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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

EAST KALIMANTAN LOCAL COMMUNITIES EMPOWERMENT PROGRAMME



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CURRENCY EQUIVALENTS

Currency unit	=	Indonesian rupiah (IDR)
USD 1.00	=	IDR 9 000
IDR 1.00	=	USD 0.0001

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 ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

AMs	Activity Managers
AWP/B	Annual Workplan and Budget
CBFM	Community-Based Forest Management
DD-CIF	Demand-Driven Community Investment Fund
DP	District Land Authority
DPMB	District Programme Management Board
DPMU	District Programme Management Unit
FFSs	Farmer Field Schools
FLM	Flexible Lending Mechanism
M&E	Monitoring & Evaluation
NGO	Non-Governmental Organization
NPCO	National Programme Coordination Office
NTFP	Non-Timber Forest Products
PDB	Programme District Board
PKK	District Women's Organization
PPFU	Provincial Programme Facilitation Unit
PPL	Field Extension Workers
SHGs	Self-Help Groups
SOF	Special Operational Facility
UNOPS	United Nations Office for Project Services

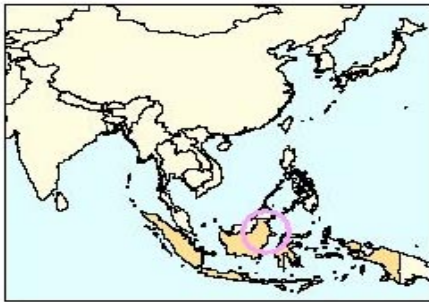
GOVERNMENT OF THE REPUBLIC OF INDONESIA

Fiscal Year

1 January – 31 December



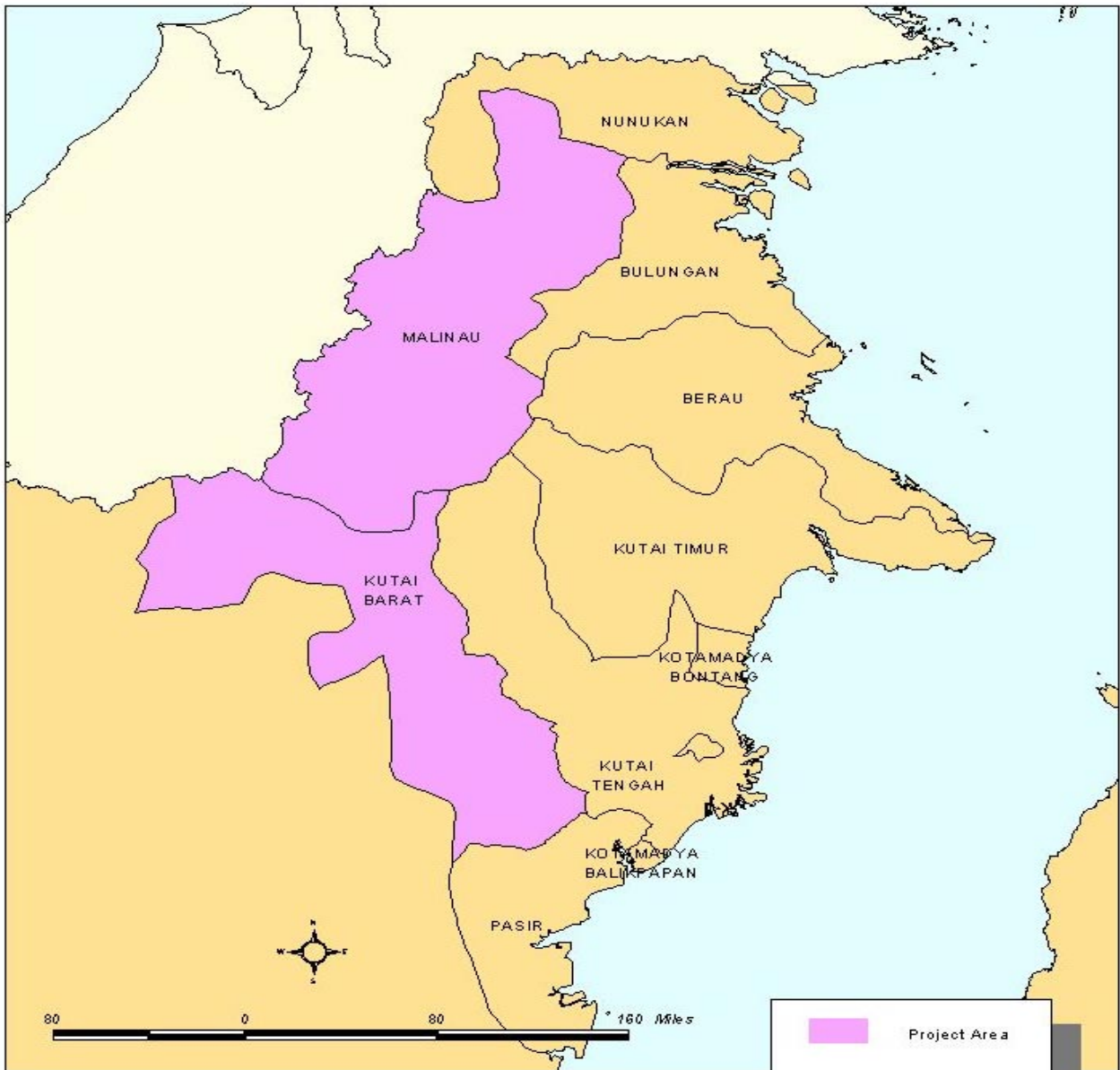
MAP OF THE PROGRAMME AREA



INDONESIA

EAST KALIMANTAN LOCAL COMMUNITIES EMPOWERMENT PROGRAMME

Project Area



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



REPUBLIC OF INDONESIA

EAST KALIMANTAN LOCAL COMMUNITIES EMPOWERMENT PROGRAMME

LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Republic of Indonesia
EXECUTING AGENCY:	Ministry of Agriculture/Agency for Agricultural Human Resources Development
TOTAL PROGRAMME COST:	USD 26.47 million
AMOUNT OF IFAD LOAN:	SDR 15.10 million (equivalent to approximately USD 19.96 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	None
CONTRIBUTION OF THE BORROWER:	USD 5.62 million
CONTRIBUTION OF BENEFICIARIES:	USD 886 287
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)



PROGRAMME BRIEF

Target group and programme area. The 12-year programme aims to reach about 39 000 households (or about 160 000 people) located in 240 of the poorest villages in five poor districts of East Kalimantan province. The programme will start in one district in the first phase and will gradually expand to the remaining districts subject to a positive assessment of its performance.

Programme objectives. The overall goal of the programme is to improve the social and economic well-being of the poorest local communities in East Kalimantan. Specific programme objectives include: (i) empowering local communities through the development of strong self-sustaining village institutions with improved access to and control over productive resources; (ii) facilitating provision of the technical and financial resources required for community-based economic development; (iii) increasing access to and quality of village education and health services, and improving village infrastructure; (iv) developing the institutional systems necessary for registration by the Government of village claims over traditional lands; and (v) establishing effective programme management services.

Programme description. The programme aims to empower local communities through the development of strong self-reliant village institutions, which provide the foundation for the various economic, social and infrastructural development activities supported by the programme. Institutions receiving particular attention include village representative councils and the executives operating under them, village communities, self-help/shared interest groups (men and women) with a major focus on the management of savings and credit, and farmers' groups. These village institutions will be trained to develop the organizational and financial skills necessary to ensure that resources at their command are used productively, equitably and sustainably. Target groups will be responsible for defining the scope of programme activities in the village, thereby ensuring that the development process is participative and demand-driven. The comparative advantage of non-governmental organizations (NGOs) in fostering effective participation, particularly of marginalized and poorer sections of society, will be tapped by assigning them lead role in all community empowerment activities. The emphasis placed on the development of village institutions and a participatory approach demands a high degree of flexibility in implementation and budget allocation processes. The programme will therefore focus on the implementation of a development process, through which specific development activities are defined and funded, rather than on the implementation of a set of pre-specified activities and targets.

Programme benefits. Given the demand-driven nature of the programme's activities and investments, it is unrealistic to carry out overall financial and economic analyses. Specific benefits will include: stronger more self-reliant local communities; improved more diversified incomes; increased food security; more secure tenure over land and forest resources; more sustainable management of land and forest resources; better village facilities and health and education services; and strengthened capacity of NGOs to support development programmes.

Programme risks. Some of the districts in East Kalimantan are newly formed and their administrative capacity is weak. This risk has been addressed by proposing the establishment of an independent programme management structure, which will neither rely on, nor place excessive demands on existing government capacity. The programme will rely on contracting local NGOs to work with target communities, particularly for the capacity-building of village institutions. Many local NGOs still regard the Government with suspicion. A working environment needs to be created that fosters collaboration between government and non-government service providers.



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
REPUBLIC OF INDONESIA
FOR THE
EAST KALIMANTAN LOCAL COMMUNITIES EMPOWERMENT PROGRAMME**

I submit the following Report and Recommendation on a proposed loan to the Republic of Indonesia for SDR 15.10 million (equivalent to approximately USD 19.96 million) on highly concessional terms to help finance the [East Kalimantan Local Communities Empowerment Programme](#). 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).

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. The Indonesian economy is showing signs of recovery after the severe financial crisis that hit the country in 1997-98 when the economy contracted by about 20% in aggregate. In 2000 and 2001 the economic growth rates were respectively 4.9% and 3.3%. However, Indonesia's recovery in the real sector remains precarious. Private consumption is the key driver of growth. Slower growth in 2001 was largely due to a slowdown in the trade sectors. The growth rate for export of goods and services plummeted from 26.5% in 2000 to 1.9% in 2001. The negative trend in economic growth was exacerbated by the fact that growth in agriculture, mining and quarrying declined and growth in manufacturing also fell significantly. Inflation has been rising since 2000 and it is estimated that the 2002 average of inflation (based on consumer price index) will reach about 10%.

2. The importance of the agricultural sector (including forestry and fishing) has diminished considerably over the past 20-30 years. Nevertheless, it still accounts for about 40% of total employment and represented over 17% of gross domestic product (GDP) in 2000. Indonesia remains among the world's leading producers of a wide range of agricultural products, accounting for 18% of total exports in 1998. Indonesia attained self-sufficiency in rice production in the mid-1980s, but total output has levelled off in recent years partly due to the transfer of land to non-agricultural uses. In the livestock subsector, there has been a sharp increase in livestock numbers and production, particularly in eastern Indonesia. Most of the total output is consumed domestically, but attempts are being made to tap export markets. In the forestry subsector, Indonesia is the largest exporter of wood and wood products in South-East Asia. East Kalimantan's forest resources have been exploited on a massive scale by logging companies. Despite official policies and regulations, concession areas are seldom managed sustainably, overextraction of timber is commonplace and reforestation obligations are neglected.

