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**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
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**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

**REPUBLIC OF INDONESIA**

FOR THE

**POST-CRISIS PROGRAMME FOR PARTICIPATORY INTEGRATED  
DEVELOPMENT IN RAINFED AREAS**

## TABLE OF CONTENTS

<b>CURRENCY EQUIVALENTS</b>	<b>iii</b>
<b>WEIGHTS AND MEASURES</b>	<b>iii</b>
<b>ABBREVIATIONS AND ACRONYMS</b>	<b>iii</b>
<b>MAPS OF THE PROGRAMME AREA</b>	<b>iv</b>
<b>LOAN SUMMARY</b>	<b>vii</b>
<b>PROGRAMME BRIEF</b>	<b>viii</b>
<b>PART I THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY</b>	<b>1</b>
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	2
C. IFAD's Strategy for Collaboration with Indonesia	2
<b>PART II THE PROGRAMME</b>	<b>4</b>
A. Programme Area and Target Group	4
B. Objectives and Scope	4
C. Components	5
D. Costs and Financing	7
E. Procurement, Disbursement, Accounts and Audit	9
F. Organization and Management	10
G. Economic Justification	11
H. Risks	12
I. Environmental Impact	12
J. Innovative Features	12
<b>PART III LEGAL INSTRUMENTS AND AUTHORITY</b>	<b>13</b>
<b>PART IV RECOMMENDATION</b>	<b>13</b>
<b>ANNEX</b>	
<b>SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE     NEGOTIATED LOAN AGREEMENT</b>	<b>15</b>



**APPENDIXES**

<b>I.</b>	<b>COUNTRY DATA</b>	<b>1</b>
<b>II.</b>	<b>PREVIOUS IFAD LOANS TO INDONESIA</b>	<b>2</b>
<b>III.</b>	<b>LOGICAL FRAMEWORK</b>	<b>3</b>
<b>IV.</b>	<b>EXPENDITURE ACCOUNTS BY COMPONENT</b>	<b>7</b>
<b>V.</b>	<b>ORGANIZATION AND MANAGEMENT</b>	<b>8</b>
<b>VI.</b>	<b>FINANCIAL AND ECONOMIC ANALYSIS</b>	<b>12</b>

### CURRENCY EQUIVALENTS

Currency Unit	=	Indonesia Rupiah (IDR)
USD 1.00	=	IDR 7 500
IDR 1.00	=	USD 0.0003

### WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

### ABBREVIATIONS AND ACRONYMS

AsDB	Asian Development Bank
AWPB	Annual work plan and budget
BIMAS	Mass Guidance for Agricultural Production
EJRAP	East Java Rainfed Agriculture Project
ICRAF	International Centre for Research in Agroforestry
IDT	Presidential Programme
M&E	Monitoring and evaluation
NGOs	Non-governmental organizations
NTB	Nusa Tenggara Barat
NTT	Nusa Tenggara Timur
P4K	Income-Generating Project for Marginal Farmers and Landless (Pembinaan Peningkatan Pendapatan Petani Kecil)
PIDRA	Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas
PM&E	Participatory monitoring and evaluation
PPK	Subdistrict development programme
PPLs	Agricultural extension officers
PRA	Participatory rapid appraisal
SSN	Social safety net
UNOPS	United Nations Office for Project Services
VADPs	Village area development plans
VSHGs	Village self-help groups

### GOVERNMENT OF THE REPUBLIC OF INDONESIA

#### Fiscal Year

1 April - 31 December  
 (1 January – 31 December from 2001)

## MAPS OF THE PROGRAMME AREAS

### INDONESIA

#### EAST JAVA

Programme for Participatory Integrated Development in Rainfed Areas



Source: IFAD

*The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.*



# INDONESIA

NUSA TENGGARA TIMUR  
Programme for Participatory Integrated Development in Rainfed Areas



Source: IFAD

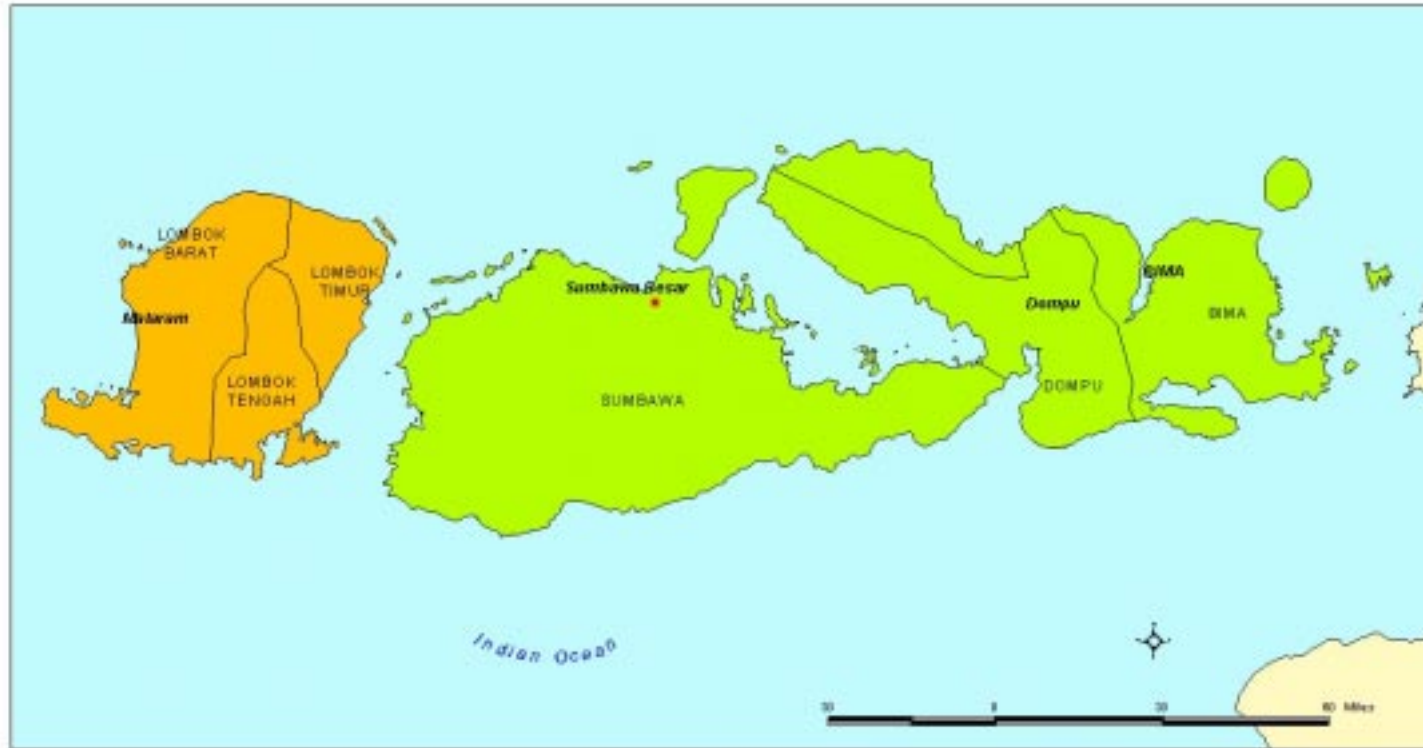
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# INDONESIA

## NUSA TENGGARA BARAT

Programme for Participatory Integrated Development in Rainfed Areas



Source: IFAD

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**REPUBLIC OF INDONESIA**

**POST-CRISIS PROGRAMME FOR PARTICIPATORY INTEGRATED  
DEVELOPMENT IN RAINFED AREAS**

**LOAN SUMMARY**

<b>INITIATING INSTITUTION:</b>	IFAD
<b>BORROWER:</b>	Republic of Indonesia
<b>EXECUTING AGENCY:</b>	Ministry of Agriculture/Mass Guidance for Agricultural Production (BIMAS)
<b>TOTAL PROGRAMME COST:</b>	USD 27.4 million
<b>AMOUNT OF IFAD LOAN:</b>	SDR 17.5 million (equivalent to approximately USD 23.5 million)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIERS:</b>	None
<b>CONTRIBUTION OF BORROWER:</b>	USD 3.2 million
<b>CONTRIBUTION OF BENEFICIARIES:</b>	USD 0.7 million
<b>APPRAISING INSTITUTION:</b>	IFAD
<b>COOPERATING INSTITUTION:</b>	United Nations Office for Project Services (UNOPS)





## PROGRAMME BRIEF

**Target group and programme area.** The eight-year programme aims to reach about 100 000 poor families (nearly half a million people), or 20% of the inhabitants living in the 500 poorest villages in the provinces of East Java, Nusa Tenggara Barat (NTB) and Nusa Tenggara Timur (NTT). In each province, several districts have been selected on the basis of the incidence of poverty and their dependence on rainfed agriculture (over 75% of the cultivated area being upland).

**Programme objectives.** The programme goal is to increase the incomes and food production and improve in a sustainable way the living conditions of 100 000 low-income households in the programme area. This will be achieved by: (i) setting up new or strengthening existing farmer and women village self-help groups (VSHGs), rendering them sustainable and self-reliant; (ii) promoting the conservation and improvement of natural resources; and (iii) improving village infrastructure.

**Programme description.** Programme implementation will be decentralized with management responsibility at the district level, and coordination responsibility at the provincial and national levels. The programme will apply a participatory approach. After an initial participatory analysis of constraints and priorities through participatory rapid appraisal (PRA), VSHGs will be formed; a farmers' group, consisting of both men and women, will focus their activities on on-farm soil conservation. Women's groups, in turn, will focus on off-farm, income-generating activities. The VSHGs will build local capital through their own savings and matching grants and will also receive training in group management, including participatory monitoring and evaluation (PM&E). All these activities will be included in the community and gender development component, executed by a joint team of village-based agricultural extension officers (PPLs) and non-governmental organization (NGO) facilitators. An agriculture and livestock development component will support the expressed agricultural development priorities. Attention will be given to productive and replicable systems of on-farm land improvement, including alley cropping and hedgerows. In meeting the high demand for improvements in community infrastructure, the programme will provide support in road improvement, drinking water supply and market facilities through the village infrastructure and land-management component. In addition, microwatershed soil conservation will be included. A component for institutional support and programme management will ensure that governmental implementing and management agencies will have appropriate resources to carry out their respective responsibilities.

**Benefits.** To reach the target of 100 000 low-income households, the programme will use a participatory approach and leave the actual choice of the activity mix to the VSHGs and village communities. Therefore, the economic and infrastructure investments actually chosen cannot be predicted. Quantifiable programme benefits will include the crop and livestock development activities and off-farm income-generating activities undertaken by men and women group members. Non-quantifiable benefits will range from capacity-building and institutional development of self-help groups, to the improved access to drinking water and the improved accessibility of villages through roads building, and the environmental impact of adopting conservation and regenerative agriculture techniques.

