact of grants was jeopardized due to a lack of a guiding strategic vision. Global/regional grants were not explicitly linked to the country programme, but to corporate priorities.

VII. COSOP performance

166. This chapter assesses the performance of 2008 COSOP against relevance and effectiveness criteria in regard to seven principal elements of the COSOP, as outlined in chapter 3. It concludes with an overall assessment of the COSOP.

A. Relevance

167. The strategic objectives. At first glance, the strategic objectives of COSOP appear relevant because they cover the ground and strike a balance between agricultural productivity enhancement, better infrastructure, access to markets and community empowerment, all leading to rural poverty reduction and therefore aligned to country needs. On closer review, the COSOP does not provide adequate guidance of relative priorities among or within the three strategic objectives. The strategic objectives are not specific enough to limit the design of the country programme within well-defined and manageable boundaries, reflecting country priorities, feasibility of reaching intended beneficiaries, partner and donor policies, and IFAD's own comparative advantage. Also, its lending and non-lending framework have not taken into account IFAD's binding staffing and budget constraints. Finally, the results framework does not align well with the outputs and outcomes feasible to deliver. This lack of clarity and precision in the strategic objectives has reduced their relevance.

168. Geographical priorities and subsector focus. IFAD spread its resources too thinly by projects covering large geographical areas where population density was low and capacity deficits at the subnational level were marked. To be relevant to the poor farmers targeted, limiting area coverage for individual projects with deeper involvement would have been a better path. This should not have resulted in IFAD staying out of western Indonesia where the rural poor are concentrated and there were opportunities to scale up successful past innovations and design future innovations. A smaller and more carefully delineated geographical coverage would have improved the relevance of the COSOP.

169. IFAD also reduced its relevance by supporting a wide range of rural development activities not adequately connected to IFAD's comparative advantage in agriculture, such as social infrastructure. It could have acknowledged in the COSOP and during its implementation that bilateral and multilateral development partners have large programmes for rural infrastructure, social empowerment and non-agricultural aspects of rural development, but very small programmes related to the agricultural sector, and that this creates an attractive niche for IFAD and an opportunity to build an IFAD brand. Furthermore, management could have noticed

that within agriculture, there is a large gap in financial and technical support for revitalizing agriculture on small farms by empowering such farmer groups to raise their agricultural productivity, increasing value addition and helping them adapt to climate change. This gap should have been targeted by IFAD, as it fits well into IFAD's strategic objectives and targeting strategy as well as the priority given by the Government to food security and climate change. Given IFAD's small administrative budget, limited staffing resources and relatively small financial allocation for lending to Indonesia, IFAD should have limited its engagement to this aspect of agricultural development in Indonesia and demonstrated its core competency in this area.

170. Relevance would have been enhanced by selectivity within agriculture, which covers crops (both food and cash crops), livestock, fisheries and forestry. COSOP should have focused on important food crops, high value agriculture and value addition. Furthermore, its involvement in rural finance could have been limited to promoting local innovations that showed promise, even within the context of a less-than-optimal national rural finance framework. Instead, COSOP went beyond agriculture into broader areas of development, including social mobilization and community infrastructure, despite the lack of other donor activity on the agriculture productivity agenda. Had COSOP looked strategically at where there was space within the donor assistance framework to best support government policies and programmes, it would have identified improved agricultural productivity of small poor farmers as the clear choice. COSOP's relevance to beneficiaries' requirements, country needs, institutional priorities, and partner and donor policies has been adversely affected by this omission.

171. Main partner institutions. The most important partnership is that between IFAD and the Government. Chapter V has dealt with the Government's and IFAD's roles, and the performance of IFAD management. An emerging issue, which is now highly relevant but yet been adequately addressed, is the evolution of this partnership in the context of Indonesia's new status as a MIC. Of course, this could not have been foreseen when COSOP was prepared.

172. Since the strategic objectives of COSOP were very broad, there was at first sight an alignment with the priorities of other bilateral and multilateral donors working in agriculture and rural development in Indonesia. However, COSOP did not provide sufficient guidance on the criteria that should be employed to select activities of partners for IFAD to focus on to develop meaningful partnerships. Given the high transaction costs of a partnership and IFAD's budget constraints, such guidance would have been helpful. It would have alerted IFAD on the risks of partnerships, such as co-financing the PNPM project with the World Bank, where it had little or no influence on the project design, selection of project areas or project supervision. Yet, IFAD allocated US$68.5 million to PNPM out of the total lending programme of less than US$150 million.

173. Partnerships with civil society organizations and the private sector also did not receive the required attention in COSOP. Given the lack of subnational capacity, COSOP could have offered more guidance on how to tap civil society and private sector capacity to bridge the capacity gap, and also help poor farmers to gain access to input/output and financial markets. Had COSOP offered more guidance on how to develop cost-effective partnerships with the private sector and civil society, it would have been more relevant to partner and donor policies.

174. Targeting approach, including emphasis on selected social groups. The 2008 COSOP identified target groups broadly. It promoted participation by women and paid adequate attention to include other disadvantaged social groups. Some issues related to young people, migration and conflict in rural areas were not included in the COSOP. This was a sound decision since COSOP targeting needed to be narrow in order to assure the effectiveness of its interventions. Also, if some of

the target groups were not covered during implementation, this could be ascribed to a conscious effort to keep focused given resource constraints. One weakness of the targeting strategy was that it was not sufficiently backed by poverty analysis to provide necessary guidance during project design and implementation, particularly when the poverty rate was one of the criteria used for targeting beneficiaries and project areas. Another weakness was the exclusion of areas where other donors were active, regardless of what they were engaged in. This resulted in IFAD being driven into areas which other donors saw as high risk and stayed out, implicitly transferring these risks to IFAD (e.g. Papua). IFAD could have put some resources in less remote areas where there was severe rural poverty (e.g. Eastern Java), instead of confining itself to difficult areas (e.g. Papua, Maluku, Sulawesi) where preconditions for project success were not present. Had these weaknesses been avoided, the targeting strategy would have been more relevant. For reasons given earlier, targeting exclusively the remote areas in eastern Indonesia might not be a wise strategy for IFAD. Instead, the targeting strategy (including geographic, groups and subsectors) should include small areas with agricultural potential in western and eastern Indonesia, smallholders (both men and women) as beneficiaries, food and cash crops as subsectors of agriculture and small project areas. This would allow identification, demonstration, validation and scaling up of viable and appropriate agricultural innovations in Indonesia. IFAD would need to play the role of catalyst. The Government, IFAD and large partners (particularly the World Bank) could then finance scaling up of these innovations in large areas, both in western and eastern Indonesia.

175. Country programme mix (loans, grants and non-lending activities). COSOP was weak on providing guidance on the mix of instruments, for instance, on how the IFAD non-lending programme could support its strategic objectives and targeting strategies, and how it could be designed to foster synergy with IFAD loans and grants. COSOP also did not provide adequate guidance on the selection and design of lending activities, and on the possibility of using grants more selectively to further the Indonesia non-lending agenda.

176. COSOP did not offer much guidance on how IFAD could support the Government to play its part in critical areas such as decentralization, national-subnational financial flows, M&E, capacity building at subnational levels and risk management, to mention a few. In the country programme mix, COSOP also overlooked the binding constraints imposed on the programme by IFAD's budget and staff limitations. This greatly reduced the relevance of COSOP to IFAD's delivery capacity. There was inadequate operational risk analysis for COSOP, or for any of the loans, grants or non-lending activities proposed under COSOP. Operational risk analysis must deal with issues related to the country, project area, beneficiaries, financial management, procurement, governance, implementation capacity, institutions and government policies, as well as IFAD's own reputation. If only IFAD had carried out operational risk assessments for the proposed new projects, some of these projects might not have been part of the IFAD portfolio now. The relevance of risk management was overlooked by COSOP.

177. Country programme and COSOP management. The preparation of the 2008 COSOP adopted genuinely consultative processes and was supported by strong consensus and ownership. The 2008 COSOP document included a description of the steps undertaken, including consultations with key stakeholders (e.g. government counterparts and representatives of key agencies, external development partners and civil society organizations). However, going forward it would be useful to provide assessments of the effectiveness of the process, and if and how value was added in designing COSOP. Furthermore, summary descriptions could be provided of the suggestions and recommendations received during consultations with the various stakeholders, items included because of the process and suggestions that were not taken on board (and why not).

178. The process was relevant to the Indonesia context, and COSOP and its recommendations were taken seriously by the Government when the document was finalized. It reflected participation and consensus so difficult to secure among the numerous government agencies dealing with IFAD. COSOP envisaged that IFAD country management would follow its recommendations regarding annual reviews and the mid-term review, and implicitly made the assumption that COSOP would be made a living document during its implementation. This did not materialize, leading to lowering its relevance with regard to country needs, which a more prescriptive COSOP would have enabled. Indeed, an inadequate COSOP could have been transformed into a dynamic programme during its implementation. But this opportunity was also missed by the lack of a proactive approach by IFAD country programme management, as well as lack of initiative by the Government to optimize the value added from IFAD.

179. The MTR was undertaken in late 2011 to provide an assessment of COSOP's effectiveness in achieving objectives, efficiency and relevance in delivering its programme of work; highlight results and knowledge generated; identify areas requiring improvement; and make recommendations for augmenting IFAD's impact in Indonesia. The MTR was undertaken in close consultation with IFAD's key partners in Indonesia and sought to develop a framework for a programme of work for the remaining two years (2012 and 2013) of COSOP implementation. A series of consultation meetings were undertaken with various partners and stakeholders to review IFAD's performance and to discuss the potential for enhancing IFAD's impact in Indonesia and strengthening its country programme. Based on the understandings reached in reviewing the issues identified and agreed, a draft COSOP MTR Report was prepared. This was reviewed at a workshop in mid-November 2011 prior to completion of the COSOP MTR process.

180. The MTR did not propose effective solutions to the plethora of problems faced during COSOP implementation, though it did highlight the problems. IFAD did not undertake annual reviews of the COSOP as required under IFAD's COSOP Guidelines. The MTR has made little direct impact, but there is evidence that it did help the new Country Programme Manager to grapple with some of the more pressing issues.

181. Following the COSOP MTR, which revealed weaknesses in the country results monitoring and reporting system, efforts have been made to align COSOP and project results frameworks, and review project M&E systems. As a result, a web-based dashboard has been developed (http://ifadtst.prognoz.com/DashBoards.aspx) that is expected to have a significant impact on IFAD (and Government) ability to manage and report country programme results.

182. Annex 11 provides further information on the operational efficiency aspect of country programme management.

183. Rating: Based on the above assessment, the rating for COSOP relevance is moderately unsatisfactory, 3.

B. Effectiveness

184. Effectiveness is assessed based on the extent to which COSOP strategic objectives have been or are likely to be achieved. Note must be taken of the synergetic and symbiotic relationship between relevance and effectiveness. A COSOP that is moderately unsatisfactory with regard to its relevance has a high risk of its effectiveness being muted, unless remedied during implementation.

185. Instead of assessing effectiveness under each of the three strategic objectives, given methodological problems in segregating driving factors for each of these complementary objectives, effectiveness has been assessed on all three collectively. To recall, the three strategic objectives were: (i) Increase the access of rural poor people to productive assets, appropriate technology and production

support services to boost on- and off-farm productivity; (ii) Enhance the access of rural poor people to infrastructure, inputs and output markets, and financial services; (iii) Build the capacity of rural poor people to engage in local policy and programming processes.

186. IFAD activities in Indonesia during 2004-12 were dominated by projects, since its non-lending activities contributed little. Sharply focused agricultural sector lending interventions, with a focus on food and high value crops, directed at small poor farmers were not put in place to help reduce their poverty. The projects did little to enhance the access of the rural poor to productive assets and technology, as well as other production support services in order to help them boost on-farm and off-farm productivity. There was some work done in terms of infrastructure and financial services for people, but overall individual projects did not adequately support investments, technical assistance and training, policy dialogue, knowledge management and analytical work that would directly address poverty reduction among small farmers. In the absence of a programme at the country level supporting the individual lending activities in different parts of the country where there was a concentration of small farmers, IFAD operations failed to make an impact except on community empowerment and infrastructure building at the village level. The formation and development of SHGs have been positive steps towards building the capacity of rural poor people to engage in local policy and programming processes.

187. The lending operations did not adequately address the capacity deficit of the national and subnational authorities to enable small farmers to gain better access to technology, inputs (land, fertilizer, seeds, water and credit), value chains for inputs and outputs, and knowledge. Nor did IFAD projects enable Indonesia to gain access to necessary expertise and experience in agriculture and climate change. The potential of strategic partnerships with the activities of other donors, without losing leverage, was not exploited. Another area where potential was not exploited was in scaling up project design models and knowledge generated to impact visibly and substantively on the nationwide programmes for agriculture productivity, climate change and rural poverty. READ, PNPM and SOLID focused more on investments in community empowerment and community infrastructure, not on the critical issues necessary for revitalizing agriculture in Indonesia. Finally the design of the IFAD programme glossed over the limited size of IFAD operations, both in terms of financial transfers and administrative budgets.

188. Overall, given that the 2008 COSOP outlined IFAD's planned operational engagements in rather indicative terms, the effectiveness of implementation has been mixed. While individual projects under implementation during the period included some elements aimed to enhance productivity, achieving improved balance between social mobilization and productivity (on and off farm), which was one recommendation of the CPE 2004, proved more difficult. Priority continued to be accorded to empowerment activities to the detriment of components that could contribute more to core support for small farmers. In terms of resources allocated, the programme remained focused on social mobilization.

189. Rating: Based on the above assessment, the rating for COSOP effectiveness is moderately unsatisfactory, 3.

C. Overall assessment

190. Following is a comparison between the issues identified by this CPE with the previous CPE 2004. The CPE 2004 made various recommendations, some of which this CPE 2013 considers to continue to deserve more attention moving forward. They are recommendations for IFAD to:

(i) Adjust its Indonesia country strategy to better balance the current focus on empowering the poor with efforts to raise farm and non-farm productivity;

(ii) Increase its staff and other inputs devoted to knowledge generation, advocacy and policy dialogue;

(iii) Establish and nourish strategic partnerships including for scaling up impact;

(iv) Allocate adequate resources to implementing all objectives in its next COSOP for Indonesia. The preparation of the COSOP should be based on a thorough analysis of inputs, processes and activities required to achieve its objectives, as well as include a prioritization or a timeline for the delivery of its outputs

191. Based on the above assessment of COSOP relevance and effectiveness, the overall rating for COSOP performance is moderately unsatisfactory, 3.

Key points

- The strategic objectives of COSOP were relevant but not sharply focused. A more prescriptive COSOP, with decisions made up front, would have helped IFAD limit mission-creep in COSOP implementation.
- The lending and non-lending activities were not defined with the required specificity in the COSOP. COSOP did not provide adequate guidance on partnership-building. Grants were not strategically used to improve country programme performance. IFAD non-lending opportunities could have been used more creatively to support the implementation of COSOP.
- IFAD country programme management was not proactive in the past and opportunities were missed.
- The Government could have exploited IFAD's comparative advantage better and helped more in managing the risks in the programme.

VIII. Overall IFAD-Government partnership

192. Table 10 below contains the overall assessment of the CPE of the IFAD-Government partnership. It is based on the ratings of portfolio performance, non-lending activities and COSOP performance.