3. By law all forest resources come under state administration, with exploitation rights being leased to private companies. The number of operational forest concessions peaked at 579 in 1991, and subsequently fell to 427 in 1997/98. Indonesia has suffered massive deforestation over the past ten to twenty years as a result of the activities of these companies, combined with the effects of forest fires and land clearance for estate crops. Plywood has been the main export due to government policies that banned first the export of logs, then sawn timber. The wood-processing industry has been allowed to

¹ See Appendix I for additional information.



expand without reference to available timber supplies, resulting in vast over-capacity. This situation has been aggravated by the relaxation of the export bans on logs and sawn timber that took place after the financial crisis. The shortfall in the official supply of timber is being met by illegal logging, which is estimated to account for almost half of all timber harvested.

B. Lessons Learned from Previous IFAD Experience

4. Specific lessons from past projects relevant to this programme include: (i) farmers' groups have been used only as a tool to improve the effectiveness of project delivery and have therefore had limited sustainability upon project completion; (ii) village institutions need strengthening to empower local communities to access external institutions; (iii) field extension staff should be reoriented to provide services on a demand-driven, client-focused basis; (iv) the informal/non-farm sector can play a strategic role in diversifying income-generating activities for poor households and in improving their food security and livelihood base; (v) microfinance can be highly effective in reducing poverty but emphasis should be shifted from enabling the poor to access credit to empowering them to manage their own financial resources; (vi) the role of women in farm and non-farm activities is often neglected. Training activities on agriculture and livestock-related topics should be geared towards women. Performance of women's groups is often superior to that of men; (vii) management of natural resources should build on farmers' local knowledge; and (viii) security of tenure of land and natural resources is critical to improving productivity and establishing a sustainable basis for food security.

C. IFAD's Strategy for Collaboration with Indonesia

Indonesia's Policy for Poverty Eradication

5. In the past, the Government introduced a number of special programmes aimed at raising the living standards of the poor. These programmes were generally targeted at villages rather than at poor households. The Government's strategy is now focused on a number of poverty reduction programmes, such as: the Development of Supporting Infrastructure for Less Developed Villages Programme, which provides funding to 'left behind villages' in selected subdistricts specifically for infrastructural improvements; the P4K – Phase III programme funded by IFAD/Asian Development Bank (AsDB), which provides access to microcredit to poor farmers' groups located in more than 120 districts across 12 provinces; and the Sub-District (Kecamatan) Development Program, which provides revolving credit funds in the poorest subdistricts to finance village-level development initiatives.

The Poverty Eradication Activities of other Major Donors

6. There are currently two programmes by the German Agency for Technical Cooperation (GTZ) in East Kalimantan: the Integrated Forest Fire Management; and the Programme for Decentralization and Governance Reform (P4D). Additionally GTZ has in the pipeline a programme for 'capacity-building for local governments and parliaments in the three Kutai districts (West, East and Kartanegara). The Ford Foundation is working on the classification of land claim and tenure and the provision of equipment and training in participatory mapping of community forests. The United States Agency for International Development (USAID), through natural resource and environmental management, is providing training in decentralized community resource management. Both the Ford Foundation and USAID are working with the Department of Forestry in West Kutai district. Finally, CARE has been running an office in West Kutai since 2000. It has implemented programmes in the areas of education, health and agriculture.

7. **Non-governmental organization (NGO) activities.** Since reformasi (Political /Economic Reformation Period following the 1997 *Crismon*), the NGO environment has flourished in East Kalimantan. There are now more than 20 local NGOs, many with a focus on empowering indigenous communities in upland areas. There is a growing perception that the new era of more transparent government demands that NGOs broaden their role beyond their traditional advocacy function to assume direct responsibilities in the execution of development programmes. Some of the NGOs operating in East Kalimantan are meeting this challenge, including System Hutan Kerakyatan (SHK),



NGO Concern for Research about Environmental Issues (BIOMA), *Puti Jaji* (Institute for Indigenous Peoples Empowerment), and Institute for Environment and Peoples Empowerment (PLASMA). These NGOs have the potential to become full partners in the implementation of the proposed programme.

IFAD's Strategy in Indonesia

8. According to the 1998 Country Strategic Opportunities Paper, IFAD should concentrate its financial support in marginal and environmentally degraded areas, with priority given to eastern islands and Kalimantan. Food-deficit marginal farmers, together with indigenous communities and woman-headed households constitute IFAD's priority target group. IFAD support will focus on rainfed agricultural development, microfinance, community infrastructure and off-farm, income-generating activities and assistance to local grass-roots institutions.

Programme Rationale

9. The programme is based on community empowerment through the development of strong self-reliant village-level institutions, both formal and traditional. These institutions will be trained to develop the capacities (in terms of organizational, financial and technical knowledge) necessary to enable them to manage natural resources. Targeted local communities will be responsible for defining the scope of programme activities at the village level, so as to gain full ownership of the development process. NGOs will have the lead role in community empowerment activities, in view of their comparative advantage in fostering effective participation, inclusive of poor households. Finally, the programme will build on the current political and administrative reforms being promoted by the Government. These reforms aim to create a more open society based on improved recognition of the rights of individuals and local communities, while supporting a process of decentralization and regional autonomy.

PART II - THE PROGRAMME

A. Programme Area and Target Group

10. **Programme area.** The programme will cover five of the eight rural districts of East Kalimantan province. Four of the districts, including West Kutai district where the programme will start its activities, were created in October 1999. The districts are subdivided into 73 subdistricts that include 1 074 rural villages and 72 urban villages. Over 60% of the 2.4 million population of East Kalimantan is urbanized. Average population density ranges from over 19/km² in rural areas near the coast to less than 1/km² inland. Population growth averaged 3.5% from 1994-98, well above the national growth rate of 1.6%. Women represent 47.7% of the total population. Average household size is 3.9 people. It is estimated that 25-30% of the total population is composed of major ethnic groups including the Lundayeh, Kenyah, Punan, Bahau, Penehing, Benuaq, Bentian, Dayak Pasir, Tunjung and Kutainese. Many of these groups have a discrete language and culture.

11. The soils of East Kalimantan are generally shallow, have poor nutrient levels and are intensively leached. This, combined with slope (around 60% of land has a slope class of more than 20%) and poor physical conditions, means that only 13% of the area is classified as suitable for annual cropping. The overall pattern of resource use is one of great diversity (over 100 cultivated rice varieties and 200 other cultivated plant species are grown). The large range of extracted plants and animals reflects the tremendous biodiversity of a rainforest managed but not destroyed by local communities, who have learned to utilize their resources in a sustainable manner over hundreds of years. Nearly all households have poultry and only few have cattle. In general, all livestock is extensively managed with almost no inputs in terms of animal health or improved feeding. Newcastle Disease is a major problem that regularly decimates chicken populations.

12. East Kalimantan's forest resources have been exploited by logging concessions on a massive scale. Despite official policies and regulations, concession areas are seldom managed on a sustainable



basis. Over-extraction of timber is commonplace and contractual requirements for reforestation after logging completion are often ignored. Officially, since logging started in the 1960s, 180 million m³ of logs have been extracted from over 4 million ha. Actual area logged, taking into account illegal logging, is believed to be much higher. Areas allocated to logging concessions have invariably included land and forest resources traditionally claimed by local communities under Adat law (Customary Laws). The transfer of these resources away from indigenous communities has usually involved neither consultation nor compensation. Forest fires have also had a devastating effect on the livelihood base of local communities. These fires caused major damage in 1982/83, 1986, 1991, and 1994 as well as in 1997/98 when around 5.2 million ha, or 26% of the total province area, burned.

13. **Target group.** Social Safety Net Program (BKKBN) data classifies 29% of all households in the eight rural districts of East Kalimantan as poor, with a range among districts of 18 to 39%. The main causes of poverty for upland communities are: (i) remote location and limited market opportunities; (ii) progressive destruction of the natural resource base through widespread deforestation and forest fires; (iii) lack of capital and need for new skills to increase productivity; and (iv) poor health and education services. Poor households face considerable food insecurity. Most food shortages tend to occur in the months immediately before the rice harvest. For poorer (usually labour deficient) households, this shortfall in food production may last as long as six months. Coping strategies most commonly involve the collection and sale of non-timber forest products (NTFPs), diversifying food intake, seeking off-farm employment and sale of illegally harvested timber.

B. Objectives and Scope

14. The overall development goal of the programme is to improve the social and economic well-being of the poorest local communities in East Kalimantan (see Appendix III for Logframe). The programme objective is to empower local communities through the development of strong, self-reliant village institutions, which can manage village resources in a productive, sustainable and equitable manner. Specific component objectives include: (i) empowering local communities through the development of durable village institutions; (ii) facilitating provision of the technical and financial resources required for community-based economic development; (iii) improving access to and quality of village education and health services, and strengthening village infrastructure; (iv) establishing the institutional systems necessary for registration by Government of village claims over traditional lands; and (v) developing sufficient capacity for effective programme management.

C. Components

15. The programme will comprise five components: (i) community empowerment; (ii) economic empowerment; (iii) social services and village infrastructure; (iv) security of tenure over land and natural resources; and (v) programme management services.

Community Empowerment

16. This component will strengthen existing formal and traditional village institutions. In addition, it will support the formation of new grass-roots institutions responsible for the planning, budgeting and implementation of economic, social and infrastructural development activities in the village. This will increase the social capital of the village and enable communities to assume full ownership of their development process. All programme-supported development activities will be led by these institutions, which include village representative councils, traditional village councils, self-help groups (SHGs) based on shared concerns and farmers' groups. The programme will contract one NGO to implement this component so as to develop local community capacity to use village-level and programme resources productively, equitably and sustainably.



Economic Empowerment

17. The programme will stimulate food production and household income through improved upland agricultural, forest and livestock production activities and the establishment of off-farm enterprises. These activities will be carried out by SHGs and farmers' groups, who will benefit from the provision of intensive training, financial support and service facilities. The programme will provide: (i) training of field extension workers (PPL) in agribusiness to support on and off-farm activities; (ii) support to establish farmer field schools (FFSs) in each village to improve farmers' knowledge of upland farming systems; (iii) performance-based matching grants to SHGs to enable them to invest in activities such as wet rice cultivation, small estate crops, production of poultry, pigs and small ruminants, veterinary care, development of small fish production units, village nurseries for timber, fruit, fodder and tree seedlings, food and NTFP processing, and trading; (iv) financing to establish demonstration plots; and (v) financial support for a district training centre. A key feature of this component will be the establishment of a Demand-Driven Community Investment Fund (DD-CIF), which will be used to finance matching grants and reforestation, soil and water conservation activities in response to community-identified needs and priorities.

Social Services and Rural Infrastructure

18. Under the primary health care sub-component, the programme will: (i) support the improvement of village and subdistrict health services, through provision of basic equipment and information; (ii) support village health programmes for infectious disease prevention, infant and child nutrition, mother and child care, safe pregnancy, and health and hygiene; and (iii) identify and train village-based health workers and traditional birth attendants.