**Programme risks.** The main direct risk is that the financial crisis will continue to have an impact on the availability of counterpart funds. IFAD has minimized this risk by reducing the Government's contribution to 10% of total programme costs. The Government of Indonesia has formally adopted a policy of decentralization, which will be fully implemented in 2001. This brings with it very substantial risks of disruption to management systems. Therefore, it was considered appropriate to invest in capacity-building at all levels and to extend the programme life to eight years. Programme rationale is based on the partnership between the Mass Guidance for Agricultural Production (BIMAS), as the executing agency, and the NGOs with their skills in community development. However, there is a need to build mutual trust between the governmental and NGO staffs if the partnership is to yield the expected benefits. This process requires time and needs to be monitored and supported.

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DEVELOPMENT IN RAINFED AREAS**

I submit the following Report and Recommendation on a proposed loan to the Republic of Indonesia for SDR 17.5 million (equivalent to approximately USD 23.5 million) on highly concessional terms to help finance the Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

**PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY<sup>1</sup>**

**A. The Economy and Agricultural Sector**

1. Indonesia was severely hit by the financial crisis in Asia that was transmitted through a quick depreciation of the currency beginning in August 1997. The domestic price level followed and the consumer price index rose by 78% in 1998. Nominal wage increases were unable to keep pace with the inflation rate and poverty levels suddenly increased. While the attention of the Government, as well as the large majority of donors' intervention, focused on mitigating the impact of the crisis in urban areas with appropriate social safety net (SSN) policies, IFAD's assessment also revealed that food-deficit rural households had been very negatively affected by the loss of employment in urban areas. The latter significantly reduced remittances to the rural areas and produced sharp increases in the prices of agricultural inputs - which undermined their production capacity - and of food and other essential commodities. Drought further compounded the crises in Eastern Indonesia, also affecting some parts of Java in the second half of 1997, and creating forest fires in Sumatra, Kalimantan and Eastern Indonesia during the same period.

2. GDP, which was still 4.9% in 1997, contracted by 14% in 1998. Per capita GDP lost more than half of its value as it declined to USD 449 in 1998.<sup>2</sup> In 1999, the decline of GDP was reversed, and a modest growth of 0.2% ensued, while for the year 2000 GDP is predicted to expand by 2% to 4%.

3. In 1998, partly due to improved weather conditions after the previous year's drought, the agricultural sector performed relatively well: its share of GDP rose from 16% to 18%, while overall output grew at about 0.3%. Within the sector, however, it was especially the estate crop subsector that expanded rapidly, benefiting from its increased competitiveness in the export market. The food crops subsector fared less well because of disruptions to input supplies and financing in the last quarter of 1997, and the drought effects that led to a paddy harvest in the first four months of 1998 of 21.6 million tonnes. This was 20% less than the peak level in the same period in 1997. However, results from May to August of 1998 (15.6 million tonnes) exceeded 1997 output levels by 6%. The overall deficit in rice required a total import in 1998 of 4.3 million tonnes. While other crops, such as

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<sup>1</sup> See Appendix I for additional information.

<sup>2</sup> Government of Indonesia and the United Nations Children's Fund (UNICEF), Challenges for a New Generation: The Situation of Children and Women in Indonesia, 2000, draft January 2000.

soybeans and cassava showed a similar pattern, only dry land maize maintained its previous year's production level.

### **B. Lessons Learned from Previous IFAD Experience**

4. The nature of rainfed farming systems depends on the ecological situation and is diversified by region. Thus, support needs to be location-specific and must offer a broad spectrum of options. Conservation farming needs to encourage several different techniques, relying and building upon the local knowledge that farmers have developed over centuries. Groups must be considered as institutional means to empower the rural poor rather than as delivery channels for programme activities. If groups are provided with adequate capacity-building, the very management of credit becomes an empowering activity. The effectiveness of government services in community development is limited due to the inherited culture of a paternalistic State that guides farmers. Subsidies and grants that were heavily used in the past produced dependency rather than self-reliance and can no longer be afforded. Government field extension workers are often overloaded with responsibilities, and are ineffectively supervised and poorly trained. Until very recently, non-governmental organizations (NGOs) have operated independently of government services, and so there is a need to build mutual trust relationship between the Government and NGOs based on the common understanding of the overall goal and common recognition of each other's comparative advantage. Although this process will inevitably take time, the possibility of tangible benefits in a more effective implementation of development activities is very high. Greater recognition of the role of women in farming and non-farming activities is required. Both in the Income-Generating Project for Marginal Farmers and Landless (P4K) and the East Java Rainfed Agriculture Project (EJRAP), women's groups have performed better in savings and credit activities and maintained a higher level of sustainability than the men's groups. Decentralized programme management may lead to more effective implementation, but it must be accompanied by intensive training of local staff.

### **C. IFAD's Strategy for Collaboration with Indonesia**

#### **Indonesia's Policy for Poverty Eradication**

5. As a result of the economic crisis, the Government has a two-pronged strategy: the immediate mitigation of the worst effects of the crisis through a social safety net (SSN) programme; and the longer-term alleviation of structural poverty through development programmes. The Government's SSN programme includes: subsidies of nine basic food commodities; free distribution of rice to the hardest-hit households; labour-intensive public works programmes; and specific programmes to reduce school drop-out and to keep the prices of health services and medicines at affordable levels. For these programmes, substantial bilateral and multilateral support has been mobilized.

6. Government strategy for long-term rural poverty alleviation is based on the combination of three ongoing programmes. The P4K provides both institutional support to self-help groups and microcredit. The Presidential Programme (IDT) provides grants to selected poor villages for infrastructure development. Finally, the subdistrict development programme (PPK) establishes revolving credit funds for the financing of village initiatives. None of these programmes is, however, implemented at a comprehensive scale; the deployment of additional resources is urgently needed in poverty alleviation programmes.

#### **The Poverty Eradication Activities of other Major Donors**

7. The Government's SSN programme has been supported by large financial institutions, namely the World Bank, the Asian Development Bank (AsDB) and the Overseas Economic Cooperation Fund (OECF) (Japan). IFAD and AsDB fund the P4K, while the World Bank funds the IDT and the PPK. Bilateral agencies are also reorienting their activities on poverty eradication. The World Food Programme (WFP), in conjunction with bilateral donors like Australia and Japan, has reopened its office and delivered food supplies. After being neglected in the past, Eastern Indonesia is also receiving increasing attention. Donors involved in activities related to the Post-Crisis Programme for



Participatory Integrated Development in Rainfed Areas (PIDRA) are the German Agency for Technical Cooperation (GTZ), the United Nations Children's Fund (UNICEF), the Australian Agency for International Development (AusAID), the Ford Foundation and the World Bank.

### **IFAD's Strategy in Indonesia**

8. IFAD's activities will be concentrated in marginal and environmentally degraded areas in the poverty-stricken parts of Indonesia, with priority given to the Eastern Islands and Kalimantan. Food-deficit marginal farmers constitute a priority target group, together with indigenous communities and women-headed households. IFAD support will focus on rainfed agricultural development, micro-credit, community infrastructure and off-farm, income-generating activities and support to local grass-roots institutions. Conservation and improvement of natural resources, which provide the basis of sustainable livelihood strategies of the target group, will be achieved through community development. This will ensure ownership and sustainability of interventions. Partnerships with NGOs for improving accountability and transparency in programme implementation will be pursued.

### **Programme Rationale**

9. Based on the success of the IFAD-funded EJRAP (IFAD Loan 255-ID), the Government submitted a proposal to expand rainfed agricultural development in nine provinces having substantial rainfed potential. These include East Java, Nusa Tenggara Barat (NTB), Nusa Tenggara Timur (NTT), South Sulawesi, South-East Sulawesi, West Kalimantan, Central Kalimantan, West Java and Central Java. During the course of design, it was decided that the IFAD programme will support this initiative in three priority provinces – East Java, NTB and NTT. Other donors, namely, the Islamic Development Bank (IsDB), AsDB, AusAID and the Japan Bank for International Cooperation (JBIC) expressed interest in supporting the programme, at a later stage, in the other provinces.

10. Farmers in the rainfed areas of the three provinces suffer from a variety of constraints in terms of natural resource potential, the delivery of government services and access to commercial opportunities. As a consequence, their families are some of the poorest in the country. In order to alleviate their poverty, there is a need to support them through the establishment of self-help village groups or institutions that can do the following: exert a far stronger bargaining power and community influence; compete in the market place through economies of scale; develop self-confidence in their right to receive government services or to negotiate fair private-sector markets or services; challenge the accumulation of available benefits by the better connected members of the community; and generally exercise their rights under the law.

11. The PIDRA incorporates a development model that is people-centred and relies upon the comparative advantages of government and non-governmental agencies to achieve its objectives. Its essential strategy is to promote participation of the target group in selecting the economic and infrastructure investments to be made available to them. This is a substantial change from a large number of past and current projects in Indonesia in which the target group was offered specific investments that were decided upon the basis of perceived needs or opportunities by government officials, consultants or outsiders. The result of the top-down and extractive form of agricultural approach was a lack of ownership and dependency rather than self-reliance. The programme's strategy is to build self-confidence and self-help among the poorest members of the rural population. In order to achieve this, the technical capabilities of government institutions need to be balanced by the more community-based approach of the NGOs. Indonesia has developed a very strong and capable network of NGOs, who until recently had very poor record of collaboration with the Government. The PIDRA provides a chance to enhance this collaboration to secure genuine progress in poverty alleviation.

## **PART II - THE PROGRAMME**

### **A. Programme Area and Target Group**

12. The programme will cover 500 villages located in 14 districts in East Java, NTB and NTT. In each province, districts have been selected on the basis of the incidence of poverty and their dependence on rainfed agriculture (over 75% of the cultivated area is upland). The percentage of villages to be targeted is higher in NTT and NTB because of the higher incidence of poverty.

13. The three provinces are very different. Population density differs by a factor of about 10 between East Java and the others. Rainfall varies from around 2 400 mm in East Java to 1 270 mm in Dompu to 1 466 mm in Soe. However, rainfall varies considerably within the provinces; Waikabubak in West Sumba also receives about 2 400 mm. Soils vary from the deep fertile volcanic soils in parts of East Java to shallow, leached calciferous soils in parts of NTT. The populations differ ethnically and religiously. NTT has a high proportion of Christians, which is reflected in gender features. Economic and market opportunities are vastly different between the bustle of East Java and the subsistence island economies of NTT. Furthermore, there is large international migration from East Java. NTB and East Java have extensive areas of irrigated double-cropped paddy. However, NTB has double the area of paddy per head of population compared with that of East Java and four times that of NTT. Importantly as regards soil conservation, land tenure is very different. In East Java, much of the upland areas are freehold but the upland villages have very little irrigated paddy. Family upland holdings are small and food cropping is carried on in forestland under agreement from the Forestry Department. In NTB, villages have a much higher access to irrigated paddy, but ownership seems to be held by a few often-absentee owners. The upland is individually owned and holdings are about one hectare. In NTT, nearly all land is held by large landowners (*rajahs*), held in common or in designated forestland.