Table 10
Overall assessment of the Government-IFAD partnership

	*Rating**
Portfolio performance	4
Non-lending activities	3
COSOP performance	3
Overall Government-IFAD partnership	**3**

* Rating scale: 1 = highly unsatisfactory, 2 = unsatisfactory, 3 = moderately unsatisfactory, 4 = moderately satisfactory, 5 = satisfactory, and 6 = highly satisfactory

IX. Conclusions and recommendations

A. Conclusions

193. The importance of agriculture. Agriculture is and will continue to remain a very important sector in the Indonesian economy and for the Indonesian people, even though the country has transitioned into a middle-income country, with important contributions from the mining, manufacturing and service sectors. The agricultural sector accounts for about 15 per cent of GDP and provides employment to about 38 per cent of the work force. Approximately 50 per cent of the population is in the rural areas and agriculture (directly and/or indirectly) is their main source of

livelihood. Almost 65 per cent of all rural poor and near poor depend on agriculture for meeting their needs. Agriculture also accounts for a large share of exports (mainly cash crops) and imports (mainly food). Also, national and household food security in Indonesia depends on the performance of the agricultural sector. Since 2008, when international rice prices (rice is a staple crop in Indonesia) skyrocketed and rice surplus countries banned exports, food security has again become a national priority.

194. The majority of the farmers are smallholders and operate a farm less than 0.5 hectares. The number of smallholders is increasing over time due to fragmentation. There are about 25 million farming households in Indonesia; about 40 per cent are considered poor and 20 per cent are headed by women. Promoting efficient and productive smallholder agriculture will not only increase agricultural growth but will also reduce poverty, improve food security and empower women. Given rapid urbanization, a declining share of the farming population has had to meet the rising demand for food, feed and agricultural raw materials over time. There is thus a great opportunity and challenge for IFAD to develop a brand name as a key supporter of productive, competitive and high value smallholder agriculture in Indonesia.

195. IFAD-Government of Indonesia partnership. The partnership between IFAD and the Government of Indonesia is highly valued by both, reflecting mutual trust and cordial relations. IFAD's commitment to poverty reduction among the rural poor in Indonesia has been appreciated. The Government has reiterated its commitment to IFAD by doubling its replenishment contribution in the IFAD's 9th replenishment (2011), as compared to the 8th replenishment (2008).

196. IFAD performance has been mixed. IFAD in Indonesia has earned a reputation for being a small, friendly, non-intrusive, flexible United Nations agency with a genuine interest in reducing rural poverty. IFAD's commitment to poverty reduction among the rural poor in Indonesia has been appreciated, but the Fund is not widely known.

197. Overall the portfolio has made encouraging achievements in social mobilization and gender, with SHGs and building institutions key features of all seven IFAD-supported projects. The main purpose of the SHGs has been to establish a savings and credit system to promote local development and women's empowerment. There has also been marked progress in making investments for the enhancement of social infrastructure, which is important to empower women, reduce poverty and improve the quality of life. Overall the portfolio has made a difference in the area of women's empowerment and participation, and has helped augment funds flowing to the rural poor through community infrastructure projects. The impact in terms of household income and assets, as well as human and social capital and empowerment, has been considered moderately satisfactory.

198. However, the impact related to on-farm and off-farm development and agriculture productivity enhancement was more limited. Although productivity enhancement and value addition were included in project design, they did not get adequate attention during implementation. Project implementation emphasized community empowerment and social infrastructure more than agricultural productivity. Given the importance of agriculture as described above, and given that this is IFAD's competitive advantage, agriculture should have been given more adequate attention.

199. Upstream project development was not given adequate importance. Project design was often complex, with a diffused focus, covering large geographical areas and straining limited subnational capacities. The widespread geographic coverage diluted interventions constraining effectiveness, efficiency and sustainability. Too many subsectors were covered, compromising the technical depth of interventions. The opportunity cost of mostly focusing on eastern Indonesia in recent years

needed reflection, especially given the potential for social and economic development (e.g. road corridors, services, etc.) in western Indonesia.

200. Limited achievements have been made in piloting and scaling up innovations for enhancing agricultural productivity and value addition. Insufficient attention has been given to learning from successful or less successful closed operations. The M&E systems have been weak, generating limited useful data or analysis for learning, project management and knowledge management.

201. The shift to direct supervision and implementation support by IFAD is making a positive impact. Rapid improvements have been made in the past two years, and supervision by IFAD has brought its staff closer to the ground. However, more attention needs to be paid to this, including the regularity of, and expertise included in, supervision missions. Direct supervision has the potential of being even more effective, with the required adjustments.

202. IFAD country programme management was weak for most of the period covered by the CPE. There was a lack of management attention and leadership, demonstrated by the fact that there was no record of travel by the regional director to Indonesia after mid-2008. However, the new Indonesia CPM assigned in 2011 is making excellent efforts in re-energizing the partnership under the leadership of the new APR Director.

203. The results related to non-lending activities (policy dialogue, knowledge management and partnership-building) were limited, even though these are increasingly important given Indonesia's MIC status. With regard to policy dialogue, IFAD mainly participated in ad hoc project-level discussions, but has not leveraged implementation-generated knowledge for broader policy dialogue. A knowledge management and communication strategy for Indonesia was prepared during COSOP implementation; however the start made on web-based knowledge activities has not yet made an impact. Partnerships have not been strategic and selective. Grants supported project-related activities but provided little additional leverage to enhance non-lending activities. In general, synergies across projects, between lending and non-lending activities and grants were insufficient. IFAD has by and large acted as a project-based organization in Indonesia, and there is a need for a paradigm shift, i.e. focusing on scaling up innovation through effective non-lending activities.

204. The COSOP process did not provide an adequate foundation for the country programme. The IFAD country programme was not driven by a COSOP during 2004-08. As for the 2008 COSOP, the three strategic objectives were broadly relevant and comprehensive, and struck a balance between agricultural productivity enhancement, better infrastructure, access to markets and community empowerment, all leading to rural poverty reduction and therefore aligned to the country's needs. However, priorities among the objectives were not defined, and the COSOP was overly ambitious with inadequate allocation of resources to achieve the expected results.

205. COSOP management was weak. COSOP was not used as a living document with annual reviews, the results framework was complex, the mid-term review was carried out late, and technical support to the country programme was insufficient. IFAD appeared not to have devoted the required management attention to its cooperation in Indonesia from around 2004-2005 until more recently (i.e. a new CPM assigned in 2011 has made a good start in remedying the situation). With a Rome-based CPM, the IFAD-Government cooperation has been adversely affected by the lack of a country presence, though there are firm plans to outpost the CPM to Jakarta in the near future.

206. Government role could have been more effective. The Government could have been more directional in requesting IFAD to limit its activities to small farmers and

their groups, and improvements to agricultural productivity through technology and value chain development, and through empowerment of these groups.

207. The overall IFAD-Government partnership during the period 2004-2012 is rated as moderately unsatisfactory. This is based on the ratings assigned to the three individual pillars of the programme:(Project portfolio, moderately satisfactory; Non-lending activities, moderately unsatisfactory; and COSOP performance, moderately unsatisfactory. The self-assessment by both IFAD and the Government are broadly in sync with these findings. The client survey on country results, conducted by the Programme Management Department of IFAD in July 2012 (similar to the earlier 2010 survey), showed Indonesia as among the lowest ranked countries among the 37 surveyed.

208. There are significant opportunities to enhance the effectiveness of the partnership. IFAD could play a leading role in promoting productive, competitive and high value smallholder agriculture. This could be done by identifying, promoting, validating and scaling up viable agriculture innovations appropriate for smallholder agriculture, and by being in active partnership with the Government, other strategic partners and stakeholders, including public-private partnerships.

B. Recommendations

209. The CPE makes five key recommendations. These are: (i) make small farmers the principal beneficiary of the IFAD programme in Indonesia; (ii) channel funding and technical support to core agriculture; (iii) build strategic partnerships on core agriculture; (iv) strengthen IFAD country programme management; (v) enhance the Government's role in IFAD-supported activities. Further details on each of these recommendations are elaborated below.

(i) Make small farmers the principal beneficiary of the IFAD programme

210. IFAD should place small farmers, their food and high value crops at the centre of its efforts. The focus on rice should not result in neglecting the needs of high value export crops, such as coffee, cocoa, rubber, etc. Given relatively scarce resources, IFAD should limit its role to high value crops grown by smallholders with an appropriate and increasing role of value chains.

211. To support these goals, IFAD should design and implement a new comprehensive national strategic programme for small farmer agricultural development, with four key objectives: (i) address national level issues that impact on the lending portfolio and supervision activities at the project level, and coordinate the non-lending activities (policy dialogue, knowledge management and partnership-building) for all projects in the programme; (ii) monitor innovations in IFAD-financed projects and support scaling up involving other partners' projects and government national programmes; (iii) help IFAD to serve as the voice for small farmers in policy and knowledge exchange forums, and establish a brand name for IFAD in this role; (iv) support the Government's South-South initiatives relating to agriculture. This programme would be financed jointly by IFAD grant funds and grants from bilateral donors active in agriculture in Indonesia.

212. IFAD should develop its lending portfolio and non-lending activities with the above objectives in mind, and align investment, technical assistance, policy dialogue, knowledge and analytical work to make a real impact on the lives of small farmers.

(ii) Channel funding and technical support to core agriculture

213. Core agriculture consists primarily of food and high value cash crops. IFAD, through its next COSOP, should draw the boundaries of its Indonesia programme around core agriculture activities. The strategic objectives and target groups should be in alignment with these boundaries. Core agriculture activities should be targeted to empowering small farmers and their groups, in geographical areas where there are

a large number of small farmers and the preconditions for a successful donor intervention exist. IFAD operations should focus on improving the access of small farmers to agricultural technology and services, and help them to develop value chain links to input and output markets. This will help small farmers raise productivity and adapt to climate change.

(iii) Build strategic partnerships on core agriculture

214. IFAD should evaluate the strengths and weaknesses of potential partnerships in the core agriculture areas of IFAD's focus. Given the high transaction costs involved in building partnerships, selectivity is key. Partnerships with donors, civil society and the private sector should focus on activities relating to core agriculture and small farmers.

(iv) Strengthen IFAD country programme management

215. IFAD should specify with greater clarity country programme management responsibilities and mechanisms within the context of decentralization to install the necessary capacity within IFAD to manage COSOP in Indonesia. Accountability for performance should be more sharply defined and necessary incentives should be put in place. COSOP should also make specific recommendations on how to establish within IFAD core competencies to deliver results in the decentralized context of country engagement, balancing access to global expertise with tapping high quality local resources.

(v) Enhance the Government's role in IFAD-supported activities

216. Shifting the focus to core agriculture will assist IFAD in developing focused strategic relationships with the main technical counterparts of the Government. The success of IFAD in alleviating poor small farmer problems depends on its ability to build capacity at the village level so that small farmers interact with key players from government departments, private sector entities and civil society. The establishment of capacity at the district level and its effectiveness at the village level will have to be the centrepiece of all subnational IFAD projects. The next COSOP should come up with a more practical way of using outside capacity for M&E initially, and then gradually building up capacity within the projects.

Ratings of IFAD-funded project portfolio in Indonesia[a]

Evaluation criteria	*P4K*	*PIDRA*	*EKLCEP*	*READ*	*PNPM*	*SOLID*	*CCDP*	*Overall portfolio*
Project performance								
Relevance	4	4	4	4	3	4	4	4
Effectiveness	4	4		3	3			4
Efficiency	4	4		3	3			4
Project performance[b]	**4**	**4**		**3**	**3**			**4**
Rural poverty impact								
Household income and net assets	4	4						4
Human and social capital and empowerment	4	4						4
Food security and agricultural productivity	3	4						3
Natural resources, the environment and climate change	-	4						4
Institutions and policies	4	4						4
Rural poverty impact[c]	**4**	**4**						**4**
Other performance criteria								**4**
Sustainability	3	3						3
Innovation and scaling up	4	5		3	3			4
Gender equality and women's empowerment	4	4		4	4			4
Overall project portfolio achievement[d]	**4**	**4**		**3**	**3**			**4**
Performance of partners[e]								
IFAD	4	4		3	3			**3**
Government	4	4		3	3			**3**

[a] Rating scale: 1 = highly unsatisfactory; 2 = unsatisfactory; 3 = moderately unsatisfactory; 4 = moderately satisfactory; 5 = satisfactory; 6 = highly satisfactory; n.p. = not provided; n.a. = not applicable.
[b] Arithmetic average of ratings for relevance, effectiveness and efficiency.
[c] This is not an average of ratings of individual impact domains.
[d] This is not an average of ratings of individual evaluation criteria but an overarching assessment of the project, drawing upon the rating for relevance, effectiveness, efficiency, rural poverty impact, sustainability, innovation and scaling up, and gender.
[e] The rating for partners' performance is not a component of the overall assessment ratings.

IFAD-financed projects in Indonesia

List of IFAD loans to Indonesia, 1980 – 2012										
Project name	*Project type*	*Total project cost US$ million*	*IFAD approved financing US$ million**	*Cofinancier amount US$ million*	*Counterpart amount and beneficiary contribution US$ million*	*Board approval*	*Loan effectiveness*	*Project completion date*	*Cooperating institution*	*Project status*
Smallholder Cattle Development Project	LIVST	40	26		14	06 May 80	01 Oct 80	31 Aug 86	World Bank	Closed
Sulawesi Paddy Land Development Project	IRRIG	52.8	34		18.8	08 Sep 81	29 Sep 82	30 Jun 90	ADB	Closed
Seventeenth Irrigation (East Java Province) Project	IRRIG	142.6	25	72.6 (World Bank)	45	31 Mar 82	15 Dec 82	30 Sep 88	World Bank	Closed
Second Smallholder Cattle Development Project	LIVST	66.4	12	32 (World Bank)	22.4	05 Sep 85	15 Apr 86	30 Sep 93	World Bank	Closed
Income-Generating Project for Marginal Farmers and Landless	CREDI	28.1	14	2 (Netherlands) 1.4 (UNDP)	10.7	03 Dec 87	18 Jun 88	31 Dec 97	UNOPS	Closed
East Java Rainfed Agriculture Project	RURAL	35.6	20	2.9 (WFP) 3.5 (Netherlands)	9.2	19 Apr 90	09 Oct 90	31 Dec 98	ADB	Closed
South Sumatera Smallholder Tree Crops Development Project	AGRIC	28.1	19.9		8.1	14 Apr 92	29 Sep 92	15 Mar 99	ADB	Closed
Eastern Islands Smallholder Cashew Development Project	AGRIC	43.2	26	1 (UNDP)	16.2	19 Apr 94	29 Jul 94	30 Jun 02	UNOPS	Closed
Eastern Islands Smallholder Farming Systems and Livestock Development Project	LIVST	39.3	18	6.7 (IsDB) 1.4 (New Zealand)	13.2	06 Dec 95	22 Mar 96	31 Mar 03	UNOPS	Closed
Income-Generating Project for Marginal Farmers and Landless Phase III	CREDI	118.9	24.9	60.5 (ADB) 8.3 (Dom. fin. Inst.)	25.2	04 Dec 97	09 Jul 98	31 Dec 06	ADB	Closed
Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas	RURAL	27.4	23.5		3.9	04 May 00	31 Jan 01	31 Mar 09	IFAD	Closed

List of IFAD loans to Indonesia, 1980 – 2012									
Project name	*Project type*	*Total project cost US$ million*	*IFAD approved financing US$ million**	*Cofinancier amount US$ million*	*Counterpart amount and beneficiary contribution US$ million*	*Board approval*	*Loan effectiveness*	*Project completion date*	*Cooperating institution*	*Project status*
East Kalimantan Local Communities Empowerment Programme	RURAL	26.5	20.0		6.5	11 Dec 02			UNOPS	Cancelled
Rural Empowerment and Agricultural Development Programme in Central Sulawesi	RURAL	28.3	21.6		6.7	02 Dec 04	18 Nov 08	31 Dec 14	IFAD	Ongoing
National Programme for Community Empowerment in Rural Areas	RURAL	68.5	68.5	1 620 (World Bank)	0	11 Sep 08	17 Mar 09	31 Mar 16	World Bank	Ongoing
Smallholder Livelihood Development Project in Eastern Indonesia	RURAL	65	50.2		14.8	11 May 11	05 Jul 11	31 Jan 19	IFAD	Ongoing
Coastal Community Development Project	MRKTG	43.2	26.2	7.8 (Spanish fund)	9.2	21 Sep 12	23 Oct 12	31 Dec 17	IFAD	Ongoing

