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**IFAD**  
**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**  
**Executive Board – Eighty-Third Session**  
Rome, 1-2 December 2004

**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON A PROPOSED FINANCIAL ASSISTANCE TO THE

**REPUBLIC OF INDONESIA**

FOR THE

**RURAL EMPOWERMENT AND AGRICULTURAL DEVELOPMENT PROGRAMME  
IN CENTRAL SULAWESI**



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**CURRENCY EQUIVALENTS**

Currency Unit	=	Indonesian rupiah (IDR)
USD 1.00	=	IDR 8 900
IDR 1 000	=	USD 0.112

**WEIGHTS AND MEASURES**

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

**ABBREVIATIONS AND ACRONYMS**

AWPB	Annual workplan and budget
COSOP	Country Strategic Opportunities Paper
NSC	National steering committee
PAI	Policy action initiative

**GOVERNMENT OF THE REPUBLIC OF INDONESIA  
Fiscal Year**

1 January – 31 December

## MAP OF THE PROGRAMME AREA



Source: IFAD Appraisal Report.

*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****RURAL EMPOWERMENT AND AGRICULTURAL DEVELOPMENT PROGRAMME  
IN CENTRAL SULAWESI****FINANCING SUMMARY**

<b>INITIATING INSTITUTION:</b>	IFAD
<b>RECIPIENT:</b>	Republic of Indonesia
<b>EXECUTING AGENCY:</b>	Ministry of Agriculture
<b>TOTAL PROGRAMME COST:</b>	USD 37.9 million
<b>AMOUNT OF IFAD FINANCING:</b>	Loan: SDR 22.65 million (equivalent to approximately USD 33.9 million)  Grant: SDR 340 000 (equivalent to approximately USD 500 000)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIER:</b>	None
<b>CONTRIBUTION OF RECIPIENT:</b>	USD 3.4 million
<b>APPRAISING INSTITUTION:</b>	IFAD
<b>COOPERATING INSTITUTION:</b>	United Nations Office for Project Services

**PROGRAMME BRIEF**

**Who are the beneficiaries?** The programme espouses a systemic approach with regard to the constraints affecting poor households and supports and leverages all economic actors cooperating in the market to reorient it for the benefit of the poorest communities. The programme works at three different levels of impact: (a) at the household level, by targeting the poorest, including ethnic minorities and women, and it is thus, disaggregating further, responsible for the impact at the level of intra-household relationships through special attention to gender issues; (b) at the community level, by targeting the poorest; and (c) at the level of the whole provincial economic system, Central Sulawesi being the fifth poorest province of the country. Numerous stakeholders are involved in the programme and therefore will benefit from it. This approach is being adopted to achieve the goal of the creation of the conditions required to generate rising incomes and improved livelihoods among disadvantaged rural people in the upland, lowland and coastal areas of Central Sulawesi Province through sustained rural growth. The programme is inclusive, though it focuses on the poorest communities and chooses to work directly with the institutions and households in 150 of these communities, which are mainly in the upland and coastal areas of the province.

**Why are they poor?** The poverty of the beneficiaries derives from two main factors: the low capacity and quality of the local institutions and inadequate private sector activity. Village institutions show limited effectiveness in the establishment of inclusive decision-making and in the management of the available resources in a sustainable and equitable manner, in relating to higher levels of government and in the promotion of private sector operations. This is reflected in the difficulties faced by the institutions in reducing conflicts and in offsetting the unequal access to productive resources and to income-generating opportunities, as well as in confronting the increasing deterioration in environmental quality and the damage to natural resources. The economic agents comprising the rural private sector meet great difficulties due to the lack of infrastructural and informational linkages, the lack of investment, the lack of business advisory services and the lack of security in land tenure.

**What will the programme do for them?** With regard to the poorest households and to women, improved agricultural production and new or expanded rural enterprises will have a powerful effect in terms of reducing both poverty and marginalization, in addition to increasing their capacity to participate in civic and local government activities, thereby boosting their capacity for self-advancement. The consolidation of benefits from the ongoing decentralization programme will accrue to the communities that show greater efficiency, transparency and administrative accountability among elected and employed personnel at all levels of the district administration. The improved investment opportunities and incentives that result from the programme will enhance the capacity of new and existing micro, small and medium enterprises to produce efficiently and profitably and to explore fresh markets for their products. The greater competitiveness of businesses that serve domestic and international markets will stimulate export growth and, hence, the sustainability of rural economic growth in the province. These benefits will flow directly to the most impoverished communities and individuals as a result of the targeting mechanisms employed by the programme. The newly constructed communications networks will generate a wide range of benefits through the better road access to markets, the clean water and irrigation facilities and other infrastructure facilities identified by the communities. Their expanded access to the markets for produce, inputs and services will increase the incentives for farmers to commercialize their operations through adjustments in farming technologies, while the efficiency in productive rural enterprises that is induced through infrastructure development and the associated supply and value chains will add to the already substantial livelihood benefits, particularly in terms of access to transport facilities and clean water.