14. In 1987, the proportion of the rural population with incomes below the poverty line was 11% in East Java, 17% in NTB and 22% in NTT. This was estimated to have doubled following the crisis. During the participatory socio-economic study carried out before formulation in December 1998, 1 100 people were interviewed. More than half of the rural population older than 10 years has never attended school or did not complete primary school. The proportion of rural households without access to a source of water within the hamlet or village, and who rely on either a spring, a river, rainwater catchment or other sources is 17.5% in NTB, 22% in East Java and 67% in NTT. Landlessness is important: 35% of the rural population in the programme districts suffers from it. The average farm size varies between districts and according to population densities: 0.7 ha in East Java, 1.4 ha in NTB and 3.5 ha in NTT.

### **B. Objectives and Scope**

15. The programme goal is to increase the incomes, food production and food security as well as to sustainably improve the living conditions of 100 000 low-income households in the programme area. This will be achieved by: (i) setting up new or strengthening existing farmer and women village self-help groups (VSHGs), rendering them self-reliant and capable of undertaking their own development activities; (ii) promoting the conservation and improvement of natural resources; and (iii) improving village infrastructure.

### **C. Components**

16. The programme is comprised of four components: (i) community and gender development; (ii) agriculture and livestock development; (iii) village infrastructure and land management; and (iv) institutional support and programme management.

## **Community and Gender Development**

17. The objective of the component is to establish about 5 000 sustainable VSHGs composed of: (i) farmers' groups of men and women; and (ii) savings and credit groups, largely made up of women (henceforth, farmers' groups and women's groups, respectively). This component will be the joint responsibility of NGO village facilitators who have specific experience in-group formation, and agricultural extension officers (PPLs), who will bring technical expertise to the groups. Jointly, they will encourage the formation of an average of 10 VSHGs in each village; conduct participatory rapid appraisal (PRA) to determine village needs and priorities; undertake participatory planning and preparation of the village area development plans (VADPs); undertake participatory monitoring and evaluation (PM&E); and support the VSHGs in executing their selected activities and their graduation to accessing services and resources external to PIDRA, eventually building them into sustainable VSHGs.

18. Both farmers and women's groups will have access to common activities, such as functional training and market support. For the first phase of the programme, the VSHGs will be encouraged to finance their enterprises through their own savings, enhanced by matching grants. In the programme's second phase, successful VSHGs may graduate into P4K. Programme-specific credit schemes may be established to meet credit needs in isolated villages not accessible to P4K.

19. With lead provincial NGOs providing the coordination, training and community development experience, district NGOs will appoint facilitators at a level of about three villages (30 VSHGs). Each of the three lead NGOs at the province level and each of the fourteen NGOs at the district level will employ four staff. This total of 68 staff will be employed and provided with offices, transport and operating costs. In particular, NGOs will have gender, training and monitoring skills at the district and provincial levels. The Government/Mass Guidance for Agricultural Production (BIMAS) will provide planning, technical development and monitoring skills along with access to a wide range of development agencies (public works, forestry, estate crops, etc.), for which financial provision is made for operating costs, transport, etc.

## **Agriculture and Livestock Development**

20. In view of the heterogeneity of the programme area, specific investment opportunities vary. For crops, the possibilities include new varieties of food crops, establishment of seed and seedling nurseries, vegetable or fruit production and marketing. Livestock opportunities may include the purchase of small livestock, chickens, goats, ducks through VSHG savings, the training of selected members in vaccination and simple medical treatments, the development of areas of fodder and fodder trees, egg production and marketing. For all possibilities, demonstration plot options will be available. A wide range of training will also be offered subject to VSHG's priorities. Participation in adaptive research (farmer-based research) may also be included.

21. In terms of soil conservation, wide ranges of on-farm techniques are available, some of which may be suited to East Java, while others are appropriate to NTB and NTT. They include bench terraces, contour hedgerows, alley cropping, minimum tillage and mulching, strip cropping, etc. Confirmation of land ownership is an important precondition for the more permanent techniques and proposals for land registration could be financed under this component.

22. In addition to the above farmer-based activities, there will be a programme of on-farm adaptive research into two main topics: integrated nutrient management and agroforestry for soil conservation. This will be executed on a contract research basis to regional institutions and universities. The International Centre for Research in Agroforestry (ICRAF) will assist in the supervision of the contracts and dissemination of the results.

### **Village Infrastructure and Land Management**

23. The investment opportunities under this component will not be implemented by a single VSHG, but will generally benefit hamlets or whole villages. They include the upgrading of feeder roads and the construction of intravillage access, the development of improved water supply, market facility development, microirrigation development (nurseries or vegetable plots) and microwatershed conservation.

24. The identification of these activities will result from the PRA and village planning exercise, with the VSHGs playing an important role in preparing the VADP. This will be signed not only by the village chief, but also by the agricultural extension officer PPL and NGO facilitator.

25. The survey and design of infrastructure will be contracted to the relevant agency at the district level, but will be developed in association with the VSHGs. The programme will cover the costs and provide for 90% of the construction cost, with the village contributing the balance. The village will also agree to a plan for operation and maintenance of the facility. A special committee of people elected from the VSHGs will manage each project. This committee will have the responsibility for appointing contractors, supervising construction and for subsequent operation and maintenance.

26. In the case of microwatershed development, this will cover items such as cut-off drains, drop structures, gully stabilization, water-way protection and protective tree planting (where this does not solely benefit an individual, i.e. on his own land, without up or downstream impact). The programme will provide for the design and construction of such schemes, but the farmers within the microwatershed will be responsible for maintenance.

### **Institutional Support and Programme Management**

27. Programme execution will require the services of around 150 professional and administrative managers of the Government at the national, provincial and district levels. The majority of these are already employed full-time by BIMAS, but the programme will provide for their training, travel, operational costs and allowances. The balance of about 40 staff will come on contract staff appointed specifically for the programme. In addition, there will be 102 PPLs paid for under the programme. They will report to the District Governor.

28. Coordination will be effected through a series of committees at different levels; operational costs and allowances will be covered. To provide the essential management and performance information, a comprehensive PM&E system will be established and data collection arranged through the appointment of a monitoring officer at the subdistrict level.

29. This component will also include a market study to be phased over two years, to be organized by the provincial managers. The study will be followed by VSHG training in marketing techniques.

30. Finally, the component will cover the operating costs and transport of the different offices, the costs of the different committees, a comprehensive training programme and some national technical assistance for community development, management and monitoring and evaluation (M&E).

### **D. Costs and Financing**

31. The total cost of the programme, including price and physical contingencies, is estimated at IDR 210 284 million or USD 27.4 million for the full duration of the two phases of the programme of four years each. The costs were estimated on the basis of February 2000 prices. About USD 2.8 million or 10% of the total costs represent foreign exchange costs. The total base costs are USD 23.4 million, while physical and price contingencies are estimated to add another USD 4.0 million or 20% of the base costs to this amount. Physical contingencies have been applied at a rate of 10% on all items except technical assistance, studies, salaries and allowances, and the amount to 6% of base costs. Price contingencies estimated at 14% of base cost assured on a foreign

inflation rate of about 2% (based on the Manufacturers Unit Value Index), and a local inflation rate of 3.5%, which is based in turn on the IMF's projected inflation estimate.

32. The IFAD loan is estimated at USD 23.5 million, or 86% of total costs. The beneficiary contribution of 7.7% to the costs of the village infrastructure and land management component represents 2.4% of total costs. The Government's contribution is confined to taxes and duties and to the financing of all public salary costs. This amounts to USD 3.2 million or 11.7% of total costs. Investment costs account for 60% of base costs. Table 1 summarizes programme cost estimates by component, while Table 2 provides the financing plan.

33. A Special Operations Facility (SOF) of USD 60 000 will be used to fund national and international consultants to assist programme management in establishing the systems and procedures for effective execution. The main activities will be: (i) expediting the fulfilment of conditions for loan effectiveness; (ii) establishing, strengthening or activating the programme management structure; (iii) preparing the institutional framework for programme implementation; and (iv) finalizing the monitoring and evaluation (M&E) system, including its requirements, reporting mechanisms, indicators and benchmarks to measure progress. Two national consultants are proposed for four months each for community development and M&E, and two international consultants in management and institutional development and community development for a period totalling three months.

#### **Phase Two**

34. The emphasis in Phase I differs from Phase II, as the former concentrates on group development and capacity-building, while the latter focuses more on the economic development of groups and infrastructure development for the villages. For the first phase of the programme, the total costs are USD 11.3 million. The IFAD loan amounts to USD 9.6 million, while for the second phase the corresponding amounts are estimated at USD 16.1 million and USD 13.9 million.

35. Preparation for Phase II will begin with the mid-term review undertaken jointly by the Government and IFAD. Phase II funding will be contingent on achieving a number of triggering indicators to be agreed upon by the Government, NGOs and IFAD at the start-up workshop at the beginning of programme implementation. It is anticipated that the triggers will include the following:

- seventy-five per cent of projected Phase I loan disbursement achieved;
- seventy-five per cent of established village groups assessed as sustainable by independent evaluation by a university;
- all semi-annual and annual reports submitted on time;
- satisfactory working relations established between NGOs and the Government and Phase II contracts agreed;
- microwatershed management systems adopted by 25% of the villages; and
- mid-term review recommendations incorporated into Phase II design.



**TABLE 1: SUMMARY OF PROGRAMME COSTS<sup>a</sup>**  
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Community and gender development	5 252.1	482.6	5 735.7	8	25
Agriculture and livestock development	3 987.9	555.9	4 543.8	12	19
Village infrastructure and land management	6 242.5	812.3	7 054.7	12	30
Institutional support and programme management	5 414.3	622.0	6 036.3	10	26
<b>Total base costs</b>	<b>20 897.5</b>	<b>2 472.7</b>	<b>23 370.2</b>	<b>11</b>	<b>100</b>
Physical contingencies	1 208.6	215.3	1 423.9	15	6
Price contingencies	2 451.9	153.2	2 605.1	6	11
<b>Total programme costs</b>	<b>24 558.0</b>	<b>2 841.2</b>	<b>27 399.2</b>	<b>10</b>	<b>117</b>

<sup>a</sup> Discrepancies in totals are due to rounding.

**TABLE 2: FINANCING PLAN<sup>a</sup>**  
(USD '000)

Components	IFAD		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt	%			
Community and gender development	6 205.9	95.0	327.7	5.0	-	-	6 533.6	23.8	542.3	5 663.6	327.7
Agriculture and livestock development	4 438.4	82.4	950.6	17.6	-	-	5 388.9	19.7	648.3	4 234.1	506.6
Village infrastructure and land management	7 159.0	83.2	778.3	9.0	664.7	7.7	8 602.1	31.4	943.6	6 880.2	778.3
Institutional support and programme management	5 717.2	83.2	1 157.3	16.8	-	-	6 874.5	25.1	707.0	5 649.8	517.7
<b>Total disbursement</b>	<b>23 520.6</b>	<b>85.8</b>	<b>3 213.9</b>	<b>11.7</b>	<b>664.7</b>	<b>2.4</b>	<b>27 399.2</b>	<b>100.0</b>	<b>2 841.2</b>	<b>22 427.7</b>	<b>2 130.3</b>

<sup>a</sup> Discrepancies in totals are due to rounding.