IFAD-funded grants in Indonesia

Grants attached to projects during CPE period

Grant number	*Project name*	*Implementing partner*
Project ID: 1191 Grant: G-I-S-155-ID	East Kalimantan Local Communities Empowerment Programme (EKLCEP)	Ministry of Agriculture, Agency for Agricultural Human Resources Development
Project ID: 1112 Grant: G-I-S-99-ID	Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA)	Ministry of Agriculture, Agency for Food Security (AFS)
Project ID: 1258 Grant: G-I-C-726-ID	Rural Empowerment and Agricultural Development Programme in Central Sulawesi (READ)	Ministry of Agriculture Agency of Agricultural and Extension Human Resource Development
Project ID: 1341 Grant G-I-C- 1053-ID	National Programme for Community Empowerment in Rural Areas (PNPM)	Ministry of Home Affairs Directorate General of Rural and Community Empowerment
Project ID 1509 Grant G-1-C-835-ID	Smallholder Livelihoods Development Project in Eastern Indonesia (SOLID)	Ministry of Agriculture, AFS

Regional grants including Indonesia

Grant number	*Project name*	*Implementing partner*
821	Pro-Poor Policy Formulation, Dialogue and Implementation at the Country Level	FAO
875	Programme for Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific Through Rural Finance Innovations	Asia-Pacific Rural and Agricultural Credit Association (APRACA)
1032	World Agroforestry Centre (ICRAF): Programme on Rewards for Use of and Shared Investment in Pro-poor Environmental Services (RUPES II)	ICRAF (RUPES)
1034	Food and Agriculture Organization of the United Nations/Self-Employed Women's Association (FAO/SEWA): Medium-term Cooperation Programme with Farmers' Organizations in Asia and the Pacific Region	FAO
1108	Enabling Poor Rice Farmers to improve Livelihoods and Overcome Poverty in South and South-East Asia through the Consortium for Unfavourable Rice Environments (CURE)	International Rice Research Institute (IRRI)
1179	Programme for Development of Knowledge-Sharing Skills	FAO
1227	Programme for Improving Livelihoods and Overcoming Poverty in the Drought Prone Lowlands of South-East Asia	IRRI
1239	Root and Tuber Crops Research & Development Programme for Food Security in the Asia and the Pacific Region	International Potato Center (CIP)
1244	Leveraging Pro-poor Public/Private Partnership for Rural Development-Widening Access to Energy Services for Rural Poor in Asia and the Pacific	Economic and Social Commission for Asia and the Pacific (ESCAP)
1286	Pro-poor Policy Approaches to Address Risk and Vulnerability at the Country Level	FAO
G FSP 7	Rehabilitation and Sustainable Use of Peat-land Forests in South-East Asia	Association of Southeast Asian Nations (ASEAN) Global Environment Facility GEF
1090	Effects of Biofuels on Agricultural Development, Food Security, Poverty and the Environment	INTERCAFE
998A	Asia and the Pacific Region Asian Project Management Support Programme	Asian Institute of Technology (AIT)

Methodological note on country programme evaluations

1. A country programme evaluation (CPE) has two main objectives: assess the performance and impact of IFAD-financed operations in the country, and generate a series of findings and recommendations that will inform the next results-based country strategic opportunities programme (). It is conducted in accordance with the directives of IFAD's Evaluation Policy[1] and follows the core methodology and processes for CPEs outlined in IOE's Evaluation Manual.[2] This note describes the key elements of the methodology.

2. Focus. A CPE focuses on three mutually reinforcing pillars in the IFAD-Government partnership: (i) Project portfolio; (ii) Non-lending activities; (iii) country strategic opportunities programme(s) (COSOP). Based on these building blocks, the CPE makes an overall assessment of the country programme achievements.

3. With regard to assessing the performance of the project portfolio (first pillar), the CPE applies standard evaluation methodology for each project using the internationally-recognized evaluation criteria of relevance, effectiveness, efficiency and rural poverty impact — including impact on household income and assets, human and social capital, food security and agricultural productivity, natural resources and the environment (including climate change[3]), and institutions and policies. The other performance criteria include sustainability, innovation and scaling up, and gender equality and women's empowerment. The performance of partners (IFAD and Government) is also assessed by examining their specific contribution to the design, execution, supervision, implementation support, and monitoring and evaluation of the specific projects and programmes. The definition of all evaluation criteria is provided in annex V.

4. The assessment of non-lending activities (second pillar) analyses the relevance, effectiveness, and efficiency of the combined efforts of IFAD and Government to promote policy dialogue, knowledge management and partnership-building. It also reviews global, regional and country-specific grants, as well as achievements and synergy with the lending portfolio.

5. The assessment of the performance of COSOP (third pillar) is a further, more aggregated, level of analysis that covers the relevance and effectiveness of COSOP. While in the portfolio assessment the analysis is project based, in this latter section the evaluation considers the overall objectives of the programme. The assessment of relevance covers alignment and coherence of the strategic objectives — including the geographic and subsector focus, partners selected, targeting and synergies with other rural development interventions — and the provisions for pountry programme management and COSOP management. The assessment of effectiveness determines the extent to which the overall strategic objectives contained in the COSOP were achieved. The CPE ultimately generates an assessment for the overall achievements of the programme.

6. Approach. In line with international evaluation practices, the CPE evaluation combines: (i) Desk review of existing documentation — existing literature, previous IOE evaluations, information material generated by the projects, data and other materials made available by the Government or IFAD, including self-evaluation data and reports; (ii) Interviews with relevant stakeholders in IFAD and in the country; (iii) Direct observation of activities in the field.

7. For the field work, a combination of methods are generally used for data gathering: i) Focus group discussions with a set of questions for project user groups and

[1] http://www.ifad.org/gbdocs/eb/102/e/EB-2011-102-R-7-Rev-1.pdf.
[2] http://www.ifad.org/evaluation/process_methodology/doc/manual.pdf.
[3] On climate change, scaling up and gender, see annex II of document EC 2010/65/W.P.6 approved by the IFAD Evaluation Committee in November 2010: http://www.ifad.org/gbdocs/eb/ec/e/65/EC-2010-65-W-P-6.pdf.

linkages with other projects in the area; ii) Government stakeholders meetings — national, regional/local, including project staff; iii) Random sample household visits using a pre-agreed set of questions to household members, to obtain indications of level of project participation and impact; iv) Key non-government stakeholder meetings (e.g. civil society representatives and private sector).

8. Evaluation findings are based on triangulation of evidence collected from different sources.

9. Rating scale. The performance in each of the three pillars described above and the overall achievements are rated on a scale of 1 to 6 (with 1 being the lowest score and 6 the highest), which enables reporting along the two broad categories of satisfactory (4, 5 and 6) and unsatisfactory (1, 2 and 3) performance. Ratings are provided for individual projects/programmes, and on that basis, for the performance of the overall project portfolio. Ratings are also provided for the performance of partners, non-lending activities, COSOP relevance and effectiveness, as well as the overall achievements of the programme.

10. In line with practices of international financial institutions, the rating scale, in particular when assessing the expected results and impact of an operation, can be defined as follows, while taking due account of the approximation inherent to such a definition:

Highly satisfactory (6)	The activity (project, programme, non-lending, etc.) achieved – under a specific criteria or overall – strong progress towards all main objectives /impacts, and had best practice achievements on one or more of them.
Satisfactory (5)	The activity achieved acceptable progress towards all main objectives/impacts and strong progress on some of them.
Moderately satisfactory (4)	The activity achieved acceptable (although not strong) progress towards the majority of its main objectives/impacts.
Moderately unsatisfactory (3)	The activity achieved acceptable progress only in a minority of its objectives/impacts.
Unsatisfactory (2)	The activity's progress was weak in all its objectives/impacts.
Highly unsatisfactory (1)	The activity did not make progress in any of its objectives/impacts.

11. It is recognized that differences may exist in the understanding and interpretation of ratings between evaluators (inter-evaluation variability). In order to minimize such variability IOE conducts systematic training of staff and consultants as well as thorough peer reviews.

12. Evaluation process. A CPE is conducted prior to the preparation of a new cooperation strategy in a given country. It entails three main phases: (i) Design and desk review; (ii) Country work; (iii) Report writing, comments and communication of results.

13. The design and desk review phase entails developing the CPE approach paper. The paper specifies the evaluation objectives, methodology, process, timelines and key questions. It is followed by a preparatory mission to the country to discuss the draft paper with key partners. During this stage, a desk review is conducted examining available documentation. Project review notes and a consolidated desk review report are prepared and shared with IFAD's regional division and the Government. The main objective of the desk review report is to identify preliminary

hypotheses and issues to be analysed during the main CPE mission. During this stage both IFAD and Government conduct a self-assessment at the portfolio, non-lending and COSOP levels.

14. The country work stage entails convening a multidisciplinary team of consultants to visit the country, holding meetings in the capital city with the Government and other partners, and traveling to different regions of the country to review activities of IFAD-funded projects on the ground and discuss with beneficiaries, public authorities, project management staff, non-governmental organizations and other partners. A brief summary note is presented at the end of the mission to the Government and other key partners.

15. During the report writing, comments and communication of results stage, IOE prepares the draft final CPE report, which is shared with IFAD's regional division, Government and other partners for review and comments. The draft benefits from a peer review process within IOE, including IOE staff as well as an external senior independent adviser. IOE then distributes the CPE report to partners to disseminate the results of the CPE. IOE and Government organize a national round table workshop that focuses on learning, and allows multiple stakeholders to discuss the main findings, conclusions and recommendations of the evaluation. The report is publicly disclosed.

16. A core learning partnership, consisting of the main users of the evaluation, provides guidance to IOE at critical stages in the evaluation process; in particular, by reviewing and commenting on the draft approach paper, desk review report and draft CPE report, and participating in the CPE national round table workshop.

17. Each CPE evaluation is concluded with an agreement at completion point., This is a short document that captures the main findings as well as the recommendations contained in the CPE report which IFAD and the Government agree to adopt and implement within a specific timeline.

Definition of the evaluation criteria used by IOE

Criteria	*Definition*[a]
Project performance	
Relevance	The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, institutional priorities and partner and donor policies. It also entails an assessment of project design in achieving its objectives.
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 into results.
Rural poverty impact[b]	Impact is defined as the changes that have occurred or are expected to occur in the lives of the rural poor (whether positive or negative, direct or indirect, intended or unintended) as a result of development interventions.
Household income and assets	Household income provides a means of assessing the flow of economic benefits accruing to an individual or group, whereas assets relate to a stock of accumulated items of economic value.
Human and social capital and empowerment	Human and social capital and empowerment include an assessment of the changes that have occurred in the empowerment of individuals, the quality of grassroots organizations and institutions, and the poor's individual and collective capacity.
Food security and agricultural productivity	Changes in food security relate to availability, access to food and stability of access, whereas changes in agricultural productivity are measured in terms of yields.
Natural resources, environment and climate change	The focus on natural resources and the environment involves assessing the extent to which a project contributes to changes in the protection, rehabilitation or depletion of natural resources and the environment as well as in mitigating the negative impact of climate change or promoting adaptation measures.
Institutions and policies	The criterion relating to institutions and policies is designed to assess changes in the quality and performance of institutions, policies and the regulatory framework that influence the lives of the poor.
Other performance criteria	
Sustainability	The likely continuation of net benefits from a development intervention beyond the phase of external funding support. It also includes an assessment of the likelihood that actual and anticipated results will be resilient to risks beyond the project's life.
Innovation and scaling up	The extent to which IFAD development interventions have: (i) introduced innovative approaches to rural poverty reduction; and (ii) the extent to which these interventions have been (or are likely to be) replicated and scaled up by government authorities, donor organizations, the private sector and other agencies.
Gender equality and women's empowerment	The criterion assesses the efforts made to promote gender equality and women's empowerment in the design, implementation, supervision and implementation support, and evaluation of IFAD-assisted projects.
Overall project achievement	This provides an overarching assessment of the project, drawing upon the analysis made under the various evaluation criteria cited above.
Performance of partners	
IFAD Government	This criterion assesses the contribution of partners to project design, execution, monitoring and reporting, supervision and implementation support, and evaluation. It also assesses the performance of individual partners against their expected role and responsibilities in the project life cycle.

[a] These definitions have been taken from the OECD/DAC *Glossary of Key Terms in Evaluation and Results-Based Management* and from the IFAD Evaluation Manual (2009).
[b] The IFAD Evaluation Manual also deals with the "lack of intervention", that is, no specific intervention may have been foreseen or intended with respect to one or more of the five impact domains. In spite of this, if positive or negative changes are detected and can be attributed in whole or in part to the project, a rating should be assigned to the particular impact domain. On the other hand, if no changes are detected and no intervention was foreseen or intended, then no rating (or the mention "not applicable") is assigned.

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Agriculture and rural development in Indonesia

Regional, rural poverty and agricultural indicators

1. Regional indicators. Indonesia consists of more than 17,000 islands, of which almost 6,000 are inhabited. Based on geographical proximity, the islands can be grouped into eight major regions. These regions are highly diverse in terms of natural resources, human resources, levels of infrastructure development and agroclimatic conditions. A comparative summary of selected country and regional indicators is provided in table 1.

Table 1
Indonesia: Selected regional indicators, 2010

Indicator	*Indonesia*	*Sumatra*	*Java*	*Bali*	*Nusa Tenggar*	*Kalimantan*	*Sulawesi*	*Maluku*	*Papua*
Land area (000skm)	1 911	481	129	6	67	544	189	79	416
Population (million)	237.6	50.6	136.6	3.9	9.2	13.8	17.4	2.6	3.6
Population density (persons/skm)	124	105	1059	673	35	25	92	35	7
Poverty rate (% of population)	13.3	13.1	12.7	4.9	22.0	7.4	13.5	18.1	28.3
Employed in agriculture (% of total)	38.3	49.0	30.1	30.9	55.8	47.5	49.0	54.2	73.6

Source: Kwiecinski and David (2012).
Note: skm = square kilometer.

2. A few interesting highlights from the regional indicators are: (i) Java accounts for about 7 per cent of the land area but almost 58 per cent of the population; (ii) Java's poverty rate is close to the national average of about 13 per cent and Java alone accounts for almost 55 per cent of all the poor people in Indonesia; (iii) Even though there are large regional variations (from 30 per cent in Java to 74 per cent in Papua), 38 per cent of all the workforce is employed in agriculture. It is interesting to note that the three current IFAD projects in Indonesia (READ, PNPM and SOLID) are in three islands in eastern Indonesia (Sulawesi, Maluku and Papua) that together account for only about 10 per cent of the population. The population density for these islands is very low. Given remote locations, difficult physical access and high transportation costs, serving project beneficiaries and rural poor under these projects is not only difficult but also relatively expensive in terms of cost per beneficiary. As a result, for the same amount of investment, projects will be able to serve fewer beneficiaries, as compared to the potential number of beneficiaries in less remote areas with a higher density of farming population.

3. Rural poverty indicators. Despite large regional disparities, Indonesia has done well in reducing overall poverty from over 40 per cent in 1976 to 12.5 per cent in 2011 (see table 2 for recent poverty rates). Robust domestic economic growth and sound macroeconomic policy management have contributed to a decline in the poverty rate. Agricultural growth, particularly in the 1970s and 1980s, has been responsible for reducing rural poverty. However, even though the rural population in 2010 was about 52 per cent of the total, almost 65 per cent of the poor in Indonesia were in rural areas, depending primarily on agriculture for their livelihood.