**How will they participate in the programme?** Communities will be provided with opportunities for economic advancement; they will determine their own development priorities and then proceed to the planning, management and monitoring of the implementation of efforts to achieve these priorities. However, their participation in the programme will be contingent on their ability to develop their ownership of the programme objectives and activities and mobilize their own resources to complement those of the programme. The participation of both individuals and institutions in resource mobilization is the first step towards the achievement of sustainability. The programme's supporting structure will have an enabling role in the creation of a conducive environment and the necessary capacity to establish sustainable linkages with the mainstream economy for the generation of more rural income.



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I submit the following Report and Recommendation on proposed financial assistance to the Republic of Indonesia, comprising a loan of SDR 22.65 million (equivalent to approximately USD 33.9 million) on highly concessional terms and a grant of SDR 340 000 (equivalent to approximately USD 500 000) to help finance the Rural Empowerment and Agricultural Development Programme in Central Sulawesi. 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 as IFAD's cooperating institution.

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

**A. The Economy and Agricultural Sector**

1. Indonesia has made substantial progress towards the restoration of the impressive economic dynamism that it enjoyed for more than two decades before the 1997 reversal. The crisis stalled growth, introduced a period of severe economic stress and doubled the rates of poverty. Fiscal and monetary discipline became necessary as a first step towards the creation of macroeconomic stability, followed by still-ongoing structural, policy and governance reforms. Between 2000 and 2003, economic growth resumed at an average 3.8%, boosted mainly by manufacturing, which generates about 25% of gross domestic product. Agriculture contributes 16 to 17% and trade, hotels and restaurants 15 to 16%. Food crops are the most important subsector, generating slightly over 50% of the sector's output; non-food crops make up 15 to 16% of the total, while fisheries account for 14 to 15%, livestock, 12 to 13%, and forestry, 6 to 7%. Sector growth has recently been restrained, with much of the increase in output represented by a recovery from the prolonged drought of the mid-1990s. The output of the major food crops has changed little in recent years, while that of major estate crops – rubber, palm oil and sugar cane – has declined, with sharp fluctuations, over the past five years. Agricultural exports (7% of the total) come mainly from rubber, livestock and livestock products and shrimp, which together account for over 80% of the sector total.

2. Since 1999, the country has taken impressive steps towards an open, representative democracy and reached favourable policy decisions such as those laying the foundation for decentralization, local autonomy and participatory development. However, achievements remain uneven across regions. Several provinces, particularly in eastern Indonesia, have been stricken more severely by poverty. There, deprivation is more pervasive than elsewhere, and communities in remote rural areas are often economically and socially marginalized. The programme targets the fifth poorest province of Indonesia, Central Sulawesi, which is in eastern Indonesia.

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

## B. Lessons Learned from Previous IFAD Experience

3. Indonesia's collaboration with IFAD commenced in 1980. Since then, joint investments have been undertaken, including 12 loans contributed by IFAD for a total amount of approximately USD 240.5 million. Five grants have also been provided, for a total of USD 282 000. The investments have been matched by over USD 649 million of national resources and USD 174.8 million through official development assistance from other multilateral and bilateral partners. Ongoing lending of USD 68.4 million supports: (a) the Income-Generating Project for Marginal Farmers and the Landless – Phase III, which will be completed in September 2005; (b) the Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas, which is undergoing the Mid-Term Review for its first four-year phase under the Flexible Lending Mechanism; and (c) the East Kalimantan Local Communities Empowerment Programme, for which the early implementation activities have been completed.