### **E. Procurement, Disbursement, Accounts and Audit**

36. **Procurement.** Procurement will be in accordance with IFAD Guidelines for items financed by the IFAD loan. The national programme office, the provincial coordination units and the district management units will undertake the procurement of goods and services for their own use. In addition, the recipients will carry out, to the largest extent possible, procurement at the village and the VSHG levels, including farm inputs, purchase of livestock, etc. All procurement for vehicles, equipment and office furniture will be grouped as much as is feasible, to establish lots of significant sizes. Local competitive bidding will be required for the procurement of vehicles, equipment, goods and services, and civil works' contracts over USD 50 000. UNOPS's prior review is required for orders over USD 50 000. The same items under USD 50 000 will be purchased on the basis of local shopping with *pro-forma* invoices obtained from at least three different suppliers. Off-the-shelf procurement of current goods and services costing less than the equivalent of USD 2 000 will be through direct purchase. Motorcycles and vehicles for the implementation of all components will be procured annually, as required, by the national programme office in order to obtain optimal conditions. Each of the implementing agencies will procure all other items, respecting the above-indicated ceilings and modalities. This requirement will be specified in each of the implementation agreements that each agency will sign with the programme, either at the national and province levels, or at the district management unit level.

37. **Disbursement.** The proceeds of the IFAD loan will be disbursed according to the Flexible Lending Mechanism over eight years, subject to the positive outcome of the mid-term review scheduled during the programme's fourth year. The Government will open a special account for the financing of IFAD's share of eligible expenditure with an authorized allocation of USD 2.0 million. The Ministry of Finance will operate the account. Disbursements from the loan account to the special account and, upon specific request, for direct payments to suppliers, will be made by IFAD on the basis of withdrawal applications prepared by the national programme office, forwarded to the Minister of Finance for transmission to UNOPS. Disbursement from the special account will be made by the Ministry of Finance against the approved annual work plan and budget (AWPB). In order that VSHGs control their own finances, funds for villages and VSHGs will be disbursed to accounts held in the village or in the name of the VSHG.<sup>3</sup>

38. Withdrawals from the loan account for payments under contract costing less than USD 20 000 equivalent will be made against certified statements of expenditures; the relevant documentation will be retained for periodic inspection during supervision missions and the annual audit of accounts. Withdrawals from the loan account for all other expenditures will be fully documented.

39. **Accounts and audit.** All implementing agencies, whether public, private or NGO, will need to keep separate accounts for all programme-related resource transfers and expenditures. All coordination and management units will set up a separate, computerized, accounting system for all programme-related expenditures. Government financed expenditures, such as staff salaries and taxes, will be included in the accounts and all accounts will be inspected at irregular intervals. Expenditures made will be compared with those budgeted accompanied by field inspection on the relation between expenditures and physical achievements. Annually the overall responsibility for auditing the above-mentioned accounts will lie with the BPKP, the governmental auditing agency. Notwithstanding the above, certain audit activities will be carried out for at least the first two years of implementation by a commercial independent auditor selected on the basis of criteria established jointly by the cooperating institution and the Government. The audit report will include a specific opinion on: the timeliness of resource transfers; the overall management performance of the coordination units; the financial management by each of the fourteen district management offices; the accountability of public implementation agencies involved in the programme; and the financial performance of NGOs and

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<sup>3</sup> Details of the flow of funds are shown in Appendix VIII.



their accounting systems. The audit report will be made available to the Government and IFAD within six months after the close of the fiscal year.

#### **F. Organization and Management<sup>4</sup>**

40. The Ministry of Agriculture through its BIMAS programme, the national agency for agricultural production, will execute the programme in collaboration with NGOs. A lead NGO in each of the three provinces will be responsible for coordinating the activities of fourteen district NGOs to be contracted on the basis of mutually agreed selection criteria.

41. An estimated 5000 VSGHs will be formed of around 20 people each and will have three officers (chairperson, secretary and treasurer). Initially, they will participate in the PRA process to determine economic and infrastructure priorities, work with and receive training from the PPL, and NGO facilitator, will be responsible for annual planning, financial management, execution and monitoring of all their own activities. In addition, they will be represented in village forums and participate in electing representatives to the district management committee. Many of the potential infrastructure projects will benefit the whole village and not just individual VSHGs. Thus, decisions on requesting such projects, organizing the village contribution, implementation and subsequent operation and maintenance must be taken at the village level. A special committee including representatives from all VSHGs may be established to manage such projects. The village head and the PPL and facilitator will sign the VADP.

42. Beginning with the subdistrict level, the NGO and Government staffs will share the same office. The NGO will have one or more facilitators, each with three target villages and a maximum of 30 groups. One of these will be nominated as subdistrict coordinator to integrate activities with the PPLs through a similarly appointed PPL coordinator. The programme office will adjoin the district and subdistrict extension staff office and one administrator and one trainer will support the facilitators. In addition, a M&E assistant will be responsible for PM&E. At the district level, a district management office will be established, led by a district manager supported by four administrative staff and seven operational/technical staff. The district manager will be responsible, in collaboration with the NGO manager, for preparing the district AWPB based on the VSHG plans and VADPs, and implementing the approved plan of work. The NGO manager will meet weekly with the district manager for a joint operation meeting. The chief role of the NGO staff at the district level will be train NGO facilitators and supervise their activities.

43. The provincial and national level offices of PIDRA will be principally responsible for coordination. In particular, the provincial coordinating office will be responsible for district level staff training, technical support, quality control and monitoring in the participating districts. It will not, however, have any direct management responsibilities. The approved annual district budget will pass directly from the national programme office to the districts. The lead NGOs will have an office at the provincial level staffed with a full-time manager and four professional staff, a gender specialist, a trainer and a monitoring officer and administrator. Apart from coordination, the main role of the lead NGO will be training and supervising district NGO staff in group formation and community development, and supervising and monitoring the work of the district NGOs. The national programme office will be established in the BIMAS head office in the Ministry of Agriculture. A national programme coordinator was appointed before formulation so as to participate in the process of design. The coordinator will be responsible for: (i) liaison with IFAD and UNOPS; (ii) the issue of budget management guidelines, incorporating the participatory planning process, and the consolidation of all AWPBs from the districts and provinces; (iii) submission of routine reports, financial statements and the annual audit; and (iv) general coordination, including organizing training programmes, where appropriate. A programme steering committee will be established and three additional contract staff

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<sup>4</sup> See additional details in Appendix V.



will be appointed, including an assistant to take charge of M&E. Moreover, three national consultants will be appointed for two to three years each.

44. **Monitoring and evaluation.** One programme innovation will be the introduction of a PM&E system. PM&E methods imply that participants (village group members) be involved in assessing their group's progress, analysing the impact of their interaction within the group and their hamlet/village and taking corrective actions. They will also evaluate programme achievements in terms of poverty reduction and awareness-building. The key performance indicators of the programme will fall into four categories: capacity-building and institutional development (i.e., quality of groups and staff and capacity to generate income); agriculture and livestock development (i.e., changes in production, its cost and income); conservation of natural resources (i.e., type of measures, area improved, effects of improvements); and improved village infrastructure (i.e., number of households benefiting, appropriate operation and maintenance arrangements devised and implemented). The programme will also execute baseline studies at the village level during the first full year of implementation. They will focus on two villages in each of the 14 districts, and be typical of villages selected under the programme. The output will be 28 village benchmark profiles. The study will take place in programme year (PY) 2 (being the first full year of the programme) and will be repeated in the same villages during PY4 (prior to the mid-term review) and PY8 (before programme completion). Finally, in order to assess whether the programme is having an impact at the household level, annual longitudinal household studies will be carried out through subcontracting.

### G. Economic Justification

45. **Beneficiaries.** The number of households benefiting from the direct investment activities including crop, livestock, off-farm activities and on-farm soil and water conservation is estimated at 50 000. Another 50 000 households will benefit from the formation of women's groups, whose investments will mainly focus on off-farm activities, leading to a total of 100 000 benefiting households, or 33% of all households in the selected villages. With a household size of 4.5 persons, the total number of beneficiaries will be 450 500. Total programme costs per beneficiary will be USD 63 or USD 285 per household.

46. **Economic analysis.** An economic analysis was undertaken during formulation based on the estimated economic costs of the programme; the economic on-farm costs and the economic benefits generated by programme-supported investments. The resulting economic rate of return was 19%, demonstrating that the programme is feasible overall. However, it should be noted that the estimate of the benefits was based on assumptions with respect to the number and type of activities carried out by the beneficiaries. As with any demand-driven programme, the actual composition of benefits may be significantly different. The programme applies a participatory approach and leaves the actual choice of the activity mix to the village groups and village communities. Therefore, the economic and infrastructure investments actually chosen cannot be predicted.

47. **Gender, nutrition and household food security.** Women are expected to be the major agents of change of the programme through the formation of women's groups and their inclusion in farmers' groups. The programme recognizes the important decision-making role of women both in on-farm and off-farm productive activities, and in all other household-related work. One of the highest priorities emerging during the participatory socio-economic study was the supply of safe water within the neighbourhood of the residences. The programme will meet this demand, thereby reducing a part of women's workload. The programme also recognizes women's transformational role in savings and credit and in income-generating activities. Specific responsibility was given to NGOs for the formation of women's groups and for gender-sensitivity training. Through functional literacy and awareness-training, the programme will help women assert their rights. The nutrition and health benefits derive from the improved supply of clean drinking water and the wider range of fruits, eggs and vegetables produced on the farm. Increased income in the hands of women was shown to contribute to overall improvements in household nutrition and food security.

## **H. Risks**

48. **Economic Crisis.** The chief risk is that the crisis will continue to have an impact on the availability of counterpart funds. IFAD has minimized this by limiting the Government's contribution to the total programme costs. Moreover, recent economic recovery is encouraging.

49. **Programme Coverage.** The programme area of three provinces covers a wide geographical area, which may lead to management difficulties in the delivery of sustainable services to the target group. The BIMAS recognized this and made early appointments of qualified management staff at the national, provincial and district levels. They participated in the programme design and had the opportunity to discuss management issues with the design missions. The design provides for substantial investment in capacity-building at all levels. In addition, three national consultants will be appointed to assist managers at all levels. Special effort will be put in the monitoring system so that there is timely warning of implementation difficulties.