Table 2
Indonesia: Trends in rural and urban poverty rates, 2003 – 2011

	Per cent			
Year	*Rural poverty rate*	*National poverty rate*	*Urban poverty rate*	*Rural poverty as per cent of urban poverty*
2003	20.0	17.4	13.5	148
2005	20.0	16.0	12.0	167
2007	20.0	17.5	12.5	160
2009	17.5	14.0	11.0	159
2011	16.0	12.5	9.0	178

Source: Adapted from the World Bank (2011b).

4. In addition to the actual poor population, the number of near-poor (1.2 times the poverty line expenditure) is almost twice as many as the poor. The rural poverty rate is almost 50 to 80 per cent higher than the urban poverty rate. With the exception of the last few years, the decline in rural poverty has been slow mainly due to slow agricultural growth and stagnating agricultural productivity. In other words, there is a need to revitalize the agricultural sector in order to sustainably reduce rural poverty, and at the same time address the emerging challenges due to rising domestic and international demands for food and agricultural raw materials. Accelerating reductions in the poverty rate would require a strategy that enhances agricultural productivity, promotes diversification, increases value addition, improves productivity of rural non-farm activities and promotes sustainable natural resource management, particularly land and water. This would facilitate the achievement of poverty reduction as a national objective, as well as achieving the millennium development goal (MDG) target of reducing overall poverty to 7.5 per cent by 2015.

5. Agricultural indicators. Even though the relative size of the agricultural sector (per cent share of agriculture in GDP) is declining over time, it remains a very important and large single sector in terms of its contribution to gross domestic product (GDP), employment, export earnings, food security and poverty reduction (table 3).

Table 3
Indonesia: Selected agricultural indicators, 1990 and 2010

	Level of indicators	
Indicator	1990	2010
GDP (US$ billions)	106	708
Population (million)	184	238
GDP/capita (PPP, US$)	1 449	4 293
Agriculture share in GDP (%)	19.4	15.3
Agriculture share in employment (%)	55.9	38.4
Agrifood exports (% of total exports)	14.9	21.5
Agrifood imports (% of total imports)	7.6	9.8
Crops in total agricultural production (%)	80	82
Livestock in total agricultural production (%)	20	18
Agricultural area (AA) (million hectares)	45	54
Share of arable land in AA (%)	45	44
Share of irrigated land in AA (%)	14	17
Share of agriculture in water consumption (%)	93	82

Source: Adapted from Kwiecinski and David (2012).

6. The data clearly indicate the following: (i) Indonesia is a middle-income country and GDP per capita has increased almost three-folds since 1990; (ii) Relative share of agriculture in GDP has declined from 19.4 per cent to 15.3 per cent, which is consistent with economic development theory and empirical evidence across developing countries; (iii) Share of agrifood trade in total trade (both exports and imports) has increased; (iv) Food and cash crops account for about 82 per cent of the agricultural GDP (consisting of crops and livestock only), and there has been a slight increase in the crop share whereas the corresponding share of livestock has declined slightly; (v) Arable land has increased from about 20 million to 24 million hectares (almost 20 per cent increase over a 10 year period); Large share of this increase has been in the outer islands; (vi) Share of irrigated land has also increased significantly from 6.3 million to 9.2 million hectares, almost 46 per cent increase over 10 years. Despite this significant increase in irrigated area, the bulk of the agricultural area remains rainfed. In other words, agriculture remains subject to the vagaries of nature, including floods, droughts and/or weather risks due to emerging climatic changes.

Agricultural sector background

7. Need to revitalize agriculture. In Indonesia, agriculture has been an engine of economic growth and poverty reduction. The main driver for rural poverty reduction has been an increase in agricultural productivity and growth. From 1976 to 1996, there was a significant decline in poverty. However, the performance of the agricultural sector declined in recent years. Nearly all of agricultural total factor productivity (TFP) increase occurred from 1968 to 1992. However, by the mid-1990s, agricultural growth was mainly due to an increase in the use of conventional inputs such as land and labour, and agricultural productivity stagnated. This decline in agricultural sector performance has been mainly due to a decline in the amount and quality of public investment in the agricultural sector. Despite enormous potential due to rich agroecological endowments, Indonesia has depended on imports of rice, fruits and vegetables. Rural poverty and rural unemployment are the two serious problems facing Indonesia now and will remain critical in the near future. Ensuring food security for everyone is a top priority for the Government. Enhancing agricultural productivity is also critical for ensuring national food security.

8. With over 50 per cent of the population being rural and dependent on agriculture for their livelihood, accelerating agricultural growth and rural development is critical for reducing poverty by half by 2015 (one of the MDGs). This requires transforming and modernizing agriculture by enhancing agricultural productivity, promoting diversification to high value agriculture, improving post-harvest management, and strengthening value chains in order to achieve the poverty MDG and improve long-term food security. Indonesia is also facing serious environmental and climate change challenges, including frequent droughts, floods and the danger of the sea level rising, with its serious implications for agriculture. Potential impacts include, but are not limited to, threat to poverty reduction, food security and enhancement of agricultural productivity, adverse effects on the productive coastal zones and community livelihoods, issues related to water management, and potential threats from vector-borne diseases for crops, animals and humans.

9. Burden of agricultural subsidies. Agriculture was de-emphasized after the 1980s as Indonesia reached self-sufficiency in food (mainly rice) production. However, after the 1998 economic crisis the Government once again began to give greater priority to agriculture to support rural incomes. Between 2001 and 2008, national spending on agriculture increased from Rp.11 trillion to Rp.53 trillion. Agriculture's share of total government spending doubled from 3 per cent in 2001 to 6 per cent by 2008, partly because of increased spending on agricultural subsidies. The Ministry of Agriculture allocated a large and increasing share of

resources to input subsidies in an effort to increase the production of food crops. Agriculture subsidies accounted for 60 per cent of all agriculture spending in Indonesia (2008). Fertilizer subsides were about 50 per cent of all agricultural subsidy expenditure. Clearly, the burden of agricultural subsidies has continued to increase over time and this subsidy policy has diverted scarce financial resources away from more productive uses in the agricultural sector (World Bank, 2010).

10. Agricultural research and extension. The public agricultural research and extension systems are facing several challenges to remain viable under pressure from staff and budget decentralization, demands for greater client orientation and an increasing need to accommodate commercial demands. High quality agricultural research and extension systems will be critical to enhancing agricultural productivity. In this context, there are some well-established institutions in Indonesia to build on. However, there is an urgent need for greater investment in agricultural research and technology dissemination. The World Bank is financing a project that deals with agricultural research and technology. However, there is limited focus on the problems faced by small farmers. Furthermore, there is a need to take a demand-driven approach and seek greater involvement of the private sector, rather than relying on the old supply driven model.

11. Government agriculture institutions. The ministries responsible for agriculture sector development in Indonesia include the Ministry of Agriculture, Ministry of Forestry and Ministry of Marine Affairs and Fisheries. The National Development Planning Agency (BAPPENAS) provides planning, programming and budgeting along with coordination with the relevant agencies. The State Ministry for Research and Technology coordinates research and development policy. According to the Asian Development Bank (ADB, 2006), the largest government research agency in Indonesia, with more than 3,000 scientists in 2003, is the Indonesian Agency for Agricultural Research and Development (IAARD) of the Ministry of Agriculture. One of the institutional problems facing the agricultural sector in Indonesia is limited coordination across and within various agencies dealing with agriculture at the national and subnational levels, and the weak links between the scientists, extension agents and small farmers. There is a pressing need for significantly strengthening the institutional capacity to meet the needs of 21st century agriculture, especially in the decentralized institutional structure at the subnational levels of government.

Agricultural policies and strategies

12. Government priorities for agriculture. One of Indonesia's important national policies is the Long-Term National Development Plan for the period 2005-2020, from which five-year national medium-term development plans (RPJMN) are elaborated. The RPJMN has given priority to reducing absolute poverty and improving income distribution through social protection that is based on family and community empowerment, and expansion of economic opportunities for the low-income population. The priorities also aim to increase food security and continuation of the revitalization of agriculture for realizing self-reliance in food, increasing the competitiveness of agricultural products, increasing the income level of farmers, and conserving the environment and natural resources. The plan has also targeted the objective of increasing the growth rate of the agricultural sector to 3.7 per cent in 2014. While the country became self-sufficient in rice for a few years during the mid-1980s, at present, Indonesia is importing about 2.3 million tons of rice, the staple food. Indonesia again wants to achieve self-sufficiency in rice production.

13. Strategy to achieve priorities for agriculture. The vision, as articulated in the Indonesian Agricultural and Rural Development Plan of 2020, is to ensure progressive rural community involvement in agribusiness activities so that they are able to create and fill productive job opportunities, and increase their income growth at the regional and national levels. The strategy to achieve priorities for

agriculture consists of (i) Acceleration of human resource development and entrepreneurship empowerment; (ii) Social investment by strengthening decentralization, community self-help, and empowering social institutions and communities; (iii) Revitalization of broad spectrum agricultural productivity increase through agricultural research and development, and diversification; (iv) Support for competitive and efficient agribusiness, and developing related and profitable industrial zones; (v) Empowerment and strengthening of the growth and productivity of the rural non-agricultural sector; (vi) Strengthening sustainable natural resource management.

14. Policy instruments and agricultural services. A summary of agricultural policy instruments and general agricultural services in Indonesia (adapted from Kwiecinski and David,2012) is provided below.

- Domestic policy instruments: (i) Minimum purchase price for rice and sugarcane; (ii) Fertilizer subsidies for farmers with less than 2 hectares farm land (subsidized fertilizer prices have remained constant for a long time); (iii) Seed subsidies for rice, maize and soybean farmers; (iv) Credit schemes at below commercial interest rate and rural finance for federated farmer groups to on-lend to members based on the microcredit model; (v) Income support to farmers affected by bad weather and natural disasters; (vi) Pilot insurance schemes for rice and cattle farmers; (vii) Free-of-cost extension service to farmers.
- Trade policy instruments: (i) Tariffs on agricultural imports, including rice and sugar, but the level is adjusted frequently; (ii) Import licencing requirements and restrictions on the volume of imports of agricultural commodities, processed food and food commodities such as rice and sugar (currently being challenged by the United States under the World Trade Organization); (iii) Sanitary and phyto-sanitary standards (SPS) for food imports; (iv) Export taxes on crude palm oil and derived products; (v) Export licencing requirements for bovine animals, rice, palm nuts and kernel, urea fertilizer, cocoa, rubber, bananas, pineapple and cassava; (vi) Indonesia, as a member of the Association of South-East Asian Nations (ASEAN), Asia Pacific Economic Cooperation (APEC), and World Trade Organization (WTO) must abide by the requirements of agreements with these organizations.
- General agricultural services: (i) Farmers are not charged the cost of water deliveries from the source to the tertiary system and some financial support is provided to water users' associations to rehabilitate on-farm irrigation schemes; (ii) Public expenditure, which is very small, related to agricultural research and development; (iii) Public expenditure to develop local markets and terminal storage facilities and improve agroprocessing operations.

Public expenditure in agriculture

15. Public expenditure levels and composition in agriculture. Even though the level of public expenditure in the agricultural sector has increased in the last few years, overall it still remains low. According to the World Bank (2010), the share of public spending on agriculture has increased from 2.7 per cent in 2001 to 5.6 per cent in 2009. About half of the expenditure (excluding subsidies) is executed at the level of the central government and the remaining half at the subnational levels. The priority government programmes to increase crop production have received the largest share of the budgetary allocation. The main goals of the Government are: (i) Increase food security; (ii) Enhance competitiveness and the value added of agriculture products; (iii) Improve farmers' welfare.

16. Since 2007, the Ministry of Agriculture, responsible for implementing national agricultural policy, has allocated a large share of its budget in the form of cash transfers to farmers and is classified as "social aid". However, this income transfer

has only a nominal impact on enhancing agricultural productivity (World Bank, 2010). The flow of these funds, the composition of this expenditure and its impact are not properly monitored to determine its effectiveness. While there is a positive correlation between public expenditure and growth in agriculture, its impact depends on the volume and composition of public spending. Furthermore, allocating a large share to provide subsidies to farmers for private agriculture inputs may not be very productive since it diverts scarce resources away from high payoff public good investment opportunities, such as agricultural research, technology generation, technology dissemination and irrigation.

17. Large agricultural subsidies. National public expenditure for agriculture increased from Rp.11 trillion in 2001 to Rp.61.5 trillion in 2009. During the same period, the allocation for agricultural subsidies increased from 30 per cent (about Rp.3.3 trillion) to 56 per cent (about Rp.34.5 trillion) of the total budget for agriculture. In other words, allocation for agricultural subsidies increased almost 10 times from 2001 to 2009. On the other hand, allocation for the provision of public goods and services increased much less. The main drivers of agricultural productivity are public investments in irrigation, agricultural research, agricultural extension services and rural roads. Indonesia can increase the effectiveness of public spending by shifting the composition of agricultural expenditure in favour of public goods and services, and away from subsidizing private agricultural inputs.

18. Large fertilizer subsidies. Fertilizer subsidies are regressive since 60 per cent of the subsidies benefit 40 per cent of the large farmers. While all farmers benefit from fertilizer subsidies, large farmers benefit more. The targeting of fertilizer subsidies can be substantially improved to support small farmers and thereby subsidy costs can be substantially reduced. The Ministry of Agriculture did pass a decree in 2008 that was designed to improve targeting of fertilizer subsidies to beneficiaries owning less than 2 heactares of land. Alternatively, eliminating fertilizer subsidies and supporting rice farmers through cash transfers can not only result in substantial cost savings, but can also reduce distortions in fertilizer prices. There is ample empirical evidence that farmers overuse (more than optimal levels of use) subsidized fertilizers. This has serious implications for contamination of ground water and pollution of the environment, including acid rain. Furthermore, according to the World Bank (2010), public spending on public goods and services has a positive impact on agricultural growth, whereas public spending on fertilizer subsidies appears to have a negative effect.

19. Small investment in agricultural research. Only 1 per cent of the total public expenditure for agriculture in 2009 was for agricultural research and development, as compared to 56 per cent for agricultural subsidies. At the national level, while public spending for agricultural R&D increased over time, it was only 0.22 per cent of agricultural GDP in 2003. In comparison, public spending on agricultural R&D (as a per cent of agricultural GDP) is much higher in Malaysia (1.92 per cent), India (over 1.5 per cent) and Brazil (over 1.5 per cent). The generation and adaptation of improved agricultural technologies and innovations depend on public investment in agricultural R&D. Public investment in information and communication technology to facilitate dissemination and transfer of improved agricultural technologies to farmers (along with dissemination of appropriate information related to markets, prices and weather) can also reap dividends. Finally, the Government can also create the enabling environment and provide incentives to the private sector to invest in high payoff agricultural research.

20. Small investment in operations and maintenance for irrigation. Investment in irrigation has high payoffs in terms of an increase in agricultural productivity. After decentralization, the expenditure for operations and maintenance (O&M) of the irrigation system is shared across three levels of government, i.e. central, provincial and district, depending on the size of the irrigation system. However, O&M is the responsibility of the farmers, through water users' associations, at the

lower (tertiary) level. The country programme evaluation mission was informed during meetings and field visits that the quality of existing irrigation system has gradually deteriorating due to less than adequate O&M. This is especially true at the subnational levels of government. Invariably a small public investment in O&M of irrigation systems can have high returns to investment in Indonesia.

Emerging national agricultural challenges

21. Indonesia is facing at least four emerging or re-emerging national agricultural development challenges that have important implications for the agricultural sector. These include (i) Food security, (ii) Subnational decentralization, (iii) Empowering farmers, and (iv) Climate change. In order to address these challenges, there is a need for full support from the central government (including full coordination among the sectors that complement each other) and subnational governments, as well as from development partners, non-governmental organizations and the private sector.