4. The experience derived from this collaboration validates the thrusts of the current Country Strategic Opportunities Paper (COSOP) and points to: (a) the importance of institution-building as the output of participatory processes and as a prerequisite for the sustainability of community groups; (b) the practice of savings accumulation and mobilization for lending within self-help groups run by the poor as an important stepping stone to enabling access to mainstream sources of credit; (c) the informal and non-farm sectors as sources for many income-generation opportunities; (d) the importance of support for the move from subsistence agriculture towards a market-based economy, while the support for farming systems needs to be location specific and offer a wide range of options; (e) the requirement to address the practical and strategic needs of women as a cross-cutting issue; and (f) the management of village infrastructure investments as a tool for the empowerment of community institutions and as a contribution to the enhanced sense of ownership and responsibility in the maintenance of the constructed schemes or facilities. The proposed programme has internalized this knowledge, as well as the broad strategic recommendations that the core learning partnership recorded in the Agreement at Completion Point that resulted from the recently ended country programme evaluation process. These recommendations refer to the importance of embedding within community empowerment and social capital formation initiatives the support aimed at raising farm and non-farm productivity in a sustainable manner. They also highlight the importance of adequate attention to knowledge generation, advocacy and policy dialogue.

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

5. **Indonesia's policy for poverty eradication.** In 2003, the country drew up an Interim Poverty Reduction Strategy Paper, promising finalization thereof by the end of 2004. The paper recognizes that the eradication of poverty can be achieved only if the entire national community addresses it as a first priority. Moreover, to reach this goal, a coalition and coordinated action by the different partners, including the private, public and civil sectors, are specifically required. Towards this end, the Government has committed itself to increased budgetary support so as to mainstream poverty reduction across the various planning and budgetary instruments; the identification of policy issues that hamper poverty reduction and improved coordination between strategies and interventions. The paper also chooses four broad themes for elaboration in the formulation of the strategy: (a) the creation of opportunities for income generation; (b) community empowerment; (c) human capital and capacity development; and (d) social protection. The emerging strategy has a distinct pro-decentralization bias, which is confirmed by the establishment of poverty reduction committees at the district level. These committees are responsible for the formulation of their own poverty reduction strategy papers on the basis of participatory poverty assessments.

6. **IFAD's strategy in Indonesia.** IFAD's current COSOP was put together when the severe financial and political crisis of 1997/98 had already reached its peak. The development climate then began to emphasize the need for more grass-roots-led, participatory means to eradicate rural poverty in the face of the significant failures of the previous centralist approach. Agricultural and rural development was once again considered a leading requirement for poverty reduction. The paper recommended a focus on long-term development, thus opting not to join the emergency relief operations of other donors. It recommended a careful selection among investments to build up the resilience of the poor and strengthen their livelihood strategies against external shocks. The emphasis was on the targeting of the poorest provinces and, within these, the dryland, rainfed and environmentally degraded areas of the uplands and coasts. The most disadvantaged social groups were identified, including marginal farmers and *adat* (native) communities, as requiring priority attention. The COSOP recognized the role of effective institution-building as the primary entry point for development; moreover, it acknowledged the importance of the building up of the income-generating capacity of poor rural households, while also addressing locally important policy issues.

7. **Programme rationale.** Three rounds of peaceful democratic elections in 2004 are proof of the political maturity reached by Indonesian society. The design process for this programme has been inspired by the climate of renovation and change that is emerging in public administration, civil society and the private sector and has permeated the proposed investment with a series of new thrusts.

8. While the principles of the previous COSOP remain valid, this new investment anticipates an eventual update, supporting the country's chosen path towards the achievement of its objectives. While drawing from experience, the emerging paradigm also notes the opportunity that a programmatic approach can offer, whereby local voices, particularly those of the poor, shape new, sustainable ways to create development. It supports the role that the Government is seeking to play as an enabler of development. It finds the means to promote sustainability through support for linkages nurtured by local resources and interests. It looks at local issues from a systemic perspective, thus refraining from the encapsulation of answers in a pre-conceived modus operandi, pre-determined solution packages, or a neglect of partners that could offer opportunities for the poor, but have been considered 'unusual' in poverty reduction initiatives. The proposed programme welcomes any partner who can engage with the poor in an equitable manner and is committed to making them co-protagonists in the shaping of broadbased economic growth. It sees the market as the most appropriate institution for presenting opportunities for sustainable income growth, provided that economic agents are able to compete on equitable terms. It takes into consideration the whole continuum of economic agents, defined as 'the rural private sector', ranging from smallholder farmers, rural wage-earners, livestock herders, small-scale traders and microentrepreneurs to small and medium-sized local private operators, such as input suppliers, microfinance institutions, transporters, agro-processors, commodity brokers and traders, and other, bigger market players who may or may not reside in rural areas.