19. The education sub-component will: (i) improve the quality of programmes in primary and junior high schools, with emphasis on health, nutrition and environmental education, through provision of teaching materials and teacher training; and (ii) provide scholarships to improve access of children from poorer households to junior high schools and relevant vocational training.

20. Finally, the programme will support a small-scale village infrastructure programme, funded through a Demand-Driven Village Infrastructure Fund, in which local communities will be responsible for the identification, planning, implementation and maintenance of their proposed facilities. Areas eligible for programme funding include drinking/domestic water supply, sanitation facilities, upgrading of health clinics and classrooms, irrigation/drainage headwork, village tracks and bridges, and market infrastructure.

Security of Tenure over Land and Natural Resources

21. Under this component, NGOs will initially support local communities in mapping village territorial boundaries and land use patterns as a basis for recognition of their claims. The programme will then assist in the creation of an enabling legal environment to help communities settle disputes over land and natural resources, with subsequent registration by the Government of claims over forestry and agricultural lands, including swidden and fallow lands. Degraded areas over which the village communities have managed to re-establish effective control will be reforested through community-based initiatives. During the first phase, a review of past and ongoing community-based forest management (CBFM) initiatives in East Kalimantan will be undertaken by a research institution under joint supervision by the Center for International Forestry Research and the International Centre for Research in Agroforestry.

Programme Management Services

22. The programme will support the development of the institutional systems necessary for effective implementation. This component will comprise the following activities: (i) selection of personnel and establishment of programme management services at the national, provincial and district levels; (ii) training of core staff in management techniques and project planning, budgeting and financing; (iii) training of administrative staff in administration and accounting;



(iv) establishment of administrative procedures and purchasing rules according to the IFAD Procurement Guidelines; (v) establishment of a monitoring and evaluation (M&E) system; (vi) enhancing coordination among the three levels of the programme management structure; (vii) fostering cooperation between the programme management structure and the concerned government agencies particularly at the district level; and (viii) implementation of activities as per the annual workplan and budget (AWP/B).

D. Costs and Financing

23. **Programme costs.** The programme will be implemented in four phases over a 12-year period under the provisions of the Flexible Lending Mechanism (FLM). The first phase will cover the first three and a half years and has been costed in detail. The total programme cost is estimated at USD 26.47 million. The foreign exchange component is estimated at USD 773 060 or 3% of total programme costs. Around 27% of base costs are allocated to the first phase of the programme, which includes start-up activities. Investment and recurrent costs, respectively, amount to 90% or 10% of first-phase base costs. Tables 1 and 2 refer to the programme costs and financing plan for the 12-year period, while in Appendix IV tables 3 and 4 refer to the first phase only.

24. **Financing.** The programme will be financed by an IFAD loan of USD 19.96 million representing 75.4% of total costs, by district and central Government (21.3%) and by the beneficiaries in terms of labour contributions (3.3%). For the first phase, the Government will finance all recurrent costs and approximately 33% of the total cost of the flexible economic development fund. The beneficiaries will finance 20% of the community-based infrastructure investments. Retroactive financing up to USD 150 000 will be made available to speed up establishment of the district programme management unit (DPMU) and NGO offices, covering the limited procurement of office equipment, transportation, staff training and study tours.

25. **Special Operations Facility (SOF).** A SOF of USD 100 000 will be used to finance the services of national and international consultants to assist the programme in: establishing the necessary implementation procedures; expediting the fulfilment of conditions for loan effectiveness; staff training; finalizing the design of the M&E system; and finalizing the AWP/B for year one, with particular reference to health, education and village-mapping activities.

26. **FLM trigger indicators.** The programme will be implemented in the district of West Kutai in the first phase with parallel capacity-building activities in Malinau district and will gradually expand to three additional districts during the remaining three phases, subject to the achievements of trigger indicators. The following mix of quantitative and qualitative indicators have been agreed during loan negotiations: (i) an effective M&E system is established and operational; (ii) at least 50% of SHGs have been assessed to be 'good' according to criteria set forth in paragraph 11.2 of Schedule 3 of the loan agreement; (iii) at least 75% of the annual targets for DD-CIF activities as provided for in AWP/Bs have been met, and a representative sample of the activities has been assessed as financially viable; (iv) at least 75% of the annual targets for the Demand-Driven Village Infrastructure Fund activities as provided for in AWP/Bs have been met, and maintenance procedures have been established and are effectively operational; (v) at least 25% of farmers have adopted soil-conservation measures; (vi) the enrolment rate of boys and girls of poor households belonging to SHGs and farmers groups in primary schools has increased by 20% and the dropout rate has decreased by 20%; (vii) incidence of illness related to contaminated drinking water and poor sanitation has decreased by 20%; (viii) child malnutrition has decreased by 20%; and (ix) village maps have been produced for 80% of the villages in the programme area, and the maps have been recognized by neighbouring villages and submitted to the District Land Authority for registration.

TABLE 1: SUMMARY OF PROGRAMME COSTS^a
(USD)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Community Empowerment	1 132 220	18 377	1 150 597	2	5
B. Economic Empowerment					
1. Demand-Driven Community Investment Fund	2 147 500	-	2 147 500	-	9
2. Agricultural Services	294 007	7 150	301 157	2	1
Subtotal	2 441 507	7 150	2 448 657	-	10
C. Social Services and Rural Infrastructure					
1. Primary Health Care	226 034	24 315	250 349	10	1
2. Education	312 032	26 032	338 063	8	1
3. Demand-Driven Village Infrastructure Fund	912 414	-	912 414	-	4
Subtotal	1 450 480	50 347	1 500 826	3	6
D. Security of Tenure of Land and Natural Resources	374 352	7 729	382 081	2	2
E. Programme Management Services	687 246	6 189	693 435	1	3
F. Phase 2	6 742 329	208 526	6 950 854	3	28
G. Phase 3	6 992 045	216 249	7 208 294	3	29
H. Phase 4	4 540 289	140 421	4 680 710	3	19
Total Baseline Costs	24 360 468	654 987	25 015 455	3	100
Physical Contingencies	81 204	4 490	85 693	5	-
Price Contingencies	1 255 588	113 584	1 369 172	8	5
Total Programme Costs	25 697 260	773 060	26 470 320	3	106

^aDiscrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD)

	Government		IFAD		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
A. Community Empowerment	62 256	5.1	1 161 348	94.9	-	-	1 223 605	4.6	20 066	1 141 282	62 256
B. Economic Empowerment											
1. Demand-Driven Community Investment Fund	1 321 199	58.0	956 731	42.0	-	-	2 277 930	8.6	-	2 277 930	-
2. Agricultural Services	55 615	17.1	269 760	82.9	-	-	325 375	1.2	7 907	281 265	36 202
Subtotal	1 376 815	52.9	1 226 490	47.1	-	-	2 603 305	9.8	7 907	2 559 195	36 202
C. Social Services and Rural Infrastructure											
1. Primary Health Care	2 866	1.1	269 291	98.9	-	-	272 158	1.0	26 451	242 841	2 866
2. Education	31 255	8.5	338 014	91.5	-	-	369 269	1.4	28 592	309 422	31 255
3. Demand-Driven Village Infrastructure Fund	2 641	0.3	770 904	80.0	190 109	19.7	963 654	3.6	-	963 654	-
Subtotal	36 763	2.3	1 378 210	85.9	190 109	11.8	1 605 081	6.1	55 043	1 515 917	34 121
D. Security of Tenure of Land and Natural Resources	62 642	15.3	347 142	84.7	-	-	409 784	1.5	8 417	361 929	39 438
E. Programme Management Services	108 904	14.8	628 829	85.2	-	-	737 732	2.8	6 691	679 904	51 137
F. Phase 2	1 567 282	20.0	5 994 854	76.5	274 274	3.5	7 836 410	29.6	235 090	7 601 320	-
G. Phase 3	1 330 735	20.0	5 090 060	76.5	232 879	3.5	6 653 674	25.1	260 244	6 393 430	-
H. Phase 4	1 080 146	20.0	4 131 558	76.5	189 026	3.5	5 400 729	20.4	179 602	5 221 127	-
Total Disbursement	5 625 542	21.3	19 958 491	75.4	886 287	3.3	26 470 320	100.0	773 060	25 474 105	223 155

^a Discrepancies in totals are due to rounding.





E. Procurement, Disbursement, Accounts and Audit

27. **Procurement.** Procurement will be in accordance with IFAD guidelines for items financed by the IFAD loan and will be undertaken by the national programme coordination office (NPCO), the provincial programme facilitation unit (PPFU) and the DPMUs for goods and services for their own use. Local competitive bidding will be required for procurement of vehicles, equipment, goods and services, as well as civil contracts over USD 50 000. Prior review by UNOPS will be required for orders over USD 50 000. In the case of orders for the same items under USD 50 000, the goods will be purchased on the basis of local shopping procedures. Goods and services costing less than USD 2 000 will be procured through direct contract.

28. **Disbursement.** The Ministry of Finance will open and maintain a special account for the financing of IFAD's share of eligible expenditures with an authorized allocation of USD 2 million. The purpose of this account will be to receive an advance from the IFAD loan account for the financing of eligible expenditures and to make payments to international suppliers. Disbursements to the special account will be made by IFAD on the basis of withdrawal applications prepared by the DPMUs and submitted through the NPCO and Ministry of Finance. Disbursements from the special account to the programme account, opened in local currency and maintained by the DPMUs, will be made by the Ministry of Finance, quarterly in advance and in accordance with the approved AWP/B. The district government contribution to the programme will also flow into this account, quarterly in advance, via the district treasury. Withdrawals from the loan account may be made against statements of expenditure for categories of expenditures that will be jointly determined by the Government and IFAD. The relevant documentation justifying these expenditures will be retained by the programme and made available for inspection by supervision missions and auditors. All other withdrawals from the loan account will be made on the basis of full supporting documentation.

29. **Accounts and audit.** A full set of accounts will be maintained by the NPCO, PPFU and district management units, in accordance with IFAD's requirements and internationally accepted accounting practices. Financial records will be prepared on a semi-annual basis and submitted to IFAD for review. Audit will be carried out by independent auditors, to be selected in accordance with procedures and criteria agreed by the Government and IFAD. The audit report will be made available to the Government and IFAD within six months of the close of the fiscal year.

F. Organization and Management²

30. The programme will be executed by the Agency for Agricultural Human Resources Development, under the Ministry of Agriculture, through its Centre for Agribusiness Entrepreneurship Development. A National Steering Committee (NSC) shall be established. It will be chaired by the Director General of the lead programme agency, vice-chaired by the Deputy Minister of National Development Planning/*Bappenas* for Natural Resources and Environment, and membership shall include the representatives of the *Bappenas*, the Ministry of Finance, the Ministry of Forestry, the District Land Authority, the *Bupatis* of West Kutai and Malinau, and the head of the *Bappeda* of East Kalimantan Province. An NPCO, located on the premises of the executing agency, will be responsible for the overall coordination of the programme. At the provincial level, a PPFU will be mainly responsible for the monitoring of the programme under the provincial *Bappeda* (Regional Development Planning Agency).