22. Food security. According to the Food and Agriculture Organization (FAO, 2011), food security exists when "all people, at all times have physical, social and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life". In other words, food security at the national and household levels deals with availability, accessibility, utilization and nutritional aspects. At present, a large number of households in Indonesia, particularly poor and remote, are food insecure due to various reasons and lack proper nutrition. Indonesia was self-sufficient in food production (mainly rice) for a few years only in the mid-1980s. After that, rice production gradually declined and rice imports gradually increased. Now Indonesia imports between 2-3 million tons of rice annually (along with maize, soybean and meat). Food security became a serious problem in 2008 when grain (rice and wheat) prices in the international market skyrocketed and rice exporting countries put bans on rice exports. Rice is a staple in Indonesia and the international rice market is very minimal, with only a few countries exporting rice. As was noted earlier, an increase in rice prices has also increased the poverty rate in Indonesia.

23. According to the Long-Term National Development Plan (2005-20), National Medium-Term Development Plan (2005-09 and 2010-14), National Medium-Term Priority Framework (2010-14) and Presidential Decree (2005), achieving food security and food self-reliance is at the top of the national agenda of the Government of Indonesia. Government agencies that deal with different aspects of food security are Ministry of Agriculture, the ministry's Food Security Agency, Ministry of Social Welfare and BULOG (National Logistics Agency). The main responsibility of BULOG is to provide food security for households in all regions by stabilizing rice prices and maintaining rice reserves. There are ambitious government proposals such as creating a rice surplus of 10 million tons by 2014 and 5 million tons of rice reserves. However, it is too early to tell whether these proposed targets will be achieved. According to the World Bank (2006), even a large share of rice farming households are net consumers (i.e. rice production is less than rice consumption)of rice (table 4).

Table 4
Indonesia: Net consumers of rice

Households	*% of households that are net consumers of rice*		
	Rice farmers	All farmers	All Indonesians
Rural	28	74	95
Urban	27	64	72
Total	27	65	83

Source: World Bank (2006).

24. Among others, the Government is trying to address the food security problem on two fronts. First, increase rice production by enhancing rice productivity (large yield gaps exist in average rice yields at farmers' fields and rice demonstrations) and bringing more area under rice. Government strategies to increase rice production and remove various constraints to increasing production have already been outlined above. Second, the Government is implementing the Raskin programme (subsidized rice programme), which was initiated in 1998 as an emergency food security programme following the financial sector collapse. The Raskin programme is designed to deliver rice to poor and near-poor households at subsidized prices from the 50,000 distribution centres run by BULOG. It is the largest social assistance programme that targets poor households. However, control is weak and villagers have a different view about who is poor than the Government. Therefore, to avoid conflicts, subsidized rice is often distributed equally to poor and non-poor villagers, especially in regions far from the centres. On average, about 2 million tons of rice is delivered annually through this programme. According to the World Bank (2012d), the Raskin programme is too costly and all the rice procured for Raskin is not delivered to the consumers.

25. Subnational decentralization. The decentralization programme in Indonesia was initiated with a big bang in 2001. Under this programme, considerable authority over public expenditure and service delivery (including public services to agriculture) was transferred from the centre to subnational governments (provinces and districts) in order to increase efficiency and accountability, and to take government close to the people. Following decentralization, funds flowed directly from the centre to districts and were earmarked for specific activities. Some of critical issues are still being identified, resolved and modified over time. Among others, this includes inter-government administrative system and division of labour for specific responsibilities, inter-government fiscal system, extension of development finance, on-lending and provision of grants, and need to strengthen capacity and skills in specific areas and coordination mechanisms.

26. According to World Bank (2011a), the share of subnational spending on agriculture is only about 4.5 per cent, which has remained about the same from 2001 to 2012, as opposed to 40 per cent on administration, 25 per cent on education and 8 per cent on health. Funding for agricultural research remains a serious issue. Agricultural extension staff is being used to carry out other responsibilities and is not in a position to deliver their core responsibility. There is a lack of continuity due to frequent rotations and transfers of staff at the district level. In order to implement specific agricultural projects at the district level, skills and control still lie at the centre. For example, central project implementation units for READ and SOLID still control fund flows and procurement, whereas district PIUs are responsible for project implementation. This is one of the important reasons for delays in project implementation. There is a need for a comprehensive evaluation of the impact of decentralization on agriculture, and to find ways to remove key administrative and fiscal barriers to agricultural sector performance, including through implementation of commitments in the Paris Declaration on Aid Effectiveness.

27. Empowering farmers. Indonesia started piloting community empowerment programmes in early 2000. The programme was expanded in 2007 and started implementing at the national level in 2009. Implementation of the PNPM programme is funded by the Indonesian Government, as well as by development partners led by the World Bank. There are different sector PNPM programmes, the largest one being PNPM Rural. The main focus of the PNPM Rural programme is community empowerment (organizing rural communities into small self-help groups) and investment in rural infrastructure. Agriculture is not the main focus of PNPM, even though it is the main activity and source of livelihood in rural areas. However, some investment has been made in developing irrigation infrastructure

(under PNPM Rural) and providing technical assistance related to agriculture (under PNPM Agriculture). Now there is a concern among various government agencies, including BAPPENAS, that agriculture has been ignored under the PNPM programme. In order to achieve the ambitious government targets for food security and revitalizing agriculture in Indonesia, there is thus a need for empowering farmers with a focus on agriculture (enhancing agricultural productivity, promoting diversification and strengthening value chains) and providing them with the necessary entrepreneurial skills.

28. Climate change. Indonesia faces significant environmental challenges, including floods, droughts and a rise in sea level. The rural population is directly or indirectly dependent on communal land and/or coastal resources. These areas are prone to a range of natural and man-made risks, as well as the impacts of climate change. Increasing climate risks have direct implications for crop yields, farm income, food security, livelihoods and rural poverty, particularly in coastal areas. To address climate change, there is a need to develop an institutional framework, coordinating mechanisms, and mitigation and adaptation plans. Equality of opportunity and increases in transparency will be as important as developing capacity for addressing sustainable resource management and adaptation to climate change. Agriculture is exposed to vagaries of nature and is subject to emerging climate risks (including increasing risks from diseases and pests). In order to address these risks, there is a need to develop climate-smart agriculture.

29. The 2008 COSOP identified the need for addressing the climate change issues in Indonesia as a central concern. Plans included (i) Mainstreaming climate change mitigation and adaptation measures into the country programme and operations of individual projects; (ii) Supporting the rural poor and smallholders to develop farming systems and change agricultural practices in response to the different opportunities and constraints resulting from climate change, and providing assistance to reduce the vulnerability of the rural poor and their ecosystems to the impact of climate change; (iii) Supporting the rural poor and smallholders to enable them to play a major role in mitigating climate change through sustainable management of land, forests and other natural resources; (iv) Promoting local capacity-building and knowledge generation and dissemination for climate change mitigation and adaptation, and disaster preparedness; (v) Advocating the Government to acknowledge and remunerate the rural poor and smallholders for providing environmental services that benefit all. Norway is in the process of establishing a climate fund in Indonesia in the amount of US$1 billion. Japan and Germany may also join this programme. The climate fund is expected to support activities that will promote climate change mitigation and adaptation measures, and thereby reduce vulnerabilities.

Development partners in agriculture

30. The roles played by the bilateral development partners (particularly Japan and Australia) remain important in Indonesia. The Asian Development Bank and World Bank, both international financial institutions (IFIs), continue to play a vital role in economic development. However, after it was classified as a middle-income country (MIC), Indonesia no longer qualified for concessional financing from IFIs.

31. Asian Development Bank. The ADB is very active and has a large development programme in Indonesia. However, the main focus of ADB's programme is investment in infrastructure. In a meeting with the ADB's senior management in Jakarta, the mission was informed that ADB has decided to get out of the agricultural sector, at least for the time being. However, ADB plans to finance an irrigation project in the near future. This may be an opportunity for IFAD to explore the possibility of partnership, with ADB focusing on irrigation and IFAD focusing on on-farm water management, the agricultural productivity of small farmers using irrigation, and strengthening complementarities between irrigation and agriculture.

32. World Bank. The World Bank, on the other hand, remains active in the agricultural sector and even plans to expand its role. At present, the World Bank is supporting the Farmer Empowerment through Agricultural Technology and Information project in the amount of US$120 million. This project started in 2007 and is likely to close in 2013. The project is designed to strengthen innovations to improve agricultural services. There is a possibility of a follow-up project in 2013/14 that would deal with supporting agricultural modernization. Another project (likely to be approved soon), Sustainable Management of Agriculture Research and Technology Dissemination, is likely to be in the range of US$100 million and is expected to be implemented over 2012-2016. Another project (at an early stage of development), Support to Poor and Disadvantaged Areas, is likely to be for US$95 million. In addition, the World Bank is also funding the Water Resources and Irrigation Sector Management Programme, which is a continuation of a programme initiated several years ago, in partnership with other donors. This programme is designed to implement reforms (legal, regulatory and administrative) in order to achieve sustainable and equitable management of surface water resources and infrastructure.

33. In addition to lending operations, the World Bank is involved in several studies and technical assistance activities in Indonesia. This includes Technical Assistance for Food Security, Dialogue on World Bank Group Re-engagement in the Palm Oil Sector, Technical Assistance on the Competitiveness and Sustainability of Major Agricultural Export Commodities, and possibly a land study that will deal with issues related to security of land tenure and land reform. In the future, the engagement of the World Bank in Indonesian agriculture will be organized around four pillars: food security, agricultural productivity, competitiveness, and land and forestry. There are ample opportunities for IFAD to partner with the World Bank, with a particular focus on poor and small farmers. However, this partnership must be initiated and nurtured over time in a way that is consistent with the broad objectives of IFAD and the World Bank. According to World Bank (2011b), the World Bank programme in Indonesia is second after China in the East Asia and Pacific region. As of October 2010, net commitment from the World Bank to Indonesia was US$8.43 billion. In addition, grant contributions were in the amount of about US$1.4 billion.

Agriculture as a core activity for IFAD

34. As in the case of IFIs, the bilateral and multilateral development partners also have small programmes related to the agricultural sector in Indonesia. Clearly, there is a large gap (in the sense that requirements far exceed the commitments) in financial and technical support for revitalizing agriculture on small farms. This gap can ideally be bridged by IFAD. However, given IFAD's small administrative budget, limited staffing resources and small performance based allocation for lending to Indonesia, IFAD needs agriculture to be its core focus in Indonesia and not dissipate its efforts, as in the past, over a wider range of activities. Within agriculture, IFAD needs to focus on key current and emerging problems that have been identified by the Government as critical for revitalizing agriculture, but focusing only on smallholder agriculture. In developing and implementing IFAD smallholder agriculture programme in Indonesia, it is very important to keep in mind the following 10 principles or criteria:

(i) Activities: Focus on high value agriculture, including rice, vegetables, cash crops, dairy, poultry and small ruminants, with a focus on value chains, quality, post-harvest management and marketing; limit involvement in rural credit to only innovative local responses to the problem that are not dependent on prior resolution of national rural finance bottlenecks.

(ii) Farmers and areas: Target smallholder farmers in easily accessible areas that are well connected to the market and areas with a high probability

for success (i.e. do not set up for failure); empower the farmers and strengthen their entrepreneurship.

(iii) Potentially high impact interventions: Promote activities with an eye to adaptation and scaling up of sustainable interventions and emerging technological advances with potentially high impact in terms of productivity, production and farm income increase.

(iv) Institutional counterparts: Build a strong partnership with the Ministry of Agriculture (and possibly Marine Affairs and Fisheries) and concerned subnational governments (particularly the agricultural departments of selected provinces and districts), rather than spreading scarce resources too thinly.

(v) Potential for innovations and scaling up: Identify and support agricultural innovations that have the potential for solving practical problems faced by small farmers, based on past and ongoing experiences of the Government, IFAD and other development partners, and innovations that are replicable and scalable across suitable agroclimatic conditions through appropriate demonstrations.

(vi) Potential for addressing emerging critical national priorities: Support interventions and activities that address emerging priorities such as food security and climate-smart agriculture that are relevant for smallholder agriculture.

(vii) Strategic partnerships: Promote strategic partnerships with international and national development partners where IFAD complements the programme and leverages the resources, and government agencies have full ownership and commitment to implement the programme.

(viii) Capacity to implement on the ground: Strengthen capacity of implementing agencies at all levels, particularly at the subnational levels of government to achieve results and project development objectives.

(ix) Use a strategic mix of instruments and leverage the use of grants: Apply a suitable mix of instruments, including lending and non-lending activities, to address the changing demands and needs of Indonesia, a MIC. Use IFAD grants (supplemented by bilateral grants and trust funds) to fund a national programme for poor small farmer agricultural productivity enhancement, which would (i) Catalogue best practice, successful agricultural innovations and strategy for their scaling up in Indonesia, as well as for synthesizing results of all critical agricultural policy issues, in collaboration with other development partners; (ii) Provide umbrella support for IFAD lending for a cluster of new individual regional projects and to retrofit ongoing projects; (iii) Act as the IFAD instrument that would support the Government's impressive South-South initiative to share experience on small farmer development with other countries in the South.

(x) IFAD brand: Develop a niche and IFAD brand for agriculture in Indonesia as the best source of information, knowledge and support on issues relating to small farmer agricultural productivity enhancement and adaptation for climate change; and indeed be seen as one of the surrogate voices for small farmers in Indonesia.

Project details of portfolio performance

IFAD portfolio

A. Core performance

Relevance

1. P4K: The rural credit programme had been well designed in relation to the objectives. This is the only microfinance model tried out by IFAD in partnership with the Asian Development Bank. The project was designed to address the poverty problem in rural areas. P4K envisaged reducing poverty through the creation of new income-generating activities among the landless poor. It utilized participatory approaches and emphasized provision of direct support, building capacities of the poor to engage in sustainable livelihoods and attain self-reliance. However, the project did not really focus on agriculture and did not contribute to a sustainable rural finance model.

2. PIDRA: The project supported the Government's programme of integrated rain-fed agricultural development in the provinces having substantial rainfed potential. Project interventions were in the poorest areas that were affected by the economic crisis of 2000 and with the highest percentage of the vulnerable in East Java, Nusa Tenggara Barat (NTB) and Nusa Tenggara Timur (NTT). The precarious livelihoods, food insecurity, underdevelopment and degradation of the resource base in these provinces were appropriate concerns for the project. PIDRA focused on livelihood improvements for the vulnerable through the livelihoods development component, which included extensive social mobilization.

3. EKLCEP: The East Kalimantan Local Communities Empowerment Programme was based on community empowerment through the development of strong self-reliant village-level institutions, both formal and traditional. Targeted local communities were responsible for defining the scope of programme activities at the village level to gain full ownership of the development process. Non-governmental organizations had the lead role in community empowerment activities given their comparative advantage in fostering effective participation, including poor households. The project never became effective because of lack of agreement on the modalities for IFAD fund flows from the national to the provincial level. Like other IFAD projects, the agricultural content of this project, as designed, was light.

4. READ: With its location in Central Sulawesi, READ includes many upland areas isolated with poor access and limited services. With low levels of agricultural productivity, the opportunities are there (only under one component) to improve livelihoods through the development of on-farm and off-farm enterprises. Central Sulawesi grows exportable agricultural products, such as cocoa, cloves, coffee, vanilla and pepper, but with inefficient marketing chains and hardly any value addition to the commodities produced, the unprocessed exports generate very low income. READ has been able to make positive progress with regard to the establishment of self-help groups (SHGs). In the absence of qualified community facilitators, there were concerns about the quality of the processes and hence the maturity of groups being formed. Even though part of the project was designed to deal with agriculture and value chains, during implementation the main focus of the project remained on social mobilization and financing community infrastructure. However, during the mid-term review (MTR) in December 2011, the project was restructured to give greater emphasis to agriculture productivity, value chains and adaptation to climate change.