9. Substantial experience gained in other country contexts shows that mainstream commercial entities are usually keen to engage with poor rural communities in the pursuit of their own corporate goals and that, in so doing, they can provide opportunities for sustainable access to finance, technology, markets and employment. The specific targeting of assistance to help well-established enterprises overcome their constraints in successfully dealing with smallholders may be a more cost-effective and sustainable means of delivering opportunities for poverty alleviation to marginal rural communities. In this perspective, both sides benefit, while local resource leverage takes place because of the aim on the self-interests of partners to complement those of the development programme.

10. The paradigm does not consider communities as granite-like monads. It recognizes that, frequently, villages are not 'communities' as such and that pressures to choose certain development models have, in the past, fragmented social capital and created lingering conflict situations. The reinstatement of 'unity in diversity', as called for by the national slogan, requires the intervention of

partners with long experience and a natural vocation for listening to the voices of the marginalized, bringing forward their requests and applying participatory approaches to development. Such partners are the civil society organizations, which also need to be brought into a poverty reduction initiative since, in their advocacy and community empowerment efforts, they have often proven to be best suited to and equipped for the delivery of public goods. It can be seen that banks are supporting urban growth; their investments support consumption and the industrialization of the country. Short-term deposits, unsuitable lending products and fragile risk management make banks ineffective in their efforts to support rural private sector operations and crowd banks out of the agriculture sector. Despite the decreasing importance of agriculture in terms of contribution to the gross domestic product, the province still depends on agriculture for the 55% provincial contribution. While over 60% of the national labour force and 76% of the rural poor depend on agriculture (corresponding to a decrease of about 20% since the early 1970s), these ratios are much higher in the province. Rural micro, small and medium enterprises, mainly involved in areas related to agriculture or natural resources, in poorer provinces such as Central Sulawesi are finding it difficult to flourish and generate income and employment, given the lack of financing, business advisory services, infrastructures that offset informational and physical isolation, and enabling policies, which are sometimes drafted, but not implemented.

11. The emerging strategy therefore relies upon:

- a participatory and decentralized approach to the development of marginal communities in the more disadvantaged geographical areas;
- the idea that government at all levels plays a facilitating and enabling role by addressing to the policy and regulatory changes the rural poor require to overcome their poverty;
- the idea that the private sector – considered as a continuum of economic agents, including the target group – and civil society are becoming essential elements of a coalition with public sector entities for the sustainable creation of opportunities for rural income growth;
- the fact that successful investments depend on the integration of the various enabling conditions into one model; and
- sustainability needs to depend on the ownership and self-interest of, as well as the corresponding resources mobilized by, the individuals and institutions participating in the investment.

## **PART II – THE PROGRAMME**

### **A. Programme Area, Target Group and Other Intervenors**

12. The province is endowed with abundant natural resources, a very favourable climate and flourishing research and knowledge centres. It is a net exporter of cereals and cash crops. However, it is not exploiting its comparative advantage to the full, since poverty affects 65% of the population, reaching 80 to 90% in the upland and coastal areas. Communities inhabiting these marginal areas show complex social stratification, with migration flows adding pressure to the hitherto undisputed tenure of productive resources. Competition between the more skilled migrant farmers and native subsistence farming groups has led to unconcealed conflict situations. Isolated as the native groups are from the rest of the provincial community, their deprivation represents a major loss in terms of the growth potential of the whole economic system. Other agencies operating in the province work in a variety of sectors, ranging from health to agriculture. These include the United Nations Office for the Coordination of Humanitarian Affairs and the World Food Programme, which are withdrawing now that the humanitarian emergency in Poso District is fading slowly away. The World Bank and the Asian Development Bank are operating in several districts and cover sectors such as infrastructure and microfinance. However, IFAD's potential target group has also remained at the periphery of these

programmes. International non-governmental organizations, such as CARE International, the Church World Service, the International Medical Corps, Mercy Corps and the Biasreka Foundation, are also operating in the province and receiving funds from bilateral and multilateral agencies for specific programmes. However, Poso District has attracted the major part of such assistance. As a result, the risk of the duplication of other major programmes does not exist. This programme reflects learning from these experiences and provides the space to replicate or refine successful local initiatives, such as community-based natural resource management, which have not been supported by policy change outcomes. For this purpose, the programme has specifically provided space for policy dialogue among the various legislative and administrative bodies mandated to draft policy in response to issues raised by poor communities, so that successful models can be institutionalized and replicated province-wide or even nationwide, when they are applicable.