31. Programme implementation will be decentralized at the district level, in accordance with the recent Autonomy Law that became effective in January 2001. In each district, a programme district board (PDB) will be established by the *Bupati* (head of district). The board will comprise a DPMU director (Secretary), a district parliament representative, an indigenous association representative, an NGO representative; four district representatives for agriculture, forestry, health and education

² The programme management chart is presented in Appendix V.



respectively, a district programme management board (DPMB) representative, a DP representative, a district women's organization (PKK) representative and two SHG representatives (one man and one woman). Each PDB will review the activities of the DPMU. The DPMU will be formed as a legally independent entity. The DPMU will be established as the secretariat of the district boards and operate under their direct control. They will function out of an office separate from any government or private institution. These units will have full responsibility for programme implementation. Each DPMU will be staffed by a programme manager, accountant/procurement officer, assistant accountant, agricultural development coordinator, livestock development and animal health coordinator, community forestry/reforestation coordinator, gender specialist (responsible also for health and education) and training coordinator. In addition there will be two secretaries/computer operators, one driver and two general support staff. Staff will be recruited on the basis of merit through open competition.

32. A number of district government agencies will be directly involved in programme implementation, including the *Bappeda*, Department of Agriculture, Department of Forestry, Department of Health, Department of Education, and DPMB (within the office of the *Bupati*). To facilitate coordination between the DPMU and these agencies, activity managers (AMs) will be appointed inside each department. They will be fully accountable for achieving the targets defined in the AWP/B relevant to their department/agency. They will report to the director of their technical department on technical matters and to the DPMU on issues relating to the overall planning and implementation of their agreed development activities.

33. At the village level, responsibility for coordinating and monitoring programme activities will lie with contracted NGOs working in close cooperation with village institutions, PPLs and concerned government agencies. An NGO community facilitator and a PPL will live in each village. Identification of development priorities within the village will be undertaken through participatory planning involving SHGs (women and men) and FFSs.

34. **NGOs.** NGOs contracted by the programme will have a designated coordinator, responsible for ensuring the contractual performance of the NGO and also for maintaining effective communication with the DPMU. All NGO staff will be recruited on a three-year contract, subject to an initial probationary period and renewable on the basis of performance. Additional details of NGOs' working relationship with the programme are presented in Appendix V.

35. **Monitoring and evaluation.** As a prerequisite of the FLM, particular emphasis will be placed on the development of an effective M&E system that will enable decisions regarding the expansion of the programme to new districts. The NPCO in cooperation with the PPFU will contract an external agency for the design and implementation of the M&E system. The agency will be contracted for the first phase and monitored by the PPFU on a daily basis. The system will be operated by M&E officers at the provincial and district level. The district M&E officers will be responsible for compiling quarterly and annual progress reports from information prepared by DPMU staff, AMs and NGO coordinators following prescribed formats. Simple procedures for participatory M&E, to be carried out by SHGs and FFSs, will be established. The output from these participatory M&E activities will be included in routine progress reports. Performance indicators will be defined for inputs and outputs in physical and financial terms. In addition, a set of key performance indicators will be selected to assess the outcomes of the various programme components and activities. In defining these indicators, the overall objective was to identify a limited set of easily measurable indicators to act as a general proxy for overall programme performance. Performance will be assessed annually against these indicators.

G. Economic Justification

36. **Beneficiaries.** It is estimated that over the 12-year implementation period, the programme will cover five districts and a total of 240 villages, i.e. 22% of rural villages in East Kalimantan. The total number of households benefiting from investment activities funded through the DD-CIF is estimated



at 24 000. Another 15 000 households will benefit from small-scale village infrastructure, village mapping and strengthening of village-level institutions. Based on an average household size of 3.9 members, the total number of beneficiaries will be 160 000. Total programme costs per household will be USD 678, or USD 162 per beneficiary.

37. **Economic analysis.** Given the demand-driven nature of the programme, it is not possible to generate a realistic economic rate of return for the overall programme. Nevertheless, there are indications that the economic benefits are likely to be reasonably high. The main tangible economic benefits of the programme would be the incremental value of crop, livestock, and forestry production resulting from improved technologies and management systems promoted by the programme linked with increased provision of credit. East Kalimantan is a net importer of the main food crops to be produced by the programme, and also of red meat. Due to the extreme remoteness of many areas within the province and high transport costs, the economic value of local production is likely to be at least as high, if not higher, than current financial farm gate prices. Most of the main cash crops produced in the programme area, including coffee, rubber and cacao are major export commodities destined for unregulated world markets. The economic cost of the environmental damage currently being incurred is high.

38. **Gender.** The programme is expected to have a significant positive impact on women. Under the programme all household-level investments will be financed through SHGs, a large proportion of which will be composed of women. This will ensure an increased role for women in the management of the household economy, which will enhance their status, as they will be seen as managers of household savings and providers of income. Through SHGs, women will also receive training to equip them for participation in the management of group activities, and eventually to enhance their role in larger community institutions such as the village representative council. A strengthened role for women in managing household finances is likely to translate into improved nutrition, health care and educational opportunities for children. Women in remote areas consistently cite lack of access to health care and educational facilities, and the quality of such facilities, as major problems. Women and children are therefore likely to be the major beneficiaries of the proposed health and education interventions of the programme. Economic and social empowerment of women through the establishment of strong women's groups will also yield benefits in terms of improved ability of indigenous women to manage their dealings with outside concerns, such as logging and mining operations, where they have been prone to exploitation in the past.

39. **Household food security and nutrition.** The programme will result in a significant improvement in food security for many households. Models 1-3 (more details are presented in Appendix VI), all based on upland swidden production, move from a 30% deficit to a 10% surplus (including rice and maize production). Model 4, based on improved swidden production plus development of a small area of wet rice, moves from a 10% deficit to a 70% surplus. Model 5, involving enhanced swidden production plus improvement of existing wet rice production, moves from a 10% surplus to a 70% surplus. Many households have substantially larger food deficits than indicated by the models, particularly where the area of swidden is constrained by a lack of household labour. Additional income generated by cash crop and livestock activities will also contribute to the achievement of food security. For many households, this additional cash income will be substantial, providing an important means of financing food deficits.

H. Risks

40. **Limited capacity of district governments.** As discussed above, a number of districts, among them West Kutai, were established in 1999. As a consequence, their administrative capacity is still weak. This issue is being addressed by proposing the establishment of an independent programme management structure that will neither rely on, nor make excessive demands of, existing government capacity. Programme management will be supported by comprehensive management training for DPMU staff, AMs and NGO coordinators.



41. **NGO capacity and coverage.** The programme will contract local NGOs to work with target communities, particularly for capacity-building of village institutions. Priority will be given to the training of local NGOs both before programme start-up and during implementation. One of the reasons for selecting the West Kutai district for the first phase was to take advantage of field work already completed by NGOs active in the district. Experience and knowledge arising from this work can be transferred to other districts in subsequent phases of the programme.

42. **NGO attitudes.** Many local NGOs still regard the Government with suspicion. A working environment must be created that will encourage government and non-government service providers to collaborate in pursuit of a common goal. The establishment of independent DPMUs, operating under a governance structure that includes representation from NGOs and civil society organizations as well as government, is expected to address this issue. Furthermore, a positive change in NGOs' attitudes is already underway following the decision of the *Bupati* of West Kutai to appoint as a programme manager the former director of *Puti Jaji*. This is a clear acknowledgement by the Government of the legitimate role of NGOs and the valuable contribution they can make to the development process.

43. **Need for intensive supervision and IFAD's involvement during implementation.** This highly innovative programme requires a level of intensive supervision currently beyond the resources and capacities available in the cooperating institution. Therefore it will be necessary to mobilize additional resources from supplementary funds to enable IFAD to assist UNOPS in its supervision and to provide effective implementation support to the programme.

I. Environmental Impact

44. Over-logging, land clearance for estate crop and industrial forest plantations, forest fires and mining have all resulted in land degradation on a massive scale, characterized by impoverishment of soil resources, soil erosion, contamination of water resources and loss of biodiversity. The underlying cause of this environmental decline is the loss of control over the natural resource base by local communities. To address this situation, the programme will support the: (i) development of strong village institutions capable of managing natural resources sustainably; (ii) reforestation of degraded areas; (iii) reduction of soil erosion through water and soil conservation techniques; and (iv) gradual introduction of CBFM operations to encourage the sustainable management of remaining forest resources for the longer-term benefit of the community.

J. Innovative Features

45. The programme introduces the following innovative features: (i) adoption of a highly decentralized management structure entrusting district governments with responsibility for implementation; (ii) promotion of community empowerment through development of strong, effective village institutions; (iii) full involvement of local NGOs in project implementation in recognition of their commitment to working with indigenous communities in remote areas; (iv) an independent management structure to facilitate the involvement of non-government stakeholders and a system of programme governance involving government, NGO, civil society and community representatives; (v) adoption of a *design that is strongly process-driven* rather than prescriptive in terms of the kind of activities being financed; (vi) establishment of highly flexible financing arrangements to ensure that programme management has the capacity to respond to the demands expressed by target communities; and (vii) strong focus on *CBFM as a means of preventing further environmental degradation*.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

46. 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 programme loan agreement is attached as an annex.



47. The Republic of Indonesia is empowered under its laws to borrow from IFAD.
48. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV – RECOMMENDATION

49. 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 fifteen million one hundred thousand Special Drawing Rights (SDR 15 100 000) to mature on and prior to 1 September 2042 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.

Lennart Båge
President



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

(Loan negotiations concluded on 4 December 2002)

1. **Channelling of programme resources.** The Minister for Finance of the Government of Indonesia (the Government) will transfer available funds and other resources called for in the AWP/Bs to the programme parties to carry out the programme activities in accordance with the programme memorandum of understanding, the implementation agreements, contracts and other programme loan documents.

2. **Programme memorandum of understanding (MOU).** The Agency for Agriculture Human Resources Development under the Ministry of Agriculture of the Government, the provincial governments and the district governments will enter into a memorandum of understanding (the "programme MOU"), which will provide, among other things, for the financial management system and procedures for loan disbursement and reimbursement, flow of funds, operation of the special accounts and programme accounts, release of programme funds, government counterpart funds, procurement, financial and progress reporting and auditing under the programme, and such other provisions as the Government and IFAD may agree for the implementation of the programme in accordance with the programme loan agreement. The Government will submit a draft of the programme MOU to IFAD for comments and approval before its signature. The programme MOU will not be amended or otherwise modified in any material respect without the prior consent of IFAD.