5. PNPM: The National Programme for Community Empowerment is considered the Government's flagship national poverty reduction programme. It covers both the rural and urban parts of Indonesia. PNPM uses a community driven development approach, providing direct block grants to local communities at the subdistrict level

to finance an open menu of local development priorities in the rural areas (PNPM-Rural), primarily rural infrastructure, including some irrigation. This is funded by the Government and donors led by the World Bank. IFAD support to PNPM aims to reduce poverty and improve local-level governance in rural areas through the provision of investment resources to support productive proposals developed by communities, using a participatory planning process. Therefore, this represents the Government's long-term commitment to promoting greater participation of the rural population in rural development. IFAD is co-financing the PNPM project. About 85 per cent of IFAD funds are used for supporting community infrastructure under PNPM-Rural in Southern Sulawesi, and 15 per cent for technical assistance for agriculture under PNPM-Agriculture in Papua and West Papua. The funds for PNPM-Rural have been fully disbursed and about US$7.5 million under PNPM-Agriculture remains to be committed (out of US$10.22 million). It would be worthwhile for IFAD to supervise this project more aggressively and directly (given the past poor performance of supervision by the World Bank), and to further strengthen the agricultural content while also bringing in the agriculture ministry more directly into project activities, thereby gradually taking over the role now played by the Ministry of Home Affairs. The remaining funds could be properly used by restructuring the PNPM-Agriculture, even at this late stage, and monitoring impact closely on an annual basis. The main focus of PNPM-Agriculture is community facilitation, technical support for agriculture and village level government block grants to fund agricultural investments.

6. SOLID: The project has been designed to support poverty reduction and the development of smallholder-based farming systems in Maluku and North Maluku. Its implementation arrangements are aligned with the Government's decentralization processes, which support the improvement of service delivery at various institutional levels, thereby exploring the synergies between the implementation of various project elements and activities, including community development, agricultural productivity enhancement and value chain activities. Again, the project deals with social mobilization, community infrastructure and agriculture in that order of priority. However, the project is at a very early stage of implementation and it would be worthwhile to restructure it to ensure that agriculture productivity, value chains and adaptation to climate change are given the highest priority and allocated adequate resources.

7. CCDP: The poor coastal fishing communities, which lack many services such as infrastructure and access to markets, are indeed a vulnerable segment of the population in eastern Indonesia. The Coastal Community Development Project is expected to address these issues, while facilitating the integration of fishing communities in value chains and associated services in order to create employment and income. The project focuses on rural coastal communities in a large number of districts that are generally regarded as the poorest community groups in Indonesia. The project design is expected to link environmental, social and financial aspects of the development of fishing communities. Through the formation of the SHGs and savings mobilization, it is intended to finance income-generating activities.

Effectiveness

8. Savings and credit system. The Government considered P4K as one of the successful projects using the participatory approach. Under P4K, SHGs were established and strengthened to fast track credit delivery. The participatory rural appraisal methodology was used to identify poor household beneficiaries. The focus was on improving the quality of the validated SHGs through implementation of an empowerment plan. Moreover, membership in SHGs was expanded to increase the members' capital fund. P4K directly benefited about 650,000 poor families or about 3 million people (81 per cent of the 800,000 target) through capacity building, savings mobilization and access to credit from Bank Rakyat Indonesia. The project also facilitated the economic and social empowerment of poor women by facilitating

access to financial capital from formal credit institutions, group formation and capacity building on livelihoods development. Women made up about 60 per cent of the total membership in SHGs, which met the project's target. However, even in the case of P4K, sustainability of all the achievements has remained a major issue.

9. Among the subsequent projects, PIDRA, READ and SOLID have SHGs at the village level, PNPM has community groups, and CCDP envisages forming SHGs at the village level that will initiate savings and credit operations. However, READ faces several challenges, mainly due to design weaknesses and failure to provide village facilitators. The failure to engage non-governmental organizations (NGOs) for village facilitation for the first three critical years of implementation has aggravated this situation. As a result, the quality of implementation, linkages and achievements, in terms of community empowerment and organization, has been severely compromised. There has been limited inclusiveness in the pro-poor focus and gender mainstreaming, as well as inadequate village plans with an excessive focus on infrastructure and links to revolving funds and improvement of income for the poor mostly missing. In order to increase the focus on agricultural productivity and value addition, READ was restructured during the MTR in December 2011. In SOLID too, early social mobilization and group formation have been undertaken by agricultural extension officers rather than the NGOs, with potentially similar problems and challenges as READ.

10. Self-help groups and institution-building. Building village (micro empowerment) institutions has been a key feature of all seven projects. The target group beneficiaries are brought together into groups by NGOs or the extension staff of the respective district agriculture dinas. The facilitators play a critical role in identifying the poor and building institutional capacity. However, the outcomes of these institutions have varied from project to project.

11. P4K: The self-help development component of P4K strengthened the targeting procedures to reach poor households and enhance formation of beneficiaries into mutually compatible and relatively homogeneous social and income groups. This was achieved through an improved community selection procedure, rigorous application of a revised eligibility survey, and participatory group formation procedures. The project formed 66,500 SHGs, including groups from the earlier P4K project in the project areas. These accounted for 90 per cent of the 74,000 target SHGs. They played a role as savings and credit groups. At completion of P4K, there were 58,118 SHGs after the validation exercise, of which 44,945 SHGs (or 77 per cent) were still active. About 18,197 groups (31.3 per cent) consisted of women members only, 32,705 (56.3 per cent) had mixed membership, and the remaining 7,216 (12.4 per cent) were composed of male members only. The total number of SHG members was 646,681, composed of 255,709 men (39.54 per cent) and 390,972 women (60.46 per cent). Among the SHGs, 13,962 SHGs (24 per cent) have graduated, i.e. have either shown strong self-reliance or have already availed themselves of group loans from Bank Rakyat Indonesia (BRI). At the end of the project, 29,422 SHGs (51 per cent) formed 1,496 associations, while 1,018 SHGs merged to form 205 cooperatives. The newly established microfinance associations provided financial services to their members, such as savings mobilization and credit for economic and emergency purposes.

12. PIDRA: This was the first programme to involve NGOs as partners with government and village institutions. Under PIDRA, food security was achieved in project areas, not only through investment in agriculture, but also through other income-generating activities. As a result, the poor had livelihood strategies which comprised several small income-generating activities. The project, by providing SHGs with quick and cheap credit, helped the poor to increase income and reduce dependence on moneylenders. PIDRA achieved good results regarding SHG targets. By the end of the programme, it had facilitated and formed 2,384 SHGs. Of these, there were 1,112 women's groups (106 per cent of target), 1,076 men's groups

(96 per cent of target), 186 mixed groups (126 per cent of target) and 100 federations (100 per cent of target), of which 84 have registered as cooperative societies. In these organizations, a large number of women members were holding positions on the boards of the federations/cooperatives.

13. READ: The success of P4K and PIDRA was not replicated in READ. There was considerable confusion with regard to “groups” which READ formed. The initial design was not clear. What emerged during the implementation was that the revolving fund (RF) recipients were regarded as members of the so-called “READ groups”. In some villages, existing farmer groups served as the key entry point, and “poor” members within each farmers group were chosen as RF recipients. In a different model, villages created “READ groups” consisting of the poor. These groupings of RF recipients did not provide an effective pathway for the creation of genuine organizations of poor farmers. In other cases, using other criteria, they formed a few revolving fund groups based on the budget available. In some villages, they split the support between the farmer groups (which received technical training from the field extension workers) and revolving fund groups (which received the RF but with little or no training). Generally, individual recipients have used the RF for different livelihood activities, but there has been no real group cohesion, organizational structure or leadership. In some villages, these groupings of RF recipients were not permanent, with the RF lent to others once repaid. These groups received different, often uncoordinated support from READ. The project missed an opportunity to focus on farmer and enterprise groups as entry points for project interventions, utilizing the RF mechanism as a means to enhance their productive and marketing activities. Hence, READ did very little with regard to strengthening capacity, except for helping with temporary and unsustainable arrangements for RF recipients.

14. PNPM: At the time of the MTR in April 2012, PNPM-Rural in Southern Sulawesi had formed 305 groups in 75 villages. These groups are a new institutional modality devised to undertake some of the collective community empowerment activities under PNPM-Rural. These include a collective plantation of vegetables by the women, collective management of the animal and poultry sheds (made by some groups), and collective planting and maintenance of cocoa and nutmeg plantations, etc. The sustainability of these groups depends on the benefits they are able to generate for the members and the degree of social cohesion that facilitators can build. Most groups are still in the first production cycle and have not yet been able to obtain any benefits. Some groups have been formed as a basis for efficient training delivery with no long-term, group-based commercial intent. Facilitation is a notable PNPM weakness. These problems are even more serious in Papua and West Papua, where PNPM-Agriculture is being implemented. Institutional capacity is very weak and qualified facilitators are not readily available for group formation and training.

15. SOLID: This project is at an early stage of implementation but it appears to be making positive progress in establishing SHGs with well-focused targeting. To facilitate social mobilization, the project has used participatory rural appraisal, beneficiary selection using a participatory wealth ranking methodology, SHG and federation formation, and capacity-building for the beneficiaries in each of the target villages. The formation and capacity-building of the SHGs and federations has been done by government agriculture extension staff, as the contract for NGO facilitators has still not been established. In the absence of qualified community facilitators, there are concerns about the quality of the processes and hence the maturity of the groups being formed. Field observations during the CPE mission indicated a low level of effective beneficiary participation in several SHGs and low capacity improvement. If this is replicated across the wider project villages, then there are serious concerns about the viability and sustainability of the SHGs and

federations. Similarly, progress on improved agricultural productivity and value chain components is limited due to a lack of understanding about key concepts.

16. Livelihoods improvements of the poor. Perhaps the most successful livelihoods interventions have been the small investments made by SHG members taking a small step forward in an area where they have some experience or expertise.

17. P4K: Experience from P4K suggests that the SHGs have been raising livestock, running small shops, enlarging their product range and increasing their output of cottage products or trading. These household-based economic activities are an important income source for rural women and other vulnerable rural poor. In taking up these activities, SHG members leverage microcredit from group savings and technical services of project interventions, and these activities have contributed significantly to increased family incomes. P4K directly benefited about 650,000 poor families or 3 million people (81 per cent of 800,000 targeted) through capacity building, savings mobilization and access to credit from BRI.

18. PIDRA: A total of 22,446 microenterprises were established, of which 11,214 were by women and 12,721 by men. The majority were in East Java (11,940), followed by NTB (6,213) and NTT (4,293). In East Java, more women are engaged in microenterprises than men (52.29 per cent compared to 47.71 per cent), but in the other two provinces more men were engaged than women (53.15 per cent compared to 46.85 per cent). At project closing, the efficiency of the microenterprises was found to be low. This was due to the low quality of products, limited markets, lack of value addition, low technology usage, high labour input and the limited financial resources of participants. However, since the merger of the SHGs into federations and also into cooperatives, these issues have been addressed through state patronage, thereby indicating likely viability of such livelihood activities subject to continued state patronage.

19. PNPM: The project provides support to rural livelihoods improvement within the framework of PNPM. The project provides three types of support: community facilitation, agricultural technical support, and village-level block grants to fund agriculture investments. Unlike P4K, PIDRA and READ, PNPM-Agriculture has a specific focus on Papua and West Papua, with plans to be implemented in nine districts, 43 subdistricts and 215 villages. PNPM-Agriculture uses the PNPM management structure. The World Bank is supervising implementation. During field visits in Southern Sulawesi, the mission learned about serious issues facing the PNPM-Agriculture part of the project. Since PNPM-Rural has used almost 85 per cent of IFAD resources for community infrastructure, there is limited scope for its contribution to livelihood improvements for the poor. During the MTR in April 2012, some of the critical development issues were identified and action plans developed. However, only time will tell whether these issues are addressed or not on a timely basis. PNPM-Rural in Southern Sulawesi has focused on investments in community empowerment and community infrastructure that may or may not have direct implication for livelihoods.

20. Enhancement of social infrastructure. There has been marked progress with respect to the execution of investments in social infrastructure. This has been demonstrated by the use of labour, local materials and direct contracting of local artisans. The mission was informed by the officials and beneficiaries that the community infrastructures have been implemented with the same degree of quality and timeliness, but at lower cost than if done by more formal service providers and contractors. However, the country programme evaluation (CPE) mission also learned during field visits about quality problems related to community infrastructure, and also problems with operations and maintenance after the community infrastructure had been built.

21. PIDRA: This project completed a total of 463 kilometres of rural roads (88 per cent of target); 61 market centres (122 per cent of target); and water supply

systems, including the construction of 383 wells (72 per cent of target), 304 gravity/piping (43 per cent of target), and 561 water catchment ponds (135 per cent of target). Combined this provided drinking water to 44,892 households, and road access to markets and schools, and main roads to 100,549 households. The beneficiary contributions to these varied from 30 per cent for most infrastructure schemes, such as markets and renovation of buildings, and up to 40 per cent for roads and irrigation packages. This led to substantial savings in total costs. Along with these cost savings, the community infrastructure programme actually achieved a higher percentage of its projected output, with a good record of quality of construction and timeliness of completion.

22. READ: Up to the time of the MTR in December 2011, the total project expenditure for infrastructure was 70 per cent (13 per cent more than the target). However, the presence of a village engineer to assist the community in the preparation and construction works resulted in good design and construction of most infrastructure work. Most infrastructure supported by READ has been community-oriented, rather than related to agriculture or enterprise development. This shows that the design of this component was weak and failed to make a direct link with agriculture productivity improvements and value addition. This clearly demonstrated that even though agriculture was included in the design, actual investment allocated for agriculture was very small. It remained primarily a community infrastructure project. During the MTR, READ was restructured to strengthen the agricultural productivity and value chain aspects of the project. However, it remains to be seen whether this will actually happen on the ground during the remaining project period.

23. SOLID: Initial assessment of the perceived productive physical infrastructure in SOLID was carried out during 2011 and common priorities were identified. These included water supply/storage, sanitation facilities, access to farming areas and markets, pest and water-safe crop storage and drying facilities. These will be reviewed in light of the value chain studies that are expected to be completed during 2012; following the study, implementation of this component will be initiated. Since this project is relatively new, very little investment has actually been made. Again, this project appears to follow the READ model. Implementation capacity is very weak and there are clear preferences for investmenting in community infrastructure.

24. On-farm and off-farm development. Through the project portfolio, during project implementation the building of community infrastructure created increased income for local labour and provided local infrastructure for which there was a felt need. Since community infrastructure was also easier to implement, it was given priority by both the project authorities and beneficiaries. However this crowded out investments on enhancing agricultural productivity and off-farm enterprises. Limited impact was made by any of the projects related to on-farm and off-farm development and productivity enhancement.

25. Value-chain partnerships with the private sector. READ has successfully established collaboration with a private company (Mars) for the improvement of cocoa grown by the smallholders. The collaboration focuses on the training of extension workers on improved cocoa practices and technology transfer to farmers in selected pilot cocoa villages. The contribution from Mars includes facilitation, technical assistance, technology, training and cost-sharing of these activities. This is only one successful example and is replicable. Value chain development is still at an early stage in SOLID. Project authorities for SOLID had not yet contacted Mars when the CPE mission visited Maluku. The project supports the development of federations and their integration in value chains through the provision of financial, technical and management support, based on sound business plans. Links are developed between the federations and key value chain participants to provide incentives for farmers to produce higher quality products, to grade produce and

also, in some cases, good primary processing such as drying and storage. A start has been made in the case of cocoa production and sales where the farmers are being offered higher prices for their produce, thereby encouraging farmers to enter this higher value market chain.