50. **Decentralization.** The Government has formally adopted a policy of decentralization that will be fully implemented beginning in 2001. This brings with it very substantial risks of disruption to management systems and the possibility of long administrative delays. Many issues will concern the relative roles, responsibilities and power at the different administrative levels. The possibility of continued or increased corruption also exists. For these reasons it was considered appropriate to extend programme life to eight years and to introduce the Flexible Lending Mechanism. Furthermore, an institutional specialist funded under the Special Operations Facility (SOF) will be responsible for training local staff at the provincial and district levels, and will assist the programme in adapting its management systems to the new policy.

51. **Partnership Development.** Programme rational is based on the partnership between BIMAS, as the executing agency, and the NGOs with their skills in community development. However, a significant change in the attitude of government staff to the NGOs is needed if the partnership is to yield the benefits expected. Apart from developing a good working relationship in the field, the NGOs face the substantial risk of administrative delays in honouring contractual commitments. They may have to pre-finance salaries and operating costs. Various assurances and conditions will be included in the loan to create the proper environment and the performance of the two agencies will be closely monitored.

## **I. Environmental Impact**

52. As one of the key objectives is to promote soil conservation, the environmental impact during the programme implementation will be positive. A major focus of the agricultural and livestock development component will be on-farm conservation and regenerative agriculture through integrated nutrient management and cost-effective conservation techniques. The community infrastructure component will support microwatershed conservation. Livestock programmes will require sustainable disease control systems and fodder supplies before they will be approved. Moreover, livestock will contribute to the improvement of soil fertility. In the village infrastructure component, road rehabilitation investments will concentrate on the improvement of existing parts of roads, the installation of proper drainage and the putting in place of community-based operation and maintenance systems.

## **J. Innovative Features**

53. The programme includes several innovative features in the context of IFAD-funded operations in Indonesia: (i) the inclusion of the NGOs on an equal partnership basis with the Government in programme implementation; (ii) the decentralization of programme management to the district level; (iii) the adoption of an effective client-based approach, under which VSHGs will determine their priorities and assess programme performance; (iv) the establishment of a working collaboration with ICRAF on adaptive research on soil and water conservation; (v) the introduction of the Flexible Lending Mechanism; (vi) the introduction of a PM&E system; and (vii) the promotion of integrated



nutrient management or regenerative agriculture to help farmers make the best use of organic and inorganic fertilizers.

### **PART III - LEGAL INSTRUMENTS AND AUTHORITY**

54. A loan agreement between the Republic of Indonesia and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

55. The Republic of Indonesia is empowered under its laws to borrow from IFAD.

56. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

### **PART IV - RECOMMENDATION**

57. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of Indonesia in various currencies in an amount equivalent to seventeen million five hundred thousand Special Drawing Rights (SDR 17 500 000) to mature on and prior to 1 April 2040 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan  
President

## SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded by video conference 28 April 2000)

1. **Availability of loan proceeds.** The Government of the Republic of Indonesia (the Government) shall make the proceeds of the loan available to BIMAS, in accordance with the AWPBs and its customary national procedures for development cooperation, to carry out the programme.
2. **Availability of additional resources.** The Government shall make counterpart funds from its own resources available to BIMAS during the programme implementation period in an approximate aggregate amount in Rupiah equivalent to USD 3.2 million in the form of salaries paid to programme office staff and tax exemptions on importation, procurement and supply of goods, services and civil works financed by the loan.
3. **Channelling of programme resources.** For the purpose of financing relevant programme activities, BIMAS, acting through the programme offices, shall transfer available loan proceeds and other resources called for in the AWPBs to the implementing agencies in accordance with the implementation agreements.
4. **Programme phases.** The programme shall be executed in two phases. Phase I of the programme shall commence on the effective date of the loan agreement and terminate at the end of the fourth programme year. Phase II of the programme shall commence immediately thereafter and terminate on the programme completion date; *provided, however*, that the implementation of Phase II shall be subject to the fulfilment of the conditions precedent agreed by BIMAS and IFAD.
5. **Mid-term review.** BIMAS and IFAD shall jointly carry out a review of programme implementation no later than six months prior to the end of Phase I of the programme, based on terms of reference prepared by BIMAS and approved by IFAD. Among other things, this mid-term review shall: (a) consider the achievement of programme objectives and the constraints thereon, in particular the fulfilment of the conditions precedent to Phase II of the programme, and (b) agree to recommendations regarding any reorientation required to achieve the objectives and remove constraints, including adjustments in programme activities for Phase II of the programme and the reallocation of loan proceeds. The Government shall ensure that the agreed recommendations resulting from the mid-term review and supervision missions are implemented within the period specified and to the satisfaction of IFAD.
6. **Fulfilment of conditions precedent to Phase II.** In the fourth programme year, IFAD, in consultation with the Government and based on the findings of the mid-term review, shall determine whether the conditions precedent have been fulfilled. If IFAD determines that these conditions have been fulfilled, programme implementation shall proceed to Phase II. If the Fund determines that the conditions have not been fulfilled, then the Fund may decide to: (a) terminate its financing of the programme, in which case the undisbursed amount of the loan shall be cancelled; or (b) extend the period by which the conditions precedent must be fulfilled by one year, in which event another mid-term review shall be conducted during the fifth programme year, and IFAD shall make a final determination as to whether the conditions precedent have been fulfilled. Only one extension shall be permitted.
7. **Adjustments in the programme.** In the event that Phase II is implemented, the Fund, in consultation with the borrower and based on the recommendations of the mid-term review, shall reallocate loan proceeds. In addition, the Government and IFAD may agree to adjust programme activities and modalities based on such recommendations and amend the loan documents accordingly.



8. **Implementation agreements.** As soon as practicable but in no event later than 30 days after the effective date of the loan agreement, BIMAS, acting through the national programme office, shall enter into implementation agreements with each of the lead NGOs in respect of their respective responsibilities. As soon as practicable, but in no event later than 90 days after the effective date of the loan agreement, BIMAS, acting through the district management offices, shall enter into agreements with each of the district NGOs in respect of their responsibilities. The agreements shall specify, among other things, the work to be done, the price and payment schedule, and adequate arrangement for quality control and audit. The national programme coordinator shall submit a draft of each of the implementation agreements to IFAD for its comments and approval before signature.
9. **Decentralization.** The Government shall take all measures necessary or appropriate to ensure that the programme is implemented through a decentralized system that places management responsibilities at the district level and coordination responsibilities at the provincial and national levels.
10. **Management training.** The Government shall ensure that the national programme coordinator, the provincial coordinators and the lead NGOs prepare and initiate management training for government and NGO district staff within 90 days after the effective date of the loan agreement.
11. **Participatory planning.** The Government shall ensure that the participatory planning exercises required are conducted for each programme year, and that AWPBs for the second and all subsequent programme years are based on such exercises.
12. **Infrastructure maintenance.** The Government shall ensure that proper arrangements for road and water maintenance are agreed with the local communities concerned before infrastructure construction is begun.
13. **Avoidance of double financing.** The Government shall ensure full coordination with and avoidance of double financing by the programme of activities supported by other donors.
14. **Office space.** The Government shall ensure and facilitate close collaboration between government and NGO staff under the programme at the district and subdistrict levels and, for this purpose, utilize the proceeds of the loan to provide additional office space to NGO staff if necessary.
15. **Pest-management practices.** As part of maintaining sound environmental practices, all parties participating in the programme shall maintain appropriate pest-management practices under the programme and, to that end, the Government shall ensure that pesticides procured under the programme do not include any pesticide either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations (FAO), as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization (WHO) Recommended Classification of Pesticides by Hazard and Classification 1996-1997, as amended from time to time.
16. **Tax exemption.** The Government shall exempt from taxes all goods, civil works and services financed by the loan. The value of such exemptions shall be credited against the obligation of the Government to provide counterpart funds for the programme.
17. **Conditions precedent to effectiveness.** This agreement shall become effective subject to the fulfilment of the following conditions precedent:
  - (a) the national programme office has been duly established by BIMAS;
  - (b) a national programme coordinator has been duly appointed by BIMAS and approved by IFAD;





ANNEX

- (c) the Government and IFAD have signed a letter of agreement, in form and substance satisfactory to IFAD, in respect of the conditions precedent to Phase II of the programme referred to in paragraphs 4 through 6, inclusive, above;
- (d) each of the lead NGOs has been selected and appointed by BIMAS;
- (e) a memorandum of understanding in respect of the partnership of the Government and civil society in the implementation of the programme has been jointly endorsed by IFAD, BIMAS and the lead NGOs in draft; and a copy of the signed memorandum of understanding, substantially in the form so approved, and certified as true and complete by a competent officer of BIMAS, has been delivered to IFAD;
- (f) the loan agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and
- (g) a favourable legal opinion, issued by the Minister of Law and Legislation of the Government, or other legal counsel approved by IFAD, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

18. **Conditions precedent to withdrawals.** No loan disbursement shall be made in respect of any expenditures incurred, or to be incurred, by or in respect of any implementing agency until:

- (a) an implementation agreement between BIMAS and the implementing agency has been approved by the Fund in draft;
- (b) a copy of the implementation agreement, as signed by BIMAS and the implementing agency, substantially in the form so approved and certified as true and complete by a competent officer of BIMAS, has been delivered to IFAD;
- (c) the signature and performance thereof by BIMAS and the implementing agency have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof have been fulfilled; and
- (d) the first advance under the implementation agreement has been paid to the implementing agency.