3. **Programme accounts.** As soon as practicable after the date of the signature of the programme loan agreement but in any event prior to the effective date, three programme accounts denominated in rupiah will be opened and thereafter maintained in commercial banks acceptable to IFAD to finance programme operations:

- (i) National programme account. A duly authorized official of the NPCO will be authorized to open, maintain and operate the national programme account.
- (ii) Provincial programme account. A duly authorized official of the provincial programme facilitation unit (PPFU) will be authorized to open, maintain and operate the provincial programme account.
- (iii) District programme account. A duly authorized official of the district programme management unit (DPMU) will be authorized to open, maintain and operate the district programme account.

The Government will annually make available to the national and district programme accounts the amount of counterpart contributions specified in the AWP/B for each programme year in accordance with the relevant AWP/B.

4. **Counterpart contribution.** During the programme implementation period, the Government will make available to the NPCO and DPMU counterpart funds from its own resources, including national and district resources, in an approximate aggregate amount in rupiah equivalent to approximately USD 5 620 000 to finance part of the operating costs, vehicle and equipment costs, and the reforestation activities funded under the DD-CIF. For such purposes, the Government will make budgetary allocations for each fiscal year equal to the counterpart contributions called for in the AWP/B for the relevant programme year (PY). It will make such allocations available to NPCO and DPMU quarterly in advance on the programme accounts and will exempt from taxes the importation, procurement and supply of all goods and services financed by the loan. The Government will transfer



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available funds and other resources called for in the AWP/Bs to the programme parties to carry out the programme activities.

5. **National programme coordinator.** The Agency for Agriculture Human Resources Development under the Ministry of Agriculture of the Government will appoint the national programme coordinator for a period of three years, subject to the prior approval of IFAD. The national programme coordinator will be selected, among other things, on the basis of his or her commitment to poverty reduction and willingness to work with NGOs. He or she may only be removed by the agency after prior consultation with IFAD.

6. **Establishment of DPMU.** The DPMU will be established as a legal separate entity by decree of the district head.

7. **Programme manager.** The DPMU will be headed by a programme manager appointed by decree by the district head for a period of three years and subject to the approval of IFAD. The programme manager will be selected, among other things, on the basis of his or her commitment to poverty reduction and willingness to work with NGOs. He or she may only be removed by the district head after prior consultation with IFAD.

8. **District liaison officers.** A district liaison officer will be appointed from each of the following district government services: *Bappeda*, agriculture, forestry, health, education and the DPM.

9. **Staff recruitment.** All staff members of the DPMU, NPCO and provincial programme facilitation units (PPFUs) will be recruited for a period of three years. The NPCO and DPMU staff will be subject to an initial probationary period on the basis of qualification, merit and expertise. All contracts will be renewable on the basis of performance.

10. **Subsidiary agreement.** The programme manager of the DPMU will be duly authorized to enter into subsidiary agreements with village executive bodies and village representative councils for the purpose of implementing the demand-driven village infrastructure fund (DD-VIF). The DPMU will send IFAD a copy of the approved subsidiary agreement duly signed by all parties.

11. **Contractual arrangements for implementing agencies.** Most of the programme's activities will be carried out through outsourcing arrangements using the services of NGOs, private-sector contractors, district governmental line agencies and other competent actors (collectively, "implementing agencies") chosen under terms of reference prepared by the DPMU and approved by IFAD. Each selected implementing agency and the DPMU will enter into a contract (the "implementing agency agreement") for the implementation of the accepted proposal. Among other things, in the implementing agency agreement, the implementing agency will declare its commitment to furthering the programme's goals and purposes, and it will undertake to carry out the activities of the accepted proposal in accordance with the programme loan agreement. The implementing agencies will submit quarterly and consolidated annual progress reports on programme implementation and financial reports and records.

12. **NGO implementing agreement.** The DPMU will submit a draft NGO implementing agreement to IFAD for comments and approval. Following approval of the draft, the DPMU will send a copy of the NGO implementing agreement, duly signed, to IFAD.

13. **DD-CIF grant contracts.** The DPMU will enter into a grant contract satisfactory to IFAD with each farmers' group with respect to the activities financed by the DD-CIF. The grant contract will provide, among other things, that the recipient of the grant will undertake to implement the activities in accordance with the programme's goals and purposes, and that the DPMU will transfer the available funds in rupiah as a grant in accordance with the programme loan agreement and the criteria and procedures set forth in the programme implementation manual.



14. **DD-VIF grant contracts.** The DPMU will enter into a contract satisfactory to IFAD with each authorized village representative council and village executive body with respect to the activities financed by the DD-VIF. The contract will stipulate, among other things, that the programme party will undertake to implement the activities in accordance with the goals and purposes of the programme loan agreement, and that the DPMU will transfer the available funds in rupiah to the village executive bodies as a grant in accordance with the programme loan agreement and the criteria and procedures set forth in the programme implementation manual.
15. **Seedling purchase contracts.** For the purpose of purchasing seedlings for reforestation by the programme, the DPMU will enter into a contract satisfactory to IFAD with the official representative of the nurseries included in the reforestation plan. These nurseries are set up on private land and funded through private resources.
16. **Phases.** The programme will be implemented in four phases of three years each over a 12-year period. The mid-term reviews will analyse the minimum indicators specified in the programme loan agreement that will be used as triggers for the confirmation, by IFAD, of funding for and detailed design of the subsequent programme phase.
17. **Decentralization.** The Government will take all measures that are necessary or appropriate to ensure that the programme is implemented through a decentralized system that places management responsibilities at the village and district levels, monitoring responsibilities at the provincial level and coordination responsibilities at the national level.
18. **Management appointment and training.** The Government will ensure that the programme manager of the DPMU and the senior staff of the contracted NGO are appointed and commence management training in the organizational and financial systems, prior to effectiveness date.
19. **Distribution of material.** The Government will ensure that the appraisal report of the programme is translated in *Bahasa Indonesia* and is distributed to programme parties prior to the effectiveness date.
20. **Tax exemption.** The Government will exempt from taxes the importation, procurement and supply of all goods and services financed by the loan. The value of such exemptions will be credited against the obligation of the Government to provide counterpart funds for the programme.
21. **Auditors.** Within three months of effectiveness, the Government will have selected and appointed independent auditors.
22. **Monitoring.** The Government, through the NPCO, will establish an appropriate information management system as soon as practicable, but in no event later than six months after the effective date of the programme loan agreement. Thereafter, it will maintain the system so as to continuously monitor the programme in accordance with the programme loan agreement based on indicators agreed by the Government and IFAD. The monitoring and evaluation system will include routine monitoring of physical and financial progress including monthly reports, quarterly and annual progress reports based on data collected by DPMUs and compiled by PPFU and NPCO, performance indicators to be defined for inputs and outputs in both physical and financial terms and to be agreed upon by the Agency for Agriculture Human Resources under the Ministry of Agriculture of the Government and IFAD, and participatory evaluation exercises to be carried out every year to enable the target group to evaluate the progress of the programme according to their own criteria.
23. **Programme implementation manual.** Before the effective date of the programme loan agreement, the Government will prepare a draft programme implementation manual with terms of



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reference approved by IFAD. The programme implementation manual will have been approved by IFAD.

24. **Pest management practices.** As part of maintaining sound environmental practices as required by section 7.15 of the General Conditions, the programme parties will maintain appropriate pest management practices under the programme. To that end, the Government will 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, as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization Recommended Classification of Pesticides by Hazard and Classification 1996-1997, as amended from time to time.

25. **Conditions precedent to disbursement.** The conditions precedent to loan disbursement are as follows:

- (i) No disbursement will be made from the loan in respect of expenditures for the DD-CIF and the DD-VIF until those funds have been duly established.
- (ii) No disbursement will be made from the loan in respect of expenditures under the second, third and fourth phases until IFAD is satisfied that the trigger indicators have been met and has approved the conclusions of the mid-term reviews scheduled in PYs 4, 7 and 10, which will condition the progress from the first to the second phase and to the subsequent third and fourth phases.

26. **Additional events of suspension.** The following are specified as additional events of suspension of the right of the Government to request disbursement from the loan:

- (i) IFAD has determined, based on criteria set forth in the implementation agreements between the NGOs and the DPMU and after consultation with the Government, that the partnership between the DPMU and the NGOs participating in the programme is less than satisfactory;
- (ii) the programme implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme;
- (iii) the Government and IFAD have not agreed on the recommendations, action plans and designs resulting from the mid-term reviews with respect to the second, third and fourth phases within the time specified therefor, or the same have not been implemented within the time specified therefor;
- (iv) on the basis of the mid-term reviews, IFAD has determined that the trigger indicators specified in the programme loan agreement have not been satisfactorily met within the time specified therefor.

27. **Additional events of cancellation.** The following are specified as additional events of cancellation of the right of the Government to request disbursement for the loan:

- (i) On the basis of the recommendations of mid-term reviews, IFAD has determined or the mid-term review has recommended that the programme be terminated.
- (ii) IFAD has determined that the conditions precedent to each phase of the programme have not been met.



28. **Conditions of effectiveness.** The following are additional conditions precedent to the effectiveness of the programme loan agreement:

- (i) the NPCO will have been duly established by notification of the Agency for Agriculture Human Resources Development under the Ministry of Agriculture, and a national programme coordinator will have been duly appointed by the Government by notification of the Agency for Agriculture Human Resources Development under the Ministry of Agriculture and approved by IFAD;
- (ii) a programme memorandum of understanding will have been jointly endorsed by the Agency for Agriculture Human Resources Development under the Ministry of Agriculture, the provincial governments and the district governments;
- (iii) the district programme management board and its secretariat the DPMU will have been duly established by decree of the district head of West *Kutai*, and the staff of the DPMU will have been selected and recruited;
- (iv) the NGO responsible for implementation of the community empowerment component will have been selected by the DPMU and approved by IFAD;
- (v) the programme implementation manual will have been approved by IFAD and adopted by the DPMU;
- (vi) the Government will have duly opened the special account, and three programme accounts will have been duly opened by the NPCO, the PPFU and the DPMU;
- (vii) the programme loan agreement will have been duly signed, and the performance by the Government thereof will have been duly authorized and ratified by all necessary administrative and governmental actions; and
- (viii) a favourable legal opinion, issued by the Minister for Law and Human Rights of the Government, in form and substance acceptable to IFAD, will address favourably that the conditions of effectiveness have been fulfilled, that the programme loan agreement is legally binding on the Government regardless of any law to the contrary in its territory and is supported by the full faith and credit of the Government, and will certify that the programme loan agreement is legally binding upon the districts regardless of any law to the contrary in its territory.