Efficiency

26. Elapsed time between loan approval and effectiveness. The elapsed time between approval and effectiveness is summarized in table 1.

Table 1
Elapsed time between loan approval and effectiveness

No.	*Project*	*Type*	*Loan approval*	*Loan effectiveness*	*Elapsed time (months)*
1.	Income-Generating Project for Marginal Farmers and Landless – Phase III (P4K)	Credit	04 December 1997	09 July 1998	7
2.	Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA)	Rural	04 May 2000	31 January 2001	9
3.	East Kalimantan Local Communities Empowerment Programme (EKLCEP)	Rural	11 December 2002	06 May 2005	29
4.	Rural Empowerment and Agricultural Development Programme (READ) in Central Sulawesi	Rural	02 December 2004	18 November 2008	47
5.	National Programme for Community Empowerment (PNPM) in Rural Areas	Rural	11 September 2008	17 May 2009	8
6.	Smallholder Livelihood Development Project (SOLID) in Eastern Indonesia	Rural	11 May 2011	05 July 2011	2
7.	Coastal Community Development Project (CCDP)	Fisheries	21 September 2012	23 October 2012	1

Source: IFAD

27. In addition to delays in effectiveness, most projects experience delays in mobilization of full-time staff because of difficulties in establishing project management units, particularly in recruiting support staff. For example, the majority of staff recruited for key positions in district PMUs of SOLID have a dual role to play. The staff of SOLID PMU, who are drawn from the district agriculture dinas, serve 60 per cent of their official time for the project and the remaining 40 per cent is spent on district work. This situation is common to all district PMUs where 80 per cent of staff work on a part-time basis and 20 per cent are recruited on contract to serve full-time. Staffing arrangements and problems for READ are similar. Although this is not a very sound practice for project management and affects project performance, this could be viewed as a means to overcome the shortage of manpower prevailing in eastern Indonesia, where most of the ongoing IFAD project areas are located. Furthermore, certain critical skills are not readily available at the subnational levels, such as M&E and procurement. Another related problem is rapid turnover of staff in the project management units and therefore lack of continuity, especially after a particular staff has been trained.

28. Cost economies in social infrastructure. An important factor in the cost economies of social and community infrastructure project activities has been the community contribution, especially in the form of labour and local construction materials. In some cases, community contributions have been 10 per cent, while there are projects where these contributions have been 30 per cent or more. The analysis of available data for PIDRA, READ and PNPM indicates that these cost economies contained the expenditures to about 10-30 per cent of budgeted

amounts. Consequently, in some cases, the communities have been able to expand community infrastructure activities up to 40-50 per cent more than the projected outputs, with a good record of construction and timeliness of completion. In the case of PIDRA (table 2), the cost of building community infrastructure was much lower as compared to State estimates. However, one must keep in mind that the design and quality may not be identical in both cases.

Table 2
Operational efficiency of social infrastructure – comparison of costs under PIDRA with the state government cost estimates

No	Infrastructure	PIDRA (unit cost in Rp.)	State estimates (unit cost in Rp.)	% Increase in State over PIDRA
Timor Tengah District				
1.	Village market (6x8 meters)	25 000 000	240 000 000	860
2.	Pipes for drinking water supply (1 kilometre/km)	12 000 000	25 000 000	108
3.	Small irrigation (250 meters)	25 000 000	109 000 000	336
4.	Macadam road (1 km)	7 500 000	150 000 000	1 900
5.	Dug well (12 meters)	3 500 000	13 000 000	271
6.	Water reservoir (10x10 meters)	12 000 000	17 810 000	48
Dompu District				
1.	Village market (6x8 meters)	19 000 000	50 000 000	163
2.	Pipes for drinking water supply (1 km)	20 500 000	40 000 000	95
3.	Small irrigation & drainage	41 850 000	50 000 000	19
4.	Access road (1 km)	101 350 000	150 000 000	48
5.	Dug well (10 meters)	1 800 000	5 000 000	177
6.	Meeting hut	10 000 000	20 000 000	100
Tulungagung District				
1.	School building improvements	7 526 500	15 000 000	99
2.	Pipes for drinking water supply (1 km)	22 420 000	40 000 000	78
3.	Small irrigation (500 meters)	25 074 000	40 000 000	59
4.	Macadam road (1 km)	108 922 500	150 000 000	37
5.	Dug well with storage	7 800 000	15 000 000	92
6.	Sanitation facilities (1 unit)	4 696 000	20 000 000	325

Source: IFAD

29. The cost estimates for community infrastructure under READ and non-READ projects are shown in table 3. The analysis shows considerable savings for some of the social infrastructure activities undertaken by READ, primarily due to community contributions, and use of local labour and building materials. Again, the design and quality of construction may not be identical in both cases.

Table 3
Operational efficiency of social infrastructure – costs under READ project in Central Sulawesi

					2009-2011			Total savings (000 Rp.) per item
			Physical		Unit cost (Rp.)			
Activity	*Item*	*Target*	*Achieved*	*%*	*READ*	*Non-READ*	*Savings*	
Village road	New construction (metre)	64 269	66 765	104	60 000	80 000	20 000	1 335 300
Village road	Rehabilitation (metre)	86 657	110 352	127	60 000	80 000	20 000	2 207 040
Small irrigation	New construction (metre)	1 000	1 000	100	100 000	300 000	200 000	200 000
Drainage	New construction (metre)	1 080	1 200	111	100 000	300 000	200 000	240 000
Water & sanitation	New construction (1 unit)	141	135	96	1 000 000	2 200 000	1 200 000	162 000
	Drinking water (metre)	5 024	5 024	100	100 000	250 000	150 000	753 600
Small bridges	New construction (1 unit)	76	73	96	1 850 000	2 500 000	650 000	47 450
Culverts	New construction (1 unit)	35	36	103	300 000	450 000	150 000	5 400
Farm to market road	New construction (metre)	1 974	14 756	106	60 000	80 000	20 000	295 120

Source: M&E Unit District Parigi Mouthong

30. The operations and maintenance (O&M) for community infrastructure has remained an issue in all IFAD-funded projects. In the case of PIDRA, institutional arrangements were still being made to set up maintenance funds when the project closed. READ, where project funds for infrastructure development have been used, does not have a satisfactory arrangement for O&M. The cases of positive arrangements for maintenance can be attributed to the high degree of awareness achieved due to social empowerment of the beneficiaries (facilitated by NGOs) who have acquired ownership of such activities. In cases where the social mobilization and community empowerment (e.g. SOLID and PNPM) have been undertaken by state extension officers, there has been much less emphasis on O&M.

31. Project management costs. The project management costs for selected projects are summarized in table 4.

Table 4
Management costs (US$000)

No.	*Project*	*PMU costs at appraisal*	*PMU costs at PCR*	*Variance*
1	Income-Generating Project for Marginal Farmers and Landless – Phase III (P4K)	13 900	12 253	-1 647
2	Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA)	6 036	7 578	+1 542
3	East Kalimantan Local Communities Empowerment Programme (EKLCEP)	693	-	-
4	Rural Empowerment and Agricultural Development Programme (READ) in Central Sulawesi	6 320	1 110 (at MTR)	- 5 210
5	National Programme for Community Empowerment (PNPM) in Rural Areas	PMU funded by World Bank	-	-
6	Smallholder Livelihood Development Project (SOLID) in Eastern Indonesia	15 935	-	-
7	Coastal Community Development Project (CCDP)	16 000	-	-

Source: IFAD

32. Cost per beneficiary household. The estimated costs per beneficiary household for individual projects in the IFAD portfolio are summarized in table 5.

Table 5
Cost per beneficiary household

No.	*Project*	*Total cost (US$M)*	*Total direct beneficiary households*	*Cost per beneficiary household (US$)*
1	Income-Generating Project for Marginal Farmers and Landless – Phase III (P4K)	81.57	646 681	126 (actual)
2	Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA)	28.70	41 108	698 (actual)
3	East Kalimantan Local Communities Empowerment Programme (EKLCEP)	26.50	157 950	167 (estimate)
4	Rural Empowerment and Agricultural Development Programme (READ) in Central Sulawesi	28.30	48 500	583 (estimate)
5	National Programme for Community Empowerment (PNPM) in Rural Areas	68.53	31 800 000	2.15 (estimate)
6	Smallholder Livelihood Development Project (SOLID) in Eastern Indonesia	70.00	49 500	1 414 (estimate)
7	Coastal Community Development Project (CCDP)	43.24	70 000	618 (estimate)

Source: IFAD

33. Disbursements by IFAD. Timely disbursement is important to avoid any delays in payment of expenditures by the PIUs and hence avoid delays in project implementation. IFAD took, on average, 15 days upon receipt of the original withdrawal application at IFAD and the transfer of funds to the relevant account. IFAD also proposed the following arrangements to further expedite the replenishment process for projects in Indonesia: (1) Send via email a copy of the withdrawal application with full documentation to the concerned officer in IFAD. The payment will be executed only upon submission of original withdrawal application. This approach will allow time to examine the documents and resolve any issues

prior to receipt of original application with full documentation. (2) Strengthen the financial capacity at the planned IFAD country office in Indonesia for the pre-review of withdrawal applications, and liaising directly with projects for any additional information prior to sending the withdrawal application to IFAD in Rome. (3) Use more efficient international courier service to ensure that the withdrawal application is received by IFAD in 2-3 days, instead of the 30 days that it sometimes takes now. (4) Request IFAD to increase the threshold for Statements of Expenditure to US$100,000 (already done and implemented). The implementation of these four recommendations by the PIUs in Indonesia will contribute to expediting the replenishment of funds and reduce the time that it takes to complete the replenishment process.

B. Rural poverty impact

Household income and assets

34. P4K: This project enabled the poor beneficiaries to gain access to financial services (both loans and savings). In most cases, beneficiaries had never gone to a bank nor received a loan prior to project implementation, except from traditional moneylenders. Data from BRI also show that some SHGs, with good repayment performance during the project implementation period, were able to access commercial loans. As of June 2006, 287 SHGs and 370 individual SHG members availed of loans under commercial terms from BRI amounting to Rp.11 billion.

35. PIDRA: Under this project, the total common fund of the SHGs was Rp.22.09 billion; of this amount, the savings totalled Rp.4.3 billion and the interest earned on loans to group members (which was added to the groups' common fund) totalled Rp.3.7 billion. The profit from group income-generating activities, which was used as capital for lending, totalled Rp.8.5 billion. Savings, interest, profit from income-generating activities, loans from banks and grants from the Government totalled approximately Rp.17.65 billion, which represents the total capital raised by the SHGs. With this capital (and the matching grants from the project amounting to Rp.2.7 billion), they advanced loans amounting to Rp.137.23 billion. This can be considered an important injection of economic resources in the local economies and a well-accepted measure for increased household income of the PIDRA beneficiaries. However, there were serious issues with respect to the sustainability of these economic and credit activities.

Human and social capital and empowerment

36. P4K: One of the significant impacts of P4K was the creation of a culture of group activity and collective responsibility. More than 60 per cent of the members of SHGs were women and their bankability was another important factor. The livelihood activities of the groups supported the cohesion of the community, while at the same time enhanced access to financial services that fostered entrepreneurship and healthy competition among community members.

37. PIDRA: The most important impact of PIDRA has been on the formation of SHGs, the village infrastructure development associations in Phase I and subsequently the village development associations, and promoting the participation of women in formal and informal organizations. A total of 2,384 SHGs with over 42,000 members formed under the concept of "affinity" among members. A total of 235 federations/cooperatives formed, constituting an important instrument for marketing, savings and lending.

Food security and agricultural productivity

38. P4K: The majority of the P4K beneficiaries owned little or no land, and were therefore purchasing their food rather than producing it for their own consumption. The additional income generated by SHG members from their microlivelihood enterprises were mostly used to defray costs for their household food expenses. The project also reduced poverty incidence among SHG member households. The

proportion of poor SHG member households decreased from 22.5 per cent in 2002 to 15.7 per cent in 2005.

39. PIDRA: At project completion, between 71 and 87 per cent of the respondents reported an increase in income from agriculture and livestock. All the respondents reported improved marketing of their produce and increased food security. Between 33 and 82 per cent of the respondents reported an increase of cultivable area. According to the 2008 IFAD supervision report, 4,888 families reported having access to land. A total of Rp.40.5 billion of SHG loans were directed to agriculture. The total area in which crops were intensified or diversified was 23,445 hectares. There were 14,000 farmers involved in adaptive trials and 34,000 adopted organic farming practices. PIDRA trained village-level veterinarians who operate on a fee-for-service basis. Despite the problems encountered in their graduation as viable service providers, this can be considered an important contribution of PIDRA to agricultural development.

Natural resources and environment

40. P4K: The provision of financial services in this project to the poor rural villages supports income and employment generation, which in turn mitigate the pressure on the environment and resource base. However, the project did not directly contribute to protecting or rehabilitating the natural resource base or the environment; nor did it contribute to resource depletion. Most of the livelihood activities of the groups were further up in value chain (i.e. processing of agricultural produce and retail marketing), with the exception of some small-scale horticulture and related activities.

PIDRA: Protection of natural resources and the environment (including adaptation to climate change) received a prominent place in PIDRA. There was a block allocation of US$3 million for these activities. The impact was measured by using two indicators: the number of focus group respondents who practiced land conservation methods, and those that reported use of organic fertilizers. As reported in the 2008 IFAD supervision report, initiatives taken by SHGs, often with the support of the village development associations and local government, resulted in better management of several vulnerable areas, like traditional springs and fields on high slopes. There was also a recorded decrease in the area under shifting cultivation. The formulation of natural resource management plans by communities was an indication of an increased awareness of natural resources and the environment.

Institution and policies

41. P4K: This project had a positive impact in terms of strengthening the capacity of the Agency for Agricultural Human Resource Development in the Ministry of Agriculture, BRI, local dinas and district governments to service the rural poor. At the start of project implementation, the methodology was largely determined by the implementing agencies, which involved little or no participation from the direct beneficiaries. However, the participatory rural appraisal methodology introduced midstream in the project enabled them to develop skills in participatory strategies and bottom-up approaches in planning and implementation that could be applied to other projects as well. BRI was also able to develop innovative financial products for the poor as a result of the project.

42. PIDRA: The 2008 IFAD supervision report noted that the NGOs which cooperated with PIDRA agreed to remain in the project area. This was an important institutional change that PIDRA helped to achieve. However, according to the same report, the linkage of the programme with the private sector remained an “unresolved issue”; likewise, PIDRA lacked a strategy for linkages with financial institutions and banks. These issues were missed opportunities for the project to generate a change in the institutional setting in the project areas.

C. Other evaluation criteria

Sustainability

43. P4K: Immediately after the closure of P4K, in districts with high repayment performance, BRI entered into Memorandums of Understanding with the district governments (e.g. Cirebon, West Java) to continue credit services to the SHGs through revolving the credit funds. Five years after project closure, BRI data reveal that 4,357 SHGs from P4K have availed themselves of loans from BRI from its various credit programmes, including group lending, individual lending and lending on commercial terms, amounting to Rp.55.67 billion. The capacity of AHRRD, BRI and district governments to execute and implement the project was enhanced. Their skills in participatory strategies and bottom-up approaches in planning and implementation are transferable across development programmes. Moreover, BRI was able to develop innovative financial products for the poor as a result of the project. BRI data indicate that SHGs that demonstrated good repayment performance during project implementation have accessed commercial loan products.

44. PIDRA: The Food Security Agency of the Ministry of Agriculture shows that a large number of SHGs (more than 50 per cent) of PIDRA have formed into federations and thereafter registered with the Cooperative Department as cooperatives. This happened in East Java (e.g. District Lumajang), NTB and NTT. These cooperatives continue to receive state assistance. Thus, the creation of effective institutions such as cooperatives has contributed to sustainability of some of PIDRA activities.