## COUNTRY DATA

### INDONESIA

<b>Land area (km<sup>2</sup> thousand) 1996 1/</b>	<b>1 812</b>	<b>GNP per capita (USD) 1997 2/</b>	<b>1 110</b>
<b>Total population (million) 1997 1/</b>	<b>200.4</b>	<b>Average annual real rate of growth of GNP per capita, 1990-97 2/</b>	<b>5.9</b>
<b>Population density (people per km<sup>2</sup>) 1996 1/</b>	<b>109</b>	<b>Average annual rate of inflation, 1990-97 2/</b>	<b>8.6</b>
<b>Local currency</b>	<b>Rupiah (IDR)</b>	<b>Exchange rate: USD 1 =</b>	<b>IDR 7 500</b>
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1980-97 1/	1.8	GDP (USD million) 1997 1/	214 995
Crude birth rate (per thousand people) 1997 1/	24	Average annual rate of growth of GDP 1/ 1980-90	6.1
Crude death rate (per thousand people) 1997 1/	8	1990-97	7.5
Infant mortality rate (per thousand live births) 1997 1/	47	Sectoral distribution of GDP, 1997 1/	
Life expectancy at birth (years) 1997 1/	65	% agriculture	16
Number of rural poor (million) (approximate) 1/	18.0	% industry	43
Poor as % of total rural population 1/	14.3	% manufacturing	26
Total labour force (million) 1997 1/	94	% services	41
Female labour force as % of total, 1997 1/	40	Consumption, 1997 1/	
<b>Education</b>		General government consumption (as % of GDP)	7
Primary school gross enrolment (% of relevant age group) 1996 1/	115	Private consumption (as % of GDP)	63
Adult literacy rate (% of total population) 1995 3/	84	Gross domestic savings (as % of GDP)	31
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita, 1995 3/	2 699	Merchandise exports, 1997 1/	53 220
Index of daily calorie supply per capita (industrial countries=100) 1995 3/	85	Merchandise imports, 1997 1/	41 679
Prevalence of child malnutrition (height for age % of children under 5) 1992-97 1/	42	Balance of merchandise trade	11 541
Prevalence of child malnutrition (weight for age % of children under 5) 1992-97 1/	34	Current account balances (USD million)	
<b>Health</b>		before official transfers, 1997 1/	-5 924
Health expenditure, total (as % of GDP) 1990-97 1/	1.8	after official transfers, 1997 1/	-4 890
Physicians (per thousand people) 1990-97 1/	0.2	Foreign direct investment, 1997 1/	4 677
Percentage population without access to safe water 1990-96 3/	38	<b>Government Finance</b>	
Percentage population without access to health services 1990-95 3/	7	Overall budget surplus/deficit (including grants) (as % of GDP) 1996 1/	1.2
Percentage population without access to sanitation 1990-96 3/	49	Total expenditure (% of GDP) 1996 1/	14.6
<b>Agriculture and Food</b>		Total external debt (USD million) 1997 1/	136 174
Food imports as percentage of total merchandise imports 1997 1/	9	Present value of debt (as % of GNP) 1997 1/	62
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/	1 468	Total debt service (% of exports of goods and services) 1997 1/	30.0
Food production index (1989-91=100) 1995-97 1/	122.4	Nominal lending rate of banks, 1997 1/	21.8
<b>Land Use</b>		Nominal deposit rate of banks, 1997 1/	20.0
Arable land as % of land area, 1996 1/	9.9		
Forest area (km <sup>2</sup> thousand) 1995 1/	1 098		
Forest area as % of total land area, 1995 1/	60.6		
Irrigated land as % of cropland, 1994-96 1/	15.0		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1999

2/ World Bank, *Atlas*, 1999

3/ UNDP, *Human Development Report*, 1998

## PREVIOUS IFAD LOANS TO INDONESIA

<i>Proj Id</i>	<i>Project Name</i>	<i>Initiating Institution</i>	<i>Cooperating Institution</i>	<i>Lending Terms</i>	<i>Board Approval</i>	<i>Loan Effectiveness</i>	<i>Current Closing Date</i>	<i>Loan/Grant Acronym</i>	<i>Denominated Currency</i>	<i>Approved Loan/Grant Amount</i>	<i>Disbursement (as % of approved amount)</i>
35	Smallholder Cattle Development Project	IFAD	World Bank: IBRD	I	06 May 80	01 Oct 80	31 Mar 87	L - I - 35 - ID	SDR	20800000	0.993253308
74	Sulawesi Paddy Land Development Project	IFAD	AsDB	HC	08 Sep 81	29 Sep 82	31 Dec 90	L - I - 74 - ID	SDR	30050000	0.787940317
94	Seventeenth Irrigation (East Java Province) Project	World Bank: IBRD	World Bank: IBRD	I	31 Mar 82	15 Dec 82	31 Mar 89	L - I - 94 - ID	SDR	21800000	1
171	Second Smallholder Cattle Development Project	IFAD	World Bank: IBRD	I	05 Sep 85	15 Apr 86	31 Mar 94	L - I - 171 - ID	SDR	11600000	0.814577443
215	Income-Generating Project for Marginal Farmers and Landless	IFAD	UNOPS	I	03 Dec 87	18 Jun 88	30 Jun 98	L - I - 215 - ID	SDR	10600000	0.94398393
255	East Java Rainfed Agriculture Project	IFAD	AsDB	I	19 Apr 90	09 Oct 90	31 Mar 99	L - I - 255 - ID	SDR	15400000	0.79458114
301	South Sumatera Smallholder Tree Crops Development Project	IFAD	AsDB	I	14 Apr 92	29 Sep 92	15 Mar 99	L - I - 301 - ID	SDR	14450000	0.340123417
350	Eastern Islands Smallholder Cashew Development Project	IFAD	UNOPS	I	19 Apr 94	29 Jul 94	30 Sep 02	L - I - 350 - ID	SDR	18450000	0.337664071
485	Eastern Islands Smallholder Farming Systems and Livestock Development Project	IFAD	UNOPS	HC	06 Dec 95	22 Mar 96	31 Mar 04	G - I - 25 - ID	USD	100000	0.34931
485	Eastern Islands Smallholder Farming Systems and Livestock Development Project	IFAD	UNOPS	HC	06 Dec 95	22 Mar 96	31 Mar 04	L - I - 396 - ID	SDR	12050000	0.175555013
1024	P4K - Phase III	AsDB	AsDB	I	04 Dec 97	09 Jul 98	30 Sep 05	L - I - 458 - ID	SDR	18250000	0.17474219



### LOGICAL FRAMEWORK

NARRATIVE SUMMARY	PERFORMANCE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p style="text-align: center;"><b>Goal</b></p> <p>1. Living conditions, food and income security for 100 000 low-income households in programme area improved</p>	<p>1.1 Increased household income and expenditure rate for both savings and consumption by end of programme (EOP)</p> <p>1.2 Improved health, nutrition, education and social status of poor household members by EOP</p> <p>1.3 Reduction in the volume of relief rice distributed per capita</p> <p>1.4 Reduced school drop-outs</p>	<p>(a) Baseline studies at the village/ group level carried out in PY2, PY4 and PY8 before EOP</p> <p>(b) Annual longitudinal studies at household level</p> <p>(c) Subdistrict and district statistics</p>	<p style="text-align: center;"><b>Goal to Super Goal</b></p> <p>i. Decentralization process successfully completed and operationalized</p> <p>ii. Comprehensive implementation of the Government's strategies for mitigating the worst effects of the economic and monetary crisis</p> <p>iii. Effective implementation of the Government's long-term structural poverty alleviation plan of action in the framework of the recent economic recovery</p>
<p style="text-align: center;"><b>Purpose</b></p> <p><b>1. Creation of VSHGs:</b></p> <p>1.1 Established and well-operating farmers' associations and VSHGs</p> <p>1.2 Groups' capacity to undertake on and off-farm income-generating activities sustainably improved</p> <p><b>2. Natural resource management</b></p> <p>2.1 Increased crop and livestock production and productivity</p> <p>2.2 Extensive use of appropriate technology based on research findings and related to: principles of regenerative agriculture; soil conservation systems; and better land management at the microcatchment level</p>	<p style="text-align: center;"><b>Impact indicators</b></p> <p>1.1 75% of VSHGs assessed by end of PY4 as sustainable (trigger for Phase II)</p> <p>1.2 Turn over and profitability rate of activities; groups' financial independence from grants</p> <p>2.1 Crop and livestock production and productivity growth rate</p> <p>2.2 Number of farmers adopting research findings in their cropping systems</p> <p>2.3 Crop diversity</p>	<p>(a) University study for independent evaluation</p> <p>(b) BIMAS district, provincial and national programme progress reports</p> <p>(c) VSHGs' progress reports</p> <p>(d) Monitoring reports issued by PPLs and collaborating agencies</p> <p>(e) Supervision reports</p> <p>(f) Research progress reports</p> <p>(g) Programme M&amp;E system</p>	<p style="text-align: center;"><b>Purpose to Goal</b></p> <p>i. Increased income allocated for long-term anti-poverty initiatives and not exclusively for consumption</p> <p>ii. Positive trend of rural terms of trade</p>

APPENDIX III

NARRATIVE SUMMARY	PERFORMANCE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><b>3. Village infrastructure</b>            3.1. Established community management, operation and maintenance (O&amp;M) of water supply schemes and micro-irrigation facilities            3.2 Improved drought resilience and sustainability of farming            3.3 Improved intravillage communication and access to market places</p>	<p>3.1 Microwatershed management systems adopted (by 25% of villages by end of PY4 as trigger for Phase II)            3.2 Soil fertility and quality of land management at the microcatchment level            3.3 Kilometres of built or rehabilitated feeder roads, time saved in reaching market places</p>		
<p style="text-align: center;"><b>Outputs</b></p> <p><b>1. Community and gender development</b>            1.1 Establishment of VSHGs            1.2 Upgraded awareness and ownership of group development programme by group members            1.3 Savings culture well-established, creation of group funds            1.4 Increased educational level of VSHGs' members</p> <p><b>2. Agriculture and livestock development</b>            2.1. Increased livestock population and productivity and integration of livestock activities in the farming system            2.2 Increased small-scale perennial tree plantations            2.3. Application of research findings in regenerative agriculture (nutrient management and agroforestry)            2.4 Improved institutional capacity for agricultural development and support to marketing and processing</p> <p><b>3. Village infrastructure and land development</b>            3.1 Improved water supply and road access</p>	<p>1.1 5 000 VSHGs formed by EOP            1.2 Frequency of meetings, regularity of report submission, use of group savings            1.3 Amount of individual deposits and loans            1.4 Number of people attending literacy courses and increased alphabetization rate</p> <p>2.1 Increased livestock population, production, and productivity rate (including types of livestock, livestock mortality and number of animals revolving)            2.2 Size of areas dedicated to tree plantations and production            2.3 Effective use of new technologies and application of extension messages            2.4 Number and quality of new marketing channels, support and marketed produce available; number of farmers involved</p> <p>3.1 Increased number of water sources, time saved in fetching water and in intravillage circulation; length and location of rehabilitated access roads</p>	<p>(a) BIMAS district, provincial and national programme progress reports            (b) Progress reports of VSHGs            (c) Monitoring reports issued by PPLs and collaborating agencies            (d) Supervision reports            (e) Research progress reports            (f) Official statistics            (g) Training quality assessment reports            (h) Annual longitudinal studies at the household level, baseline studies at village            (i) MTR            (j) Programme M&amp;E system</p>	<p><b>Output to Purpose</b></p> <p>i. Good partnership between the Government and NGOs established</p> <p>ii. Cropping methods promoted to address real constraints and their adoption resulting from farmers' expressed interest</p>