APPENDIX I

COUNTRY DATA

INDONESIA

Land area (km² thousand) 2000 1/	1 812	GNI per capita (USD) 2000 1/	570
Total population (million) 2000 1/	210.4	GNP per capita growth (annual %) 2000 1/	2.7
Population density (people per km²) 2000 1/	116	Inflation, consumer prices (annual %) 2000 1/	20.5 a/
Local currency	Rupiah (IDR)	Exchange rate: USD 1 =	IDR 9 000
Social Indicators			
Population (average annual population growth rate) 1980-99 2/	1.8	Economic Indicators	153 255
Crude birth rate (per thousand people) 2000 1/	22 a/	1.8 GDP (USD million) 2000 1/	
Crude death rate (per thousand people) 2000 1/	7 a/	Average annual rate of growth of GDP 2/	
Infant mortality rate (per thousand live births) 2000 1/	42 a/	1980-90	6.1
Life expectancy at birth (years) 2000 1/	66 a/	1990-99	4.7
Number of rural poor (million) (approximate) 1/	n.a.	66 a/ Sectoral distribution of GDP 2000 1/	
Poor as % of total rural population 2/	n.a.	% agriculture	17
Total labour force (million) 2000 1/	101.8	% industry	47
Female labour force as % of total 2000 1/	41	% manufacturing	26
		% services	36
		Consumption 2000 1/	
Education		General government final consumption expenditure (as % of GDP)	7
School enrolment, primary (% gross) 2000 1/	113 a/	Household final consumption expenditure, etc. (as % of GDP)	67
Adult illiteracy rate (% age 15 and above) 2000 1/	13	Gross domestic savings (as % of GDP)	26
Nutrition			
Daily calorie supply per capita, 1997 3/	2 886	Balance of Payments (USD million)	
Malnutrition prevalence, height for age (% of children under 5) 2000 1/	n.a.	Merchandise exports 2000 1/	62 016
Malnutrition prevalence, weight for age (% of children under 5) 2000 1/	n.a.	Merchandise imports 2000 1/	33 547
		Balance of merchandise trade	28 469
		Current account balances (USD million)	
Health		1.6 before official transfers 1999 1/	3 871
Health expenditure, total (as % of GDP) 2000 1/	0.12	after official transfers 1999 1/	5 785
Physicians (per thousand people) 1999 1/	76	Foreign direct investment, net 1999 1/	-2 817.0
Population using improved water sources (%) 1999 4/	80		
Population with access to essential drugs (%) 1999 4/	66	Government Finance	
Population using adequate sanitation facilities (%) 1999 4/		Overall budget deficit (including grants) (as % of GDP) 1999 1/	-1.1
		Total expenditure (% of GDP) 1999 1/	19.5
Agriculture and Food		11 a/ Total external debt (USD million) 1999 1/	150 096
Food imports (% of merchandise imports) 1999 1/	1 546	Present value of debt (as % of GNI) 1999 1/	114
Fertilizer consumption (hundreds of grams per ha of arable land) 1998 1/	119.9	Total debt service (% of exports of goods and services) 1999 1/	30.3
Food production index (1989-91=100) 2000 1/	4 031		
Cereal yield (kg per ha) 2000 1/		Lending interest rate (%) 2000 1/	18.5
		Deposit interest rate (%) 2000 1/	12.5
Land Use			
Arable land as % of land area 1998 1/	9.9		
Forest area (km ² thousand) 2000 2/	1 050		
Forest area as % of total land area 2000 2/	58.0		
Irrigated land as % of cropland 1998 1/	15.5		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database

2/ World Bank, *World Development Indicators*, 2001

3/ UNDP, *Human Development Report*, 2000

4/ UNDP, *Human Development Report*, 2001

PREVIOUS IFAD FINANCING

<i>Region</i>	<i>Country</i>	<i>Project Id</i>	<i>Project/Programme 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>
PI	Indonesia	35	Smallholder Cattle Development Project	IFAD	World Bank: IBRD	I	06 May 80	01 Oct 80	31 Mar 87	L - I - 35 - ID	SDR	20 800 000	0.99325331
PI	Indonesia	74	Sulawesi Paddy Land Development Project	IFAD	AsDB	HC	08 Sep 81	29 Sep 82	31 Dec 90	L - I - 74 - ID	SDR	30 050 000	0.78794032
PI	Indonesia	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	21 800 000	1
PI	Indonesia	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	11 600 000	0.81457744
PI	Indonesia	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	10 600 000	0.94398393
PI	Indonesia	255	East Java Rainfed Agriculture Project	IFAD	AsDB	I	19 Apr 90	09 Oct 90	31 Mar 99	G - I - 502 - ID	USD	22 000	0.99140773
PI	Indonesia	255	East Java Rainfed Agriculture Project	IFAD	AsDB	I	19 Apr 90	09 Oct 90	31 Mar 99	L - I - 255 - ID	SDR	15 400 000	0.79458114
PI	Indonesia	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	14 450 000	0.30830142
PI	Indonesia	350	Eastern Islands Smallholder Cashew Development Project	IFAD	UNOPS	I	19 Apr 94	29 Jul 94	30 Sep 02	L - I - 350 - ID	SDR	18 450 000	0.56656561
PI	Indonesia	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	100 000	0.34931
PI	Indonesia	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	12 050 000	0.39811857
PI	Indonesia	1024	P4K - Phase III	AsDB	AsDB	I	04 Dec 97	09 Jul 98	30 Sep 05	L - I - 458 - ID	SDR	18 250 000	0.69073037
PI	Indonesia	1112	Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas	IFAD	IFAD	HC	04 May 00	31 Jan 01	30 Sep 09	G - I - 99 - ID	USD	60 000	0.99366817
PI	Indonesia	1112	Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas	IFAD	IFAD	HC	04 May 00	31 Jan 01	30 Sep 09	L - I - 539 - ID	SDR	17 500 000	0.14754929



LOGICAL FRAMEWORK MATRIX

<u>Programme Strategy</u>	<u>Objectively Verifiable Indicators</u>	<u>Sources of Verification</u>	<u>Assumptions</u>
<p>DEVELOPMENT OBJECTIVE To improve the social and economic well-being of the poorest local communities in East Kalimantan.</p>	<p>Increased household incomes Reduced number of poor households Improved household food security throughout the year</p> <p>Improved village infrastructure</p> <p>Reduced prevalence of malnutrition among children <5 years</p> <p>Improved household access to safe drinking water</p> <p>Improved household access to adequate sanitation</p> <p>Increased male and female literacy rates</p> <p>Increased levels of school enrolment</p>	<p>Routine Central Statistics Office (BPS) and Social BKKBN household poverty surveys</p> <p>Routine BPS and PMD 'left behind' village classifications</p> <p>Health and education service statistics</p> <p>Programme progress reports</p> <p>Programme evaluation reports</p> <p>Representative household surveys at benchmark and at the end of each phase</p>	
<p>PROGRAMME OBJECTIVE To empower local communities through the development of strong self-reliant village-level institutions capable of managing village resources in a productive, sustainable and equitable manner.</p>	<p>Number of community organizations formed and sustained Improved security of tenure over land and natural resources</p>	<p>Programme progress reports</p>	<p>Participatory mapping exercises and strengthening of village institutions will enable villagers to obtain increased security of tenure over land and natural resources, thus leading to more sustainable use of the natural resource base.</p>



<u>Programme Strategy</u>	<u>Objectively Verifiable Indicators</u>	<u>Sources of Verification</u>	<u>Assumptions</u>
<p>COMPONENT 1: COMMUNITY EMPOWERMENT</p> <p>Objective: To empower local communities through the development of strong and self-sustaining village institutions with improved access to and control over productive resources.</p> <p>Key Outputs:</p> <ol style="list-style-type: none"> 1. Functional self-help affinity groups established. 2. Identification of needs of poor households by the poor. 3. Programme management is responsive to the expressed needs of beneficiaries and works with them to fulfil these needs. 	<ol style="list-style-type: none"> 1. Number of groups/ members 2. Number of groups with rules and regulations and accounting systems 3. Number of meetings, regularity of meetings, attendance of members at meetings 4. Amount of savings 5. Loan performance 	<p>Project Progress reports</p> <p>NGO progress reports</p> <p>SHG reports and books</p> <p>M&E reports</p> <p>PMD data</p> <p>AWPBs</p>	<ol style="list-style-type: none"> 1. NGOs are prepared to become fully committed to the programme. 2. Sufficient suitably qualified staff available for NGO activities. 3. The target group acknowledges the objective of the programme and is prepared to take ownership of the development process. 4. Current regional autonomy initiatives maintain momentum and result in increased self-determination for villages. 5. Representative and transparent institutions/processes can be established at the village level. 6. Establishment of functional village parliaments and LKMD.
<p>COMPONENT 2: ECONOMIC EMPOWERMENT</p> <p>Objective: To facilitate provision of the technical and financial resources required for community-based economic development.</p> <p>Key Outputs:</p> <ol style="list-style-type: none"> 1. Functional farmers' groups established. 2. Government agricultural extension services upgraded to support project activities. 3. Functional FFSs established. 4. Newcastle Disease control programme established. 5. Implementation of common action projects funded from the DD-CIF. 	<ol style="list-style-type: none"> 1. Number and size of farmers' groups, regularity of meetings, amount of savings, lending activities, loan performance, training provided 2. Number of PPLs in place in the villages 3. Number of PPLs trained 4. Number of FFSs established 5. Number of key farmers trained 6. Number of demonstration plots established 7. Number of subdistricts covered by cold chain 8. Number and value of project proposals by type, number of villages and benefiting households 	<p>Project Progress reports</p> <p>NGO progress reports</p> <p>M&E reports</p> <p>Farmers' groups records and books</p> <p>AWPBs</p>	<ol style="list-style-type: none"> 1. Government extension services can be upgraded to provide effective capacity. 2. One PPL is posted to each village for the duration of programme activities 3. Proposals for DD-CIF are evaluated according to sound financial, technical, sustainability and equity criteria. 4. There is sufficient financial capacity and demand within target communities to establish Savings and Credit (S&C) operations.