Innovation and scaling up

45. P4K: In February 2008, one year after the closure of P4K, BRI started implementing the KUR microcredit programme of the bank, which extended a maximum loan to individuals amounting to Rp. 5 million at an interest rate of 1.125 per cent per month without collateral. This is a pro-poor innovation of P4K, where the clientele is marginal farmers with lack of fixed assets. However, in the absence of a microfinance policy for Indonesia, it is doubtful whether the Government has learned key lessons from the P4K experience in order to replicate or scale up this experience.

    PIDRA: The experience of PIDRA has found a place in a national programme: Village Food Sufficiency Programme commenced in 2007 and is being implemented by the Food Security Agency of the Ministry of Agriculture in 24 provinces, 250 districts and 1,500 villages. Each village is allocated a sum of Rp.50 million. Under the direction of the district Bupatis, NGOs facilitate the capacities of the state extension officers who in turn are responsible for the formation of the community-based organizations among the villagers. After three years of extensive agriculture development in one village, another village is adopted. This is a clear example of scaling up one concept of PIDRA into an ongoing national programme of the Ministry of Agriculture. In special instances, such as in NTT, there are other donors: e.g., AusAID and USAID are continuing some aspects of the SHG model in village development.

Monitoring and evaluation

1. Monitoring and evaluation (M&E) is an area in need of significant improvement across the Indonesia country programme. Overall, there has not been enough attention to M&E by IFAD, both for project and programme management, and knowledge sharing purposes. The data from the M&E systems need to be used to arrive at important management and policy decisions, which are lacking in the portfolio. Focus seems to be on monitoring, with very little attention to evaluations and the feedback loops that are necessary to learn from experience and continuously improve performance and results.

2. At the project level, the M&E system is generally weak and confined to monitoring and measurement of physical and financial progress only. Across the portfolio, there is a lack of systematic and rigorous approaches to measure impact. M&E is being used as an instrument to fulfil the requirement of producing monthly, biannual and annual reports for both the Government and IFAD. These contain self-help group related developments, number of infrastructure items built, together with financial progress. Although the closed projects (P4K and PIDRA) used specified formats for the collection of data, there is no systematic mechanism for data collection from the village up to the central level. The data thus collected are merely sent up simultaneously to the provincial and national levels for compilation to produce the reports (e.g. in the case of READ), and the projects therefore lose an opportunity of scrutinizing their own data for analysis. The M&E systems in some instances are overdesigned, too complicated and therefore underimplemented. There is little evidence of planning for strategic M&E, including better alignment with the IFAD Results and Impact Management System.

3. Baseline and RIMS surveys have not been undertaken on a timely basis for all projects. In the case of READ, baseline surveys were only undertaken at the mid-term review, and for SOLID, which became effective in mid-2011, the baseline survey has not been undertaken yet. For PNPM-Agriculture, a quantitative survey and qualitative study were to be undertaken in 2009 to provide a baseline for IFAD financed activities in Papua and West Papua, with repeat surveys and studies at mid-term (2012) and at project completion in 2015, but in reality this baseline has still not been undertaken. Non-compliance with timely RIMS surveys undermines the possibility of tracking improvements in areas such as child malnutrition, food security, etc., within a specific timespan.

4. At country programme level, the 2008 country strategic opportunities programme (COSOP) includes a results management framework for each of the three COSOP strategic objectives. The indicators are divided into “milestones for progress” (at output levels such as number of groups formed, number of infrastructure units, number of people trained, etc.) and “outcomes which COSOP seeks to influence”. The RMF indicates that “baselines will be refined following COSOP review and during design of the new projects, as part of efforts to improve M&E system”, and that “targets and indicators will be refined when the pipeline projects are designed”, raising questions about the usefulness of the RMF in the COSOP. The mid-term review has made an effort to track progress towards the milestone indicators based on data collected from the projects.

5. There is an ongoing IFAD regional grant, “Asian Project Management Support Programme” , implemented by the Asian Institute of Technology in Bangkok, covering five countries including Indonesia. The programme aims to improve management of the participating rural development projects including, inter alia, effective planning, implementation and M&E. This is an opportunity for capacity-building for the project implementers to support effective management of the projects.

Operational efficiency of programme management

1. Portfolio operations. A review of IFAD expenditures on the Indonesia country programme from 2008 to date points to the need for further rationalization of the budget. While key expenditure categories such as project design (including start-up costs), supervision and implementation support are not too far out of line with IFAD coefficient norms, there is scope for efficiency gains and addressing some key gaps (table 1). Over the 2008-2012 period (using projected data for 2012), two new projects (PNPM and SOLID) became effective, and the Coastal Community Development Project (CCDP) has been approved recently. The average project preparation cost of about US$290,000 per project for these three projects compares to a coefficient norm of about US$250,000. Given that PNPM is a co-financing operation as part of a larger World Bank-supported programme, and CCDP is projected to cost about US$330,000 to prepare, there could have been further savings. Again, supervision costs of about US$62,000 per project per year are somewhat higher than the coefficient of US$50,000. In any case, there is substantial scope to improve supervision and implementation support. For example, there seems to be scope for greater cost efficiencies of admittedly complex and remotely located projects, through combining supervision missions for several projects by fewer teams with the adequate skill mix.

Table 1
Indonesia country programme expenditures 2008-2012 (US$)

Budget/expenditure Items	*2008 Actual*	*2009 Actual*	*2010 Actual*	*2011 Actual*	*2012 Projected*	*2008 – 2012*
Country programme management	22 390	21 212	35 859	151 603	18 364	249 427
of which, non-lending activities	0	0	0	10 266	0	10 266
Project design	96 251	43 045	229 393	324 642	180 519	873 851
Supervision and implementation support	66 030	124 904	144 178	109 678	268 195	712 985
TOTAL	184 671	189 161	409 429	585 923	467 078	1 836 262

Source*:* IFAD

Note: These figures do not include the staff cost of the country programme manager.

2. Non-lending activities. Furthermore, expenditures for country strategic opportunities programme (COSOP) follow-up activities and the critical task of regularly monitoring and managing the results framework are sporadic (zero for all years except in 2011). Key COSOP plans, such as non-lending activities (including policy dialogue), are unfunded and are glaring gaps. There are no expenditures for synthesizing analytical findings for underpinning IFAD projects in the country and improving the quality of design. There are also no resources for gathering, synthesizing, analysing and disseminating the critical elements of best practice, cross-fertilization, innovation and scaling up among IFAD projects. Overall, the expenditure levels have been inadequate given the many unfunded categories (e.g. COSOP monitoring, non-lending actovotoes), and the complexities and spatially scattered location of projects (e.g. supervision effectiveness). Going forward, the planned decentralization of country programme management activities to the field will call for additional resources in terms of logistics, office facilities and staffing.

3. IFAD staffing resources. As part of the country programme evaluation (CPE) process, it became clear that the country programme manager (is primarily responsible for delivery of the overall IFAD programme in Indonesia, under the general supervision of the Regional Director for Asia and Pacific Division. These responsibilities include COSOP preparation, monitoring and mid-term review; development and implementation of non-lending activities (policy dialogue, knowledge management, partnership-building and grants management);

preparation of the lending programme, including design and start-up; and, project supervision and implementation support. The country programme manager (CPM) is supported by IFAD staff from headquarters and a liaison consultant in Jakarta. Given the complexity and size of the programme, staffing resources were not adequate for delivering high quality non-lending activities, lending portfolio and adequately monitored COSOP implementation.

4. IFAD plans to decentralize the programme in Indonesia are timely. It is safe to conclude that IFAD spends considerably more than US$2 million on staff, consultants, travel, subsistence and other expenses on its five-year Indonesia programme. This is not a large allocation and should be raised, but it could also be used more cost-effectively if a Jakarta-based IFAD team is established for Indonesia with a CPM, agriculture specialist from headquarters and local operations officer as its core staff, supported by an office manager and minimum office staff. Local and international consultants could be mobilized for lending and non-lending work, as needed, within the allocated budget and through IFAD grants. The IFAD budget could be supplemented by using appropriate trust funds. If decentralization is to work well, devolution of power has to be matched by increased accountability and also incentive. Implementation of IFAD decentralization is critical for the success of the IFAD programme, and should be expedited without ignoring the critical skills required in a country office to manage the programme.

5. IFAD staff travel. Based on the travel information (summarized in table 2) from 2005 to 2012, the following three observations are appropriate: (i) There is no record of travel by the Regional Director to Indonesia after mid-2008; (ii) There was only one mission in 2005, and only two missions each in 2009 and 2010 by the CPM; (iii) There has been adequate travel to Indonesia in 2011 and 2012 (thus far). The most critical periods for design and implementation of the country programme in Indonesia were post-2004 CPE (2005), when the recommendations of the CPE should have been implemented, and the project portfolio needed management attention (P4K, PIDRA, EKLCEP and READ); and, 2010 and 2011, when the portfolio performance deteriorated and the two projects under implementation at that time (READ and PNPM) became “problem projects”.

Table 2
Actual travel by IFAD country management to Indonesia, 2005-2012

Title	*Dates*	*Countries*
Director	13/05/06 to 01/06/06	Indonesia, Bhutan and Tokyo
	20/11/06 to 20/12/06	Laos, Cambodia and Indonesia
	28/10/07 to 23/11/07	Thailand, Indonesia and the Philippines
	06/06/08 to 29/06/08	Indonesia and the Philippines
Associate CPM	20/01/05 to 10/02/05	Indonesia
CPM1	14/05/06 to 02/06/06	Indonesia and Cambodia
	25/10/06 to 16/11.06	Laos and Indonesia
	04/12/06 to 21/12/06	Cambodia and Indonesia
	28/01/07 to 11/02/07	Indonesia and Cambodia
	23/04/07 to 06/05/07	Indonesia and Cambodia
	11/07/07 to 03/08/07	Indonesia and Cambodia
	27/08/07 to 02/09/07	Indonesia
	29/02/08 to 07/03/08	Indonesia
	06/05/08 to 01/06/08	Indonesia and Cambodia
	06/06/08 to 20/06/08	Indonesia and Cambodia
	22/06/09 to 03/07/09	Indonesia and Cambodia
	09/11/09 to 13/12/09	Indonesia
	26/04/10 to 21/05/10	Myanmar, Indonesia and Cambodia
	24/10/10 to 24/11/10	Indonesia and China
	27/02/11 to 04/03/11	Indonesia (hand over mission)
CPM2	27/02/11 to 06/03/11	Indonesia (hand over mission)
	30/04/11 to 05/05/11	Indonesia
	23/05/11 to 08/06/11	Indonesia and Timor Leste
	03/07/11 to 17/07/11	Indonesia and Timor Leste
	11/09/11 to 23/09/11	Indonesia and Tonga
	12/10/11 to 22/10/11	Indonesia
	05/11/11 to 19/11/11	Indonesia and Solomon Islands
	15/03/12 to 25/03/12	Tonga and Indonesia
	06/05/12 to 17/05/12	Indonesia and Timor Leste
	12/06/12 to 24/06/12	Indonesia and Thailand

Source: IFAD travel records

Self-assessments

1. The negative observations on the performance of IFAD country programme management are reinforced by the self-assessments done by both the Government and IFAD. The summary of response ratings are provided in tables 1 and 2.

Table 1
Government self-assessment

		Response (%)			
Programme aspect	*Number of questions*	3 Moderately unsatisfactory	4 Moderately satisfactory	5 Satisfactory	Total
COSOP 2008	25	24	36	40	100
Lending portfolio	33	43	36	21	100
Non-lending activities	19	47	37	16	100
Country programme management	5	100	0	0	100

Table 2
IFAD self-assessment

		Response (%)						
Programme aspect	*Number of questions*	1 (HU)	2 (U)	3 (MU)	4 (MS)	5 (S)	6 (HS)	Total
COSOP 2008	25	4	4	44	40	4	4	100
Lending portfolio	33	6	18	36	31	9	..	100
Non-lending activities	20	10	25	50	5	5	5	100
Country programme management	5	20	60	20	..	..		100

Notes: HU: Highly unsatisfactory; U: Unsatisfactory; MU: Moderately unsatisfactory; MS: Moderately satisfactory; S: Satisfactory; HS: Highly satisfactory.

Other assessments

2. Client survey. IFAD carried out a client survey in 2010 for Indonesia. Clients included government agencies, partner organizations, civil society and the private sector, with an overall response rate at a low 22 per cent. In terms of results, the ratings were below the averages for the Asia and Pacific region and IFAD survey countries. There was a follow-up client survey in July 2012 for 37 countries, including Indonesia. The survey questions dealt with three categories: (i) Aid effectiveness, including country ownership, alignment and harmonization; (ii) Impact on income, food security and empowerment; (iii) National policy dialogue and participation. The overall results were again disappointing. The ratings for Indonesia were among the lowest 5 out of the 37 countries for all categories. Clearly, there is a need for proactive involvement by IFAD to improve its image in Indonesia as the leading international institution serving agriculture-related problems; improve the public and institutional awareness about the relevance and effectiveness of IFAD activities in the country; increase IFAD programme contribution to farm income and food security in Indonesia; and, strengthen the alignment and harmonization of IFAD's programme with the agricultural development priorities and programmes of the Government and development partners. IFAD needs to strive to be a better partner with more effective engagement.

Table 3
Client survey for Indonesia, 2012

Categories	*Indonesia*	*Asia and Pacific Region average*	*Overall 37 country average*
Aid effectiveness			
Country ownership	4.59	5.07	5.03
Alignment	4.65	5.25	5.28
Harmonization	4.11	4.67	4.72
Average	4.45	5.00	5.01
Impact on			
Income	4.44	5.05	5.09
Food security	4.95	5.09	4.99
Empowerment	4.56	5.03	5.00
Average	4.65	5.06	5.03
National policy			
Policy dialogue	4.22	n.a.	4.68
Participation	4.40	n.a.	4.74
Average	4.31	n.a.	4.71
Status	Among lowest five countries out of 37		

Notes: Client survey ratings: 4: Moderately satisfactory; 5: Satisfactory.
Source: IFAD (2012b).

3. Multilateral organization performance assessment network (MOPAN). MOPAN consists of 16 donor countries and it carried out an assessment for IFAD in 2010 (MOPAN 2010). It was based on (i) Perception survey of MOPAN members and clients, and (ii) Review of documentation. IFAD was assessed at the institution level, as well as at the country level. A total of 10 developing countries from Asia, Africa and Latin America were included in the assessment. Indonesia was one of the 10 survey countries. The assessment dealt with performance of IFAD on key performance indicators in four areas: strategic management, operational management, relationship management and knowledge management. A total of 161 respondents were part of the survey, including 31 country-based donors, 46 headquarters-based donors and 84 clients in the countries. For Indonesia, the sample was very small. None of the country-based donors responded. Even though 20 clients were invited to complete the survey, only eight clients responded. Clearly, the sample for Indonesia was too small to generate robust and useful results. IFAD documentation review assessment was based only on five countries, including Indonesia. This was the first time that IFAD was assessed by MOPAN.

At the institution level, the results were summarized as follows: “survey respondents considered IFAD’s strength overall to be its clear sector focus and expertise within agricultural development”. On the other hand, “areas for IFAD improvement included its bureaucratic processes and procedures, lack of presence in the field, cooperation and coordination with other development actors, and monitoring and evaluation practices”. At the country level (Indonesia), the results were summarized as follows: “perceived strengths are participation in joint missions, consultation with beneficiaries to develop expected results, promotion of the principles of good governance, respecting the views of the clients, and monitoring of key clients and beneficiaries in monitoring and evaluation functions”. Areas for improvement included “deployment of international staff in country office for sufficient time to maintain effective partnerships at country level”.