APPENDIX III

NARRATIVE SUMMARY	PERFORMANCE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS																
<p style="text-align: center;"><b>Outputs</b></p> <p><b>4. Institutional support and programme management</b></p> <p>4.1 Sustainable community-based institutions established and operating with institutional and management support</p> <p>4.2 Intensively trained programme staff, PPLs, NGOs facilitators, final users of water supply and irrigation facilities</p>	<p>4.1 Effectiveness of institutional and management support verified by the achieved stability of new community-based institutions</p> <p>4.2 Number of trained persons according to different types of training provided</p>																		
<p style="text-align: center;"><b>Activities/Components</b></p> <p><b>1. Community and gender development</b></p> <p>1.1 NGO and village selection, formation of groups, initiating group savings</p> <p>1.2 Carry out participatory planning and M&amp;E</p> <p>1.3 Arrange functional literacy training</p> <p>1.4 Support institutional capacity-building of farmers' and women's groups</p> <p><b>2. Agriculture and livestock development</b></p> <p>2.1 Conduct PRA, organize village planning exercise and prepare village area development plan</p> <p>2.2 Support livestock, food crop and market facility development</p> <p>2.3 Carry out an adaptive research study on regenerative agriculture contracted by regional institutions and/or universities</p> <p>2.4 Organize training courses for farmers, technical staff, extension workers, NGO facilitators and perform on-farm demonstrations on new soil and water conservation methods and integrated nutrient management</p>	<p style="text-align: center;"><b>Inputs/Resources (Summary)</b></p> <p style="text-align: right;"><u>USD million</u></p> <table border="0"> <tr> <td>Infrastructure</td> <td style="text-align: right;">6.2</td> </tr> <tr> <td>Vehicles, equipm.</td> <td style="text-align: right;">1.8</td> </tr> <tr> <td>Materials</td> <td style="text-align: right;">2.2</td> </tr> <tr> <td>Studies/Training</td> <td style="text-align: right;">4.4</td> </tr> <tr> <td>TA</td> <td style="text-align: right;">1.6</td> </tr> <tr> <td>Recurrent costs</td> <td style="text-align: right;">7.1</td> </tr> <tr> <td>--</td> <td style="text-align: right;">----</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>28.0</b></td> </tr> </table>	Infrastructure	6.2	Vehicles, equipm.	1.8	Materials	2.2	Studies/Training	4.4	TA	1.6	Recurrent costs	7.1	--	----	<b>Total</b>	<b>28.0</b>	<p>(a) BIMAS district, provincial and national programme progress reports</p> <p>(b) VSHGs' progress reports</p> <p>(c) Monitoring reports issued by PPLs and collaborating agencies</p> <p>(d) Supervision reports</p> <p>(e) Research progress reports</p> <p>(f) Official statistics</p> <p>(g) Training quality assessment reports</p> <p>(h) Annual longitudinal studies at the household level, baseline studies at village</p> <p>(i) MTR</p> <p>(j) Audit reports</p> <p>(k) Programme M&amp;E system</p>	<p style="text-align: center;"><b>Activity to Output</b></p> <p>i. Genuine trust and effective cooperation between the Government and NGOs and on the basis of mutual acknowledgement of comparative advantage</p> <p>ii. Smooth transition to a real demand-driven decentralized decision-making through intensive appropriate training of local staff</p> <p>iii. Availability of counterpart funds for public salaries on a timely basis</p> <p>iv. Correspondence of undertaken activities to resource base, needs, cultural background of the target population and their development in favourable market conditions</p>
Infrastructure	6.2																		
Vehicles, equipm.	1.8																		
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## APPENDIX III

NARRATIVE SUMMARY	PERFORMANCE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>2.5 Contract a marketing study and support marketing and processing activities</p> <p>3. Village infrastructure and land development</p> <p>3.1 Improve village drinking water supply and rehabilitate village access and feeder roads</p> <p>3.2 Develop small-scale perennial tree crop planting</p> <p>4. Institutional support and programme management</p> <p>4.1 Organize BPP and BIPP staff training</p> <p>4.2 Support application of appropriate technology and extension activities</p> <p>4.3 Support community infrastructure building, NGOs coordination and the programme management unit</p> <p>4.4 Supply equipment and vehicles</p> <p>4.5 Carry out audit, M&amp;E activities, MTR</p>		<p>(l) Programme document</p> <p>(m) Loan agreement</p>	

## EXPENDITURE ACCOUNTS BY COMPONENT

	Community Development	Agriculture and Livestock Development	Village Infrastructure and Land Management	Institutional Development and Programme Management	Total	%	Physical Contingencies Amount
<b>I. Investment Costs</b>							
A. Infrastructure	-	-	5 996.7	170.0	6 166.7	10.0	616.7
B. Vehicles and equipment	539.0	534.0	-	703.3	1 776.3	10.0	177.6
C. Materials	83.3	2 137.3	-	-	2 220.7	10.0	222.1
D. Training and studies	1 719.3	737.1	33.3	1 934.3	4,424.0	-	-
E. Technical assistance	649.4	105.0	599.8	245.3	1 599.5	-	-
<b>Total Investment costs</b>	2 991.0	3 513.4	6 629.9	3 053.0	16 187.2	6.3	1 016.4
<b>II. Recurrent costs</b>							
A. Other operating costs	1 016.9	199.3	22.2	1 856.4	3 094.9	10.0	309.5
B. Salary and allowances	1 637.2	539.0	101.3	830.3	3 107.8	-	-
C. O&M	90.3	292.0	301.3	296.6	980.2	10.0	98.0
<b>Total recurrent costs</b>	2 744.4	1 030.4	424.9	2 983.3	7 183.0	5.7	407.5
<b>Total BASELINE COSTS</b>	5 735.4	4 543.8	7 054.7	6 036.3	23 370.2	6.1	1 423.9
Physical contingencies	173.0	316.3	632.0	302.6	1 423.9	-	-
Price contingencies	625.3	528.9	915.3	535.6	2 605.1	5.7	148.4
<b>Total PROGRAMME COSTS</b>	6 533.6	5 388.9	8 602.1	6 874.5	27 399.2	5.7	1 572.3
Taxes	327.7	506.6	778.3	517.7	2 130.3	9.1	193.7
Foreign exchange	542.3	648.3	943.6	707.0	2 841.2	8.0	227.3

7





## **ORGANIZATION AND MANAGEMENT**

1. The following is a brief description of the main agencies involved in the programme implementation.

### **BIMAS**

2. As the lead executing agency, BIMAS was originally set up to make Indonesia self-sufficient in rice through a programme of 'mass guidance'. It was recently restructured and named the Agency for Food Security Affairs (AFSA), with a secretariat and four operational centres for the assessment of food supply/availability, food distribution, food and nutrition awareness, and food-consumption diversification. Its emphasis on poverty alleviation and food security, together with its previous good performance in executing EJRAP, makes BIMAS a suitable agency for directing the programme. Furthermore, BIMAS is committed to reorienting its traditional top-down approach and to streamlining participatory approaches seeking to secure ownership.

3. It is important to note that BIMAS is a coordinating rather than an implementing organization. It has secretariat offices at the province, district and subdistrict levels. Execution of programmes at the district level is through the extension service, the Centre for Information and Agricultural Extension (BIPP)/district and subdistrict extension staff (BPP) structure that is under the district government. The BIMAS Secretariat and BIPP/BPP staff normally share the same office building.

### **Non-Governmental Organizations (NGOs)**

4. Although the Government attempted a group approach for the delivery of services to small farmers, these groups have tended to be poorly targeted and non-sustainable. Many NGOs gained experience in establishing sustainable self-help groups, often based on savings and credit activities. Therefore, the programme will unite the technical services of the PPLs with NGO village facilitators. This will have the dual benefit of reducing the workload of the overstretched PPLs and developing development skills.

5. The programme area has a large number of NGOs with different mandates. Many are engaged in rural development, some only in a single district, while others operate on a province basis. The programme will appoint a lead NGO for each province and implementing NGOs in each district. The three lead NGOs (Bina Swadaya, PPSW and Annisa) have participated in the PIDRA design and will be directly appointed by the Government. One NGO representative will also participate in loan negotiations. Institutionally, NGOs do not have a hierarchical structure, but rather consist of a Board of Directors, including the manager, a number of resource persons (agriculture, gender, savings and credit, and training) and field workers generally based at the subdistrict level.

### **Ministry of Agriculture**

6. Programme implementation will be through the technical agencies. In the Ministry of Agriculture those most involved will be the Directorates-General of Food Crop Production and Livestock and Inland Fisheries, and the Agencies for Research and Development and Human Resource Development and Agricultural Extension. These are all represented at the province, district and subdistrict levels, and have adequate staff to carry out additional activities that may be required by the programme.

## **Coordination**

7. The programme will be coordinated through permanently established committee meetings that take place every three months at the national, provincial and district levels. Their principal tasks and duties will be as follows:

- Formulate policy concepts for programme management regarding land and water conservation, food crops, horticulture, livestock, estate crops, research, extension, regional autonomy and finance.
- Monitor and evaluate the policy of the programme throughout its duration.
- Meet regularly with the relevant agencies, coordinate programme management, solve problems and guide the programme operation.

8. Detailed composition of these committees will be as follows:

### **Steering Committee (National Level)**

1. Head of Planning Bureau, Secretary General, Ministry of Agriculture (MOA)
2. Head of Foreign Cooperation Bureau, Secretary General, MOA
3. Foodcrops Inspectorate, Inspectorate General, MOA
4. Director-General (DG), Agriculture Inputs, MOA
5. Directorate of Foodcrops, DG Foodcrops, MOA
6. Directorate Horticulture Production, DG. Horticulture Production, MOA
7. Directorate Livestock Production, DG Livestock, MOA
8. Directorate Agricultural Marketing, DG. Primary Industry and Ag. Marketing, in MOA
9. DG Research and Development, MOA
10. Directorate Extension, AFSA, MOA
11. Head of National BIMAS/AFSA, MOA
12. Bureau of Forestry and Agriculture, Bappenas
13. DG Reforestation and Land Conservation, Ministry of Forestry (MOF)
14. Lead NGOs

### **Advisory Committee (Provincial Level)**

1. Head of Economy Bureau, Office of Provincial Government
2. Deputy Governor in Economic Affairs
3. Provincial Bappeda
4. Head of Provincial Food Crops Service
5. Head of Provincial Forestry Service
6. Head of Provincial Livestock Service
7. Head of Provincial Estate Crops Service
8. Head of Provincial Cooperative Service
9. Head of Provincial Road and Bridge Service (Bina Marga, Public Works)
10. BPTP (Center for Agriculture Technology)
11. Bank
12. Head of Provincial Bimas/Provincial Food Security Affairs
13. Head of Provincial Industry and Trade Service
14. Center for Reforestation and Land Conservation
15. Head of Human Settlement Service (Cipta Karya, Public Works)
16. Lead NGO