<u>Programme Strategy</u>	<u>Objectively Verifiable Indicators</u>	<u>Sources of Verification</u>	<u>Assumptions</u>
<p>COMPONENT 3: SOCIAL SERVICES AND RURAL INFRASTRUCTURE</p> <p>Objective: To improve access to and quality of village education and health services, and to improve village infrastructure.</p> <p>Key Outputs: <i>Primary Health Care</i></p> <ol style="list-style-type: none"> 1. Village health posts upgraded. 2. Trained health service staff. 3. Improved health extension materials. 4. Village health workers identified and trained <p><i>Education</i></p> <ol style="list-style-type: none"> 1. Scholarships for primary and junior high school students. 2. Teacher training for nutritional, health and environmental education 3. Improved educational equipment. 4. Improved classroom facilities. 5. Scholarships for vocational training. <p><i>Small-Scale Village Infrastructure</i> Village infrastructure microprojects implemented.</p>	<ol style="list-style-type: none"> 1. Number of health posts established, equipment supplied, number of staff in place 2. Number of staff trained, type and length of training 3. Amount and quality of materials produced, materials distributed 4. Rate of chronic malnutrition among infants and children <ol style="list-style-type: none"> 1. Number of scholarships provided by type, average value 2. Number of teachers trained 3. Materials produced, materials distributed 4. Number of school books given to poor children <ol style="list-style-type: none"> 1. Number of proposals received by DPMU 2. Number approved 3. Number implemented, by type and value 	<p>Project Progress reports</p> <p>NGO progress reports</p> <p>Accounts of village health funds M&E reports</p> <p>Dept. Health/Education statistics</p> <p>AWPBs</p>	<ol style="list-style-type: none"> 1. Suitable candidates can be identified for training as village health workers. 2. Trained health service staff remain at the village health posts. <ol style="list-style-type: none"> 1. Sufficient staff available for full staffing of primary and junior high schools. <ol style="list-style-type: none"> 1. Village parliament and community groups have the required capacity for successful implementation of these microprojects.
<p>COMPONENT 4: SECURITY OF TENURE OVER LAND AND NATURAL RESOURCES</p> <p>Objective: To develop the systems necessary for recognition by Government of village claims over land.</p> <p>Key Outputs:</p> <ol style="list-style-type: none"> 1. Registration procedures for village boundaries finalized. 2. Draft village boundary maps recognized by government agencies and neighbouring villages. 3. Final maps prepared. 4. Village land use maps prepared. 5. Conflict resolution mechanisms developed 	<ol style="list-style-type: none"> 1. Number of village boundaries recognized 2. Number of maps completed 3. Number of conflicts resolved 	<p>Project progress reports M&E reports Bappeda/BPN records</p>	<ol style="list-style-type: none"> 1. Provincial and district government agrees on certification procedures.

<u>Programme Strategy</u>	<u>Objectively Verifiable Indicators</u>	<u>Sources of Verification</u>	<u>Assumptions</u>
<p>COMPONENT 5: PROFESSIONAL INSTITUTIONAL SERVICES</p> <p>Objective: To establish sufficient capacity for effective management of the programme.</p> <p>Key Outputs:</p> <ol style="list-style-type: none"> 1. National programme coordination office, provincial programme facilitation unit and district programme management unit and governance structure established. 2. PCU, PPFU and DPMUs fully staffed. 3. Staff trained. 4. Management systems established. 5. Coordination systems established. 6. Monitoring systems established. 	<ol style="list-style-type: none"> 1. SK issued by provincial and district governments. Number of units established 2. Number of staff recruited 3. Training provided and number of staff trained 4. Quantity and frequency of progress/performance reports produced 5. Physical and financial progress of the project on schedule 6. Regular M&E reports being produced. 	<p>Project progress reports NGO progress reports M&E reports</p>	<ol style="list-style-type: none"> 1. Government agrees to a legally independent programme management structure. 2. Sufficient staff with appropriate experience and qualifications can be recruited for effective operation of the PCU, PPFU and DPMUs. 3. Continuity of staff 4. Effective coordination and communication among PPFU, DPMUs, and contracted NGOs.

EXPENDITURE ACCOUNTS BY COMPONENT

**Table 1: Expenditure Accounts by Component – Totals Including Contingencies (Phase 2 – 4)
(USD)**

	Economic Empowerment			Social Services and Rural Infrastructure		Security of Tenure		Programme Management	Phase 2	Phase 3	Phase 4	Total
	Community Empowerment	Demand-Driven Community Investment Fund	Agricultural Services	Primary Health Care	Education	Demand-Driven Village Infrastructure Fund	of Land and Natural Resources					
I. Investment Costs												
A. Civil Works	-	-	-	-	-	950 543	-	-	-	-	-	950 543
B. Vehicles	110 505	-	-	-	-	-	87 239	85 291	-	-	-	283 035
C. Equipment & Material	159 272	-	156 876	12 420	135 440	-	56 950	68 664	-	-	-	589 622
D. Local/regional TA	814 421	-	38 022	-	-	-	38 058	95 539	-	-	-	986 040
E. Studies & Workshops	-	-	-	-	-	-	1 188	33 078	-	-	-	34 265
F. Training	139 407	-	18 713	259 738	233 829	-	62 267	40 500	-	-	-	754 454
H. Demand-Driven Community Investment Fund	-	2 277 930	-	-	-	-	-	-	-	-	-	2 277 930
I. Phase 2	-	-	-	-	-	-	-	-	7 836 410	-	-	7 836 410
J. Phase 3	-	-	-	-	-	-	-	-	-	6 653 674	-	6 653 674
K. Phase 4	-	-	-	-	-	-	-	-	-	-	5 400 729	5 400 729
Total Investment Costs	1 223 605	2 277 930	213 611	272 158	369 269	950 543	245 701	323 072	7 836 410	6 653 674	5 400 729	25 766 702
II. Recurrent Costs												
A. Salaries & Allowances	-	-	111 739	-	-	13 111	96 283	242 962	-	-	-	464 095
B. Operating & Maintenance	-	-	-	-	-	-	67 800	171 699	-	-	-	239 498
Total Recurrent Costs	-	-	111 739	-	-	13 111	164 083	414 661	-	-	-	703 593
Total PROGRAMME COSTS	1 223 605	2 277 930	325 350	272 158	369 269	963 654	409 784	737 732	7 836 410	6 653 674	5 400 729	26 470 295
Taxes	62 256	-	36 202	2 866	31 255	-	39 438	51 137	-	-	-	223 155
Foreign Exchange	20 066	-	7 905	26 451	28 592	-	8 417	6 691	235 090	260 244	179 602	773 058



**Table 2: Expenditure Accounts by Financier (Phase 1 – 4)
(USD)**

	Government		IFAD		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
I. Investment Costs											
A. Civil Works	-	-	760 435	80.0	190 109	20.0	950 543	3.6	-	950 543	-
B. Vehicles	65 316	23.1	217 719	76.9	-	-	283 035	1.1	-	217 719	65 316
C. Equipment & Material	136 067	23.1	453 555	76.9	-	-	589 622	2.2	22 678	430 877	136 067
D. Local/regional TA	-	-	986 040	100.0	-	-	986 040	3.7	-	986 040	-
E. Studies & Workshops	-	-	34 265	100.0	-	-	34 265	0.1	-	34 265	-
F. Training	0	-	754 454	100.0	-	-	754 454	2.9	75 444	679 009	-
H. Demand-Driven Community Investment Fund	1 321 199	58.0	956 731	42.0	-	-	2 277 930	8.6	-	2 277 930	-
I. Phase 2	1 567 282	20.0	5 994 854	76.5	274 274	3.5	7 836 410	29.6	235 090	7 601 320	-
J. Phase 3	1 330 735	20.0	5 090 060	76.5	232 879	3.5	6 653 674	25.1	260 244	6 393 430	-
K. Phase 4	1 080 146	20.0	4 131 558	76.5	189 026	3.5	5 400 729	20.4	179 602	5 221 127	-
Total Investment Costs	5 500 745	21.3	19 379 670	75.2	886 287	3.4	25 766 702	97.3	773 058	24 792 262	201 382
II. Recurrent Costs											
A. Salaries & Allowances	80 503	17.3	383 592	82.7	-	-	464 095	1.8	-	464 095	-
B. Operating & Maintenance	44 294	18.5	195 204	81.5	-	-	239 498	0.9	-	217 726	21 773
Total Recurrent Costs	124 797	17.7	578 796	82.3	-	-	703 593	2.7	-	681 821	21 773
Total Disbursement	5 625 542	21.3	19 958 466	75.4	886 287	3.3	26 470 295	100.0	773 058	25 474 082	223 155

**Table 3: Expenditure Accounts by Component – Totals Including Contingencies (Phase 1)
(USD)**

	Economic Empowerment			Social Services and Rural Infrastructure			Security of Tenure of Land and Natural Resources	Programme Management	Total
	Demand-Driven Community		Agricultural Services	Primary Health Care	Education	Demand-Driven Village			
	Community Empowerment	Investment Fund				Infrastructure Fund			
I. Investment Costs									
A. Civil Works	-	-	-	-	-	1 041 631	-	-	1 041 631
B. Vehicles	117 915	-	-	-	-	-	91 471	89 511	298 896
C. Equipment & Material	171 566	-	171 170	12 992	143 078	-	61 060	72 431	632 297
D. Local/regional TA	888 606	-	41 665	-	-	-	41 705	102 041	1 074 018
E. Studies & Workshops	-	-	-	-	-	-	1 301	35 956	37 257
F. Training	150 645	-	20 354	282 064	253 076	-	66 565	43 427	816 130
H. Demand-Driven Community Investment Fund	-	2 496 277	-	-	-	-	-	-	2 496 277
Total Investment Costs	1 328 731	2 496 277	233 189	295 056	396 154	1 041 631	262 102	343 366	6 396 505
II. Recurrent Costs									
A. Salaries & Allowances	-	-	121 719	-	-	14 367	104 883	264 547	505 517
B. Operating & Maintenance	-	-	-	-	-	-	73 861	186 896	260 756
Total Recurrent Costs	-	-	121 719	-	-	14 367	178 743	451 443	766 273
Total PROGRAMME COSTS	1 328 731	2 496 277	354 908	295 056	396 154	1 055 998	440 845	794 809	7 162 778
Taxes	66 803	-	39 501	2 998	33 018	-	41 914	54 362	238 596
Foreign Exchange	20 066	-	7 907	26 451	28 592	-	8 417	6 691	98 125

**Table 4: Expenditure Accounts by Financier (Phase 1)
(USD)**

	Government		IFAD		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%			
I. Investment Costs											
A. Civil Works	-	-	833 305	80.0	208 326	20.0	1 041 631	14.5	-	1 041 631	-
B. Vehicles	68 976	23.1	229 920	76.9	-	-	298 896	4.2	-	229 920	68 976
C. Equipment & Material	145 915	23.1	486 382	76.9	-	-	632 297	8.8	22 678	463 704	145 915
D. Local/regional TA	-	-	1 074 018	100.0	-	-	1 074 018	15.0	-	1 074 018	-
E. Studies & Workshops	-	-	37 257	100.0	-	-	37 257	0.5	-	37 257	-
F. Training	0	-	816 130	100.0	-	-	816 130	11.4	75 447	740 684	-
H. Demand-Driven Community Investment Fund	1 447 840	58.0	1 048 436	42.0	-	-	2 496 277	34.9	-	2 496 277	-
Total Investment Costs	1 662 732	26.0	4 525 447	70.7	208 326	3.3	6 396 505	89.3	98 125	6 083 490	214 891
II. Recurrent Costs											
A. Salaries & Allowances	88 219	17.5	417 297	82.5	-	-	505 517	7.1	-	505 517	-
B. Operating & Maintenance	48 386	18.6	212 371	81.4	-	-	260 756	3.6	-	237 051	23 705
Total Recurrent Costs	136 605	17.8	629 668	82.2	-	-	766 273	10.7	-	742 568	23 705
Total Disbursement	1 799 337	25.1	5 155 115	72.0	208 326	2.9	7 162 778	100.0	98 125	6 826 058	238 596