### **Implementation Committee (District Level)**

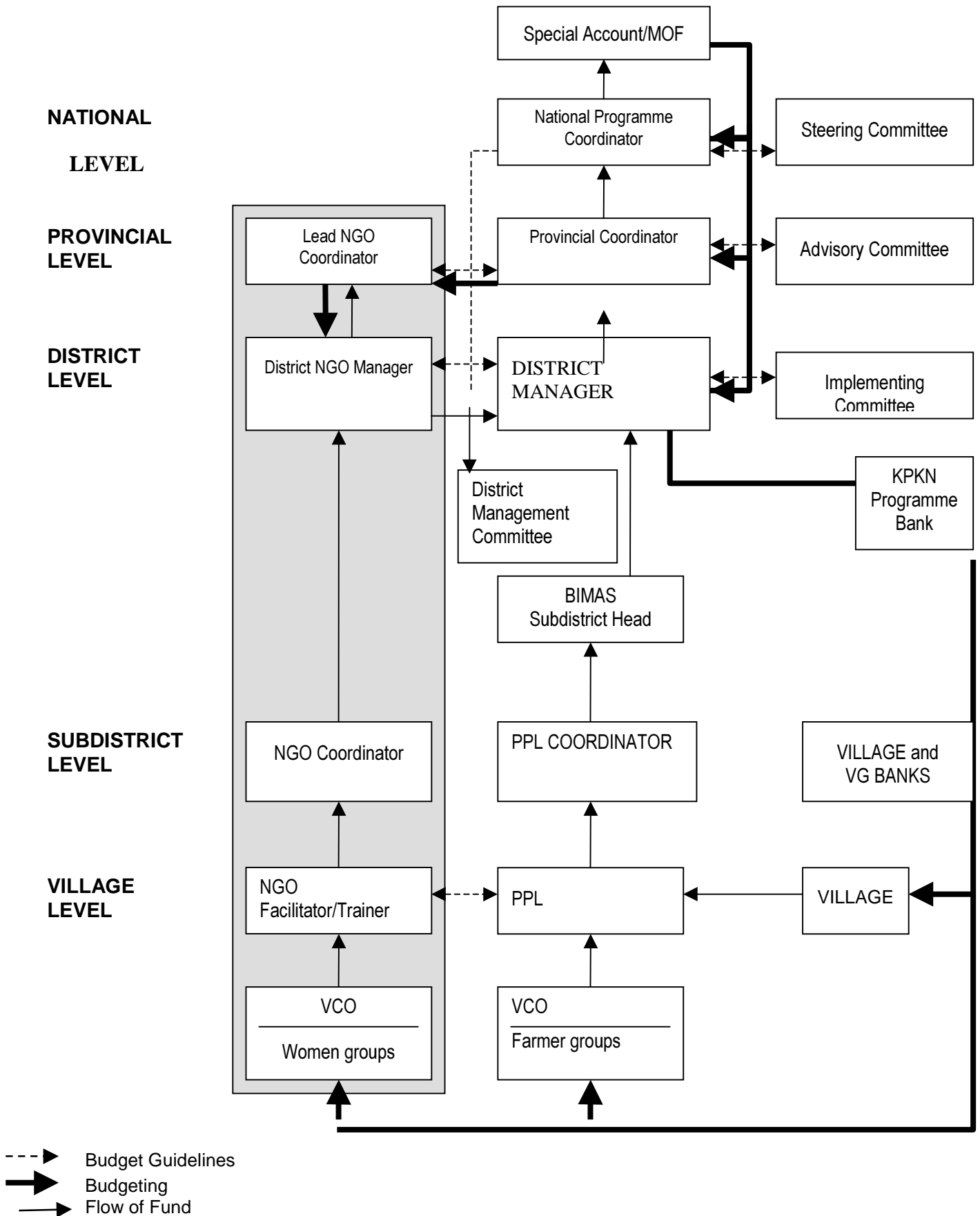
1. Head of Economy Bureau, Office of District Government
2. District Bappeda
3. Head of District Forestry Service
4. Head of Food Crops and Horticulture Service
5. Head of Provincial Livestock Service
6. Head of Provincial Estate crops Service
7. Bank
8. Center for Reforestation and Land Conservation
9. Head of Road and Bridge Service (Bina Marga, Public Works)
10. Head of Human Settlement Service (Cipta Karya, Public Works)
11. Center for Information and Agricultural Extension (BIPP)
12. District NGO

### **District Management Committee (DMC)**

In addition to the above committees, the district-level operations of the programme will require a meeting of the DMC every month, which will be responsible for the programme's routine management and execution. Its composition is as follows:

1. District manager
2. Secretary of BIMAS
3. M&E officer
4. NGO staff (3)
5. Client representatives (3)

**BUDGETING AND FLOW OF FUNDS**



## FINANCIAL AND ECONOMIC ANALYSIS

1. **Financial analysis.** The objectives of the financial analysis are: (i) to examine the financial impact of the programme interventions at the household level; (ii) to estimate the programme's incremental physical production; and (iii) to establish the framework for the economic analysis of the programme.

2. **Crop and activity models.** The actual activities of the programme will be identified during implementation according to the needs of self-help groups. Therefore, the patterns of farmers' on-farm activities are expected to be considerably diversified. Production and operating costs were calculated based on seven activity and two livestock budgets, multiplied by the estimated number of participants in each activity.

3. **Financial returns.** Projected net farm incomes at full development are shown in Table 1 below. In actual implementation, each household will practice a combination of these activities. However, the table reveals that, within the framework of each activity, the proposed models will induce a considerable increment of net return.

**Table 1: Financial Returns by Crop/Activity Model at Full Development**

Activity	Unit	Without	With	Incremental
Model 1: Tree planting on previously cropped land	USD/ha	213	1,215	1 002
Model 2: Tree planting on newly cleared land	USD/ha	-	1,215	1 215
Model 3: Alley cropping of maize with tree crops and fodder crops	USD/ha	213	441	228
Model 4: Grass, legume and hedgerow cropping	USD/ha	182	695	513
Model 5: Maize cropping with inputs	USD/ha	213	286	74
Model 6: Maize cropping with compost	USD/ha	213	330	118
Model 7: Maize cropping with inputs and compost	USD/ha	213	321	108
Model 8: Cattle livestock model	USD/5 head	-	219	219
Model 9: Goat livestock model	USD/10 head	-	234	234

4. **Short term credit.** Credit has been included to finance inputs such as seeds and seedlings at the equivalent of 22.15% interest over a period of 12 months. Upon completion of repayment of the first year, the beneficiaries are entitled to obtain crediting for the next year up to three years. The average amount of crediting is assumed to be IDR 300 000, IDR 500 000 and IDR 700 000 in the first, second and third years, respectively. The net benefit per beneficiary after crediting is presented below in Table 2.

**Table 2: Net benefit after financing/1**

<i>Activity</i>	<b>Year</b>	<b>T. Output</b>	<b>T. Input</b>	<b>Credit amount</b>	<b>Debt Service/2</b>	<b>Net Crediting</b>	<b>Net Benefit after Financing</b>
Model 1: Tree planting on previously cropped land (less cost for tree planting given on grant basis)	1	1000	367.5	300	366.45	-66.45	566.05
	2	750	248.5	500	610.75	-110.75	390.75
	3	1550	187.5	700	855.05	-155.05	1207.45
Model 2: Tree planting on newly cleared land (less cost for tree planting given on grant basis)	1	1000	367.5	300	366.45	-66.45	566.05
	2	750	248.75	500	610.75	-110.75	390.5
	3	1550	187.5	700	855.05	-155.05	1207.45
Model 3: Alley cropping of maize with tree crops and fodder crops	1	1075	408	300	366.45	-66.45	600.55
	2	1260	336	500	610.75	-110.75	813.25
	3	1575	328	700	855.05	-155.05	1091.95
Model 4: Grass, legume and hedgerow cropping	1	2100	749.25	300	366.45	-66.45	1284.3
	2	2700	621.375	500	610.75	-110.75	1967.875
	3	3175	621.375	700	855.05	-155.05	2398.575
Model 5: Maize cropping with inputs	1	1145	255	300	366.45	-66.45	823.55
	2	1145	255	500	610.75	-110.75	779.25
	3	1145	255	700	855.05	-155.05	734.95
Model 6: Maize cropping with compost	1	1320	180	300	366.45	-66.45	1073.55
	2	1320	180	500	610.75	-110.75	1029.25
	3	1320	180	700	855.05	-155.05	984.95
Model 7: Maize cropping with inputs and compost	1	1282.5	217.5	300	366.45	-66.45	998.55
	2	1282.5	217.5	500	610.75	-110.75	954.25
	3	1282.5	217.5	700	855.05	-155.05	909.95

/1 One farmer is assumed to have 0.5 ha of farmland to be included in the activity.

Interest rate is assumed to be equivalent 22.15 % per year. In addition, a repayment period of one year is assumed.

/2 Model one and two present benefit inflow from the initial year. This is accounted for maize planting combined with tree crops.

5. **Economic analysis.** The objective of this economic analysis is to present the programme benefits to ensure that the programme contribution to the economy justifies the use of the resources required for the programme investment and activity.

6. **Selected assumptions.** Parameters for the economic analysis are quantifiable benefits related to the programme's investments and the incremental programme and post-programme costs. A twenty-year analysis period is assumed, which is an adequate time frame for examining the impact of the rehabilitation and technology change. Programme inputs and outputs traded internationally have been valued at their border prices, adjusted to allow for shipping and handling costs between the programme area and the points of import or export. The value of minor commodities and non-traded items were derived from financial prices on which a Standard Conversion Factor (SCF) of 0.95 was applied. The programme's incremental costs in economic terms were calculated by removing price contingencies and taxes. Agricultural and livestock inputs and credit, which had been included in the production cost in each budget model, were subtracted from total programme costs. No residual values on capital investment items were assumed.

7. **Economic rate of return.** Based on the above assumptions, the resulting economic rate of return was 19%. This is mainly attributed to yield increase by introducing new cropping patterns, including tree crops and organic inputs.

8. **Sensitivity Analysis.** Table 3 presents the ERR’s sensitivity to changes in the levels of cost and benefit, and the timing of the benefit flow.

**Table 3: ERR and Sensitivity Analysis**

Total Cost	Total Benefit			
	Base	-10%	-20%	Lag 1yr
Base	19%	17%	15%	16%
+10%	17%	15%	13%	14%
+20%	15%	13%	11%	13%

9. **Impact of revenue decrease.** As it is presented above, the programme ERR is more sensitive to the decrease in benefits. The variables determining the cost and benefit streams are yield, adoption rate, prices and quantities of inputs and outputs. Decrease of total benefit can be caused by lower yield response to the technical package of the programme and the fall of export parity price of the main cash crops such as tree crops <sup>1</sup>. Table 4 presents the ERR response to the decline of revenue from maize and tree crops to present resilience of the programme towards these unfavourable conditions. For example, if the revenue from tree crops declines 10%, the ERR is calculated at 18%. These figures may show that diversified farming patterns would absorb risks, such as price drop and yield decline by natural circumstances. In actual implementation, farmers’ group activity will be notably diversified and combined more complexly according to the community’s willingness than the models presented in this analysis. Moreover, diversification across on and off-farm activity will amplify the resilience of programme returns in the same context.

**Table 4: Response to Drop in Revenue from Maize/Tree Crops**

		Tree Crops					
		Base <sup>2</sup>		-10%		-20%	
		ERR	NPV	ERR	NPV	ERR	NPV
Maize	Base	19	5 614 664	18	4 802 716	18	4 789 453
	-10%	18	5 397 817	17	4 284 334		
	-20%	18	4 789 453			15	2 468 034

<sup>1</sup> Cashew was employed as an example in this analysis.

<sup>2</sup> Net Present Value.