ORGANIZATION AND MANAGEMENT

1. Some key features of the programme are described below.
2. **Role of NGOs.** At least one local NGO will be contracted in each district by the DPMU for the implementation of programme activities under Component 1. The NGO will establish SHGs and farmers' groups. In addition, it be responsible for organizing FFSs in collaboration with the PPLs and for supporting the participatory mapping of village land and natural resources. The NGO contract will last the duration of each phase and will be fully funded to establish and operate an office at the district level. The programme will fund office rent and furniture, vehicles and equipment, staff salaries, travel and field costs, and vehicle/office operation and maintenance. As a guideline, it is estimated that in West Kutai the NGO will employ 41 staff, of whom 30 will be community facilitators posted in the field (one to each village). There will be three supervisors, one for every ten community facilitators. At the district level, each NGO office will have one programme coordinator, training officer, account/procurement officer, assistant account officer, secretary/computer operator, driver and two support staff. All eight staff will be involved full-time with the programme.
3. Provision has been made for training and study tours to broaden NGO staff knowledge of community-based institutional development. Key NGO staff will also participate in PPFU/DPMU staff training activities. The 30 community facilitators will also be trained in basic agricultural and livestock techniques. The NGO will be expected to establish a close working relationship and information exchange with formal and traditional village institutions, including the village representative council and its associated executive body in each programme village. The village representative council will approve all proposals involving community-controlled resources but will have no direct role in the financial and organizational management of SHGs established under the programme.
4. **Role of village volunteers.** Two village volunteers (one man and one woman) will be selected by the SHG in each programme village. Their main role will be to assume progressively the community facilitators' responsibilities, such as assisting SHGs in managing their recording and accounting systems and providing training to village groups in community organizations. The NGO will provide the volunteers with training to develop their capacity to deal with the new responsibilities. Village volunteers will not receive a salary, but will be given an *ad hoc* allowance to cover travel and miscellaneous training costs.
5. **Programme participatory planning process.** Programme implementation will be decentralized in accordance with the administrative reforms recently introduced in Indonesia. Programme activities will be based on AWPBs prepared at the district level. As a first step in the planning process, participating villagers, SHGs and farmers' groups will present proposals for programme support. For each activity the request will include the proposed objective, detailed activities by quarter, physical inputs, cost, indicative implementation procedures, responsibilities and proposed financing arrangements. At the village level these proposals will be assessed by the NGO and approved (or rejected or sent back for reformulation) by the Village Representative Council (BPK). Village proposals must be received by the DPMU by September of each year. Proposals will be consolidated into the district AWPB, which will then be reviewed by the district programme management board in terms of overall programme design and available budgetary resources. Once approved, the district budget will be sent to the NPCO.
6. Most investment activities will be selected by the groups themselves. Each member will present his/her proposed investment. If approved, the group will set the conditions of the loan as regards term, interest, schedule of repayment and penalties for default. These proposals will not go outside the group for approval. The loans will be made from the group common fund, which will be built up



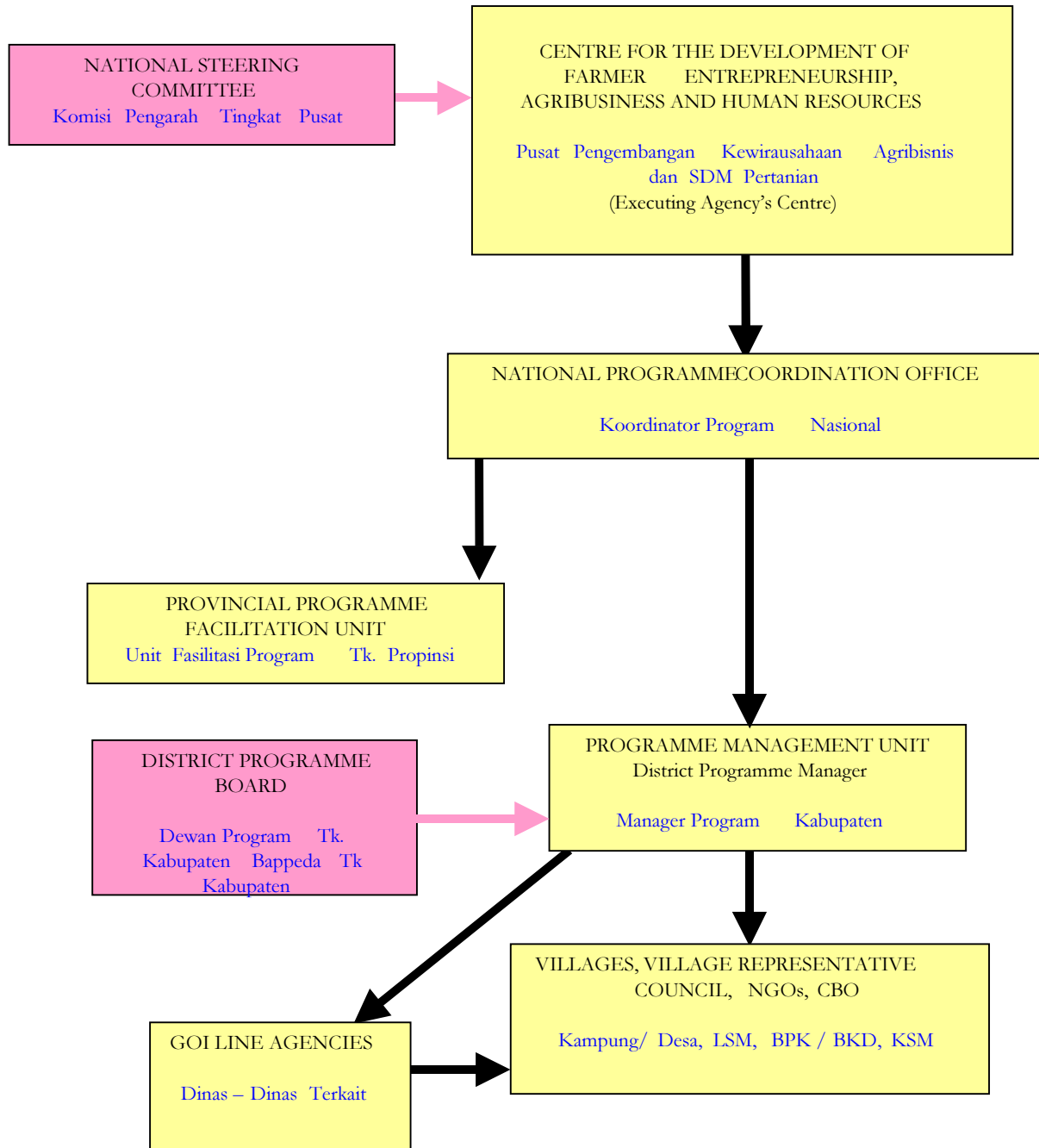
through savings and interest, and supplemented by matching grants provided by the programme subject to overall group performance.

7. The eligibility of SHGs for matching grants will be established on the basis of the following criteria for measuring the institutional strength:

- i) savings performance;
- ii) regularity of meetings;
- iii) average meeting attendance of more than 90%;
- iv) important decisions are taken communally;
- v) minutes of the meetings are properly taken;
- vi) group has already started a lending programme;
- vii) repayment rate is more than 90%;
- viii) clear differentiation in group accounts of savings, interest earned and penalties;
- ix) group has written rules and regulations; and
- x) group rotates its leadership.



PROGRAMME MANAGEMENT STRUCTURE



N.B. Yellow boxes = management function
Pink boxes = advisory function



FINANCIAL AND ECONOMIC ANALYSIS

1. **Financial analysis.** Five representative household models have been constructed to demonstrate the potential impact of the programme on individual households. These models are only partial, as they do not quantify other sources of income such as wage labour or collection of NTFPs. The models represent different production systems and poverty categorizations, as follows:

	Without Programme	With Programme
Model 1	Average-Poorer household. 1 ha of swidden; 0.5 ha of coffee; 0.5 ha of cacao; plus a few pigs and some poultry.	Improved swidden production; improved coffee management; replanting of 0.33 ha of improved cacao; vaccination of poultry.
Model 2	Poorer household 1 ha of swidden; plus some poultry.	Improved swidden production; establishment of a mixed 5 ha rattan/fruit garden; vaccination of poultry.
Model 3	Poorer household 1 ha of swidden; plus some poultry.	Improved swidden production; establishment of 0.5 ha of rubber, intercropped with rice for several years; vaccination of poultry.
Model 4	Average-Poorer household 1 ha of swidden; plus some poultry.	Improved swidden production; establishment of 0.5 ha of wet rice.
Model 5	Average-above average household 1 ha of swidden; 0.5 ha of wet rice (but not irrigated)	Improved swidden production; irrigation of wet rice; improved wet rice management; acquisition of two cattle for meat/draught purposes; vaccination of poultry.

2. In the case of all models the impact of the programme on household income is substantial, ranging from a 34% increase in the case of Model 1 to 207% in the case of Model 2. Returns to labour all show improvement (6% to 21%), and compare favourably with prevailing wage rates for all 'with programme' scenarios. For the models analysed, 'without programme' household labour utilization amounts to between 46% and 68% of available labour (assuming two adults per family with 250 days per year for productive activities). This increases to between 64% and 91% 'with programme'. On an annual basis labour availability is therefore more than sufficient to meet the demands associated with the interventions modelled. Seasonal labour profiles indicate labour is generally fully committed around September/October when the swiddens are prepared and planted. The modelled interventions do not create any significant increase in demand for labour over this period.

3. **Economic analysis.** The main tangible economic benefits of the programme would be the incremental value of crop and livestock production resulting from the improved technologies and management systems promoted by the programme, linked with increased provision of credit. East Kalimantan is a net importer of main food crops and meat. The extreme remoteness of many areas within the province makes for very high transaction costs and means that the economic value of local production is likely to be at least as high, if not higher, than current financial farm gate prices.

4. A major programme objective is to promote sustainable use of land and particularly forest resources, against a background of resource exploitation and degradation. The economic cost of the environmental damage currently being incurred is extremely high. The programme is expected to bring about more sustainable use of the natural resource base. The economic benefits of this are likely to far outweigh the benefits associated with incremental production of crops and livestock in the long term. These benefits would include maintaining a long-term productive capacity from a resource that is rapidly being mined, conserving biodiversity, maintaining human settlements that would otherwise have to be accommodated elsewhere in the economy and maintaining forest-based cultures.



5. In addition, a component of the programme seeks to improve security of tenure over land and natural resources. Tenure security is expected lead to better stewardship of these resources, resulting in more sustainable use. This will in turn lead to further environmental and economic benefits.
6. Given the demand-driven nature of the programme's activities and investments, it is not realistic to carry out overall financial and economic analyses of the programme.