### B. Objectives and Scope

13. The programme will fight poverty through the establishment of the conditions that lead to increased incomes and improved conditions of livelihood among marginal communities through the sustained growth of rural economic activity. The programme framework suggests that a poor household in a marginalized community requires three fundamentals to achieve this central goal: available *opportunities* to increase assets and incomes on a sustained basis, the *capacity* to take advantage of these opportunities and a *supportive environment* beyond the community that enables the first two to occur.

14. Experience has shown that, if increases in social and human capacity (including the provision of social services) are to be sustainable, there must be parallel increases in income and economic opportunity. At the same time, the maintenance and sustainability of new assets depend critically on community ownership and institutional capacity, while the extent to which the fruits of development are equitably spread relates to the levels of social capital. Thus, if long-term assets and on and off-farm income-earning opportunities are to be increased through an emphasis on natural resources and on enterprise development, then the capacity of groups that otherwise might be and historically have been bypassed by the development process, particularly women and the very poor, must be built up. Efforts aimed at increasing the capacity of communities to plan and manage their own development need to be complemented by efforts aimed at the creation of an *enabling environment for pro-poor growth* through support for responsive and effective public policies, institutions and services that are accessible to marginalized communities. If the diversity and strength of commercial activity in the province are to be increased, particularly in agricultural markets and in agribusiness and financial services, both of which now have limited outreach, and if rural growth is to be promoted, then essential productive infrastructure must be extended to areas not currently served. The establishment of linkages between institutions at the community level and the formal institutions of the state and with markets requires support for sustainable increases in the availability of inputs and services of importance to the economic livelihoods of the poor.

### C. Components

15. To respond to these needs, the programme is organized into three components: (a) *sustainable rural enterprise development*; (b) *rural infrastructure*; and (c) *programme management and institutional development*.

16. The **first component** will empower poor rural men and women to use financial, technical, market and government services to advance their own economic well-being. This will be achieved by building the capacity of village institutions in the planning and management of their own development initiatives and by the establishment of decision-making processes that involve the poorest households, particularly women and ethnic minorities. Village institutions will be supported in the preparation of their own annual workplans and budgets (AWPBs), which will be submitted to district authorities for

inclusion in their respective AWPBs. It will support village enterprise groups and other groups in the development of business plans and the establishment of linkages with market and banks. It will support (a) their commercial integration; (b) their productivity; and (c) the enhancement of the capacity of their service providers and the sustainability of their natural resource management practices. This will be enabled through various teams of facilitators and trainers that will work with village institutions and individual and group enterprises and provide the specialist support they require to prepare: (a) AWPBs that will be funded partly by the programme and partly by the district government's own funds and will also reflect the concerns of the poorest households; (b) village natural resource use and management plans to create improved and more equitable access to and the sustainable management of agricultural land and forests; and (c) business plans for village-based enterprises, including financing requirements. Individuals and groups will be supported in the analysis of market opportunities and of the best means to relate to major market players. The poorest households will be assisted in forming savings and credit groups based on affinity and homogeneity. The household groups will undergo a series of capacity-building courses and be supported in the mobilization of savings, which they will use for internal lending so as to establish the practice and enhance the skills required for the management of credit and savings. The group common funds would free members from the risk of exploitative relationships with moneylenders or middlemen, who are now providing credit at very high interest rates to the detriment of the prices the poor are now being paid for their crops.

17. The programme will support the development of suitable lending products and make funds available through a rural re-financing facility for commercial and rural banks and finance companies so as to meet the needs of micro, small and medium enterprises for working capital and investment. It will also enable sustainable access by marginal farming and fishing communities to appropriate technology, management skills and private sector entities operating in the rural supply chain for goods and services. Agricultural extensionists and business advisory and technical service providers for poor farmers will be trained and supported by the programme. They will be mobilized to serve farmers and provide technical assistance, such as improved technology adoption through mentoring, to help them meet their market requirements. Such consultancy services will need to be financed by private sector entities, including the farmers, so as to ensure their sustainability. Their advice and services will be market led.

18. The **second component** will involve the development of the capacity of technical agencies and communities to join in participatory approaches to the selection, design, construction and management of facilities; it will also provide funds to build such facilities. Infrastructure investments will be identified by the communities; financing will be applied for and managed by them for infrastructure schemes related to their own localities. Other, more complex schemes may be managed by the technical departments. However, grant or public works delivery agreements will establish relationships of accountability between the communities and the technical departments not only in terms of the responsibility for the funding of operations and maintenance, but also in terms of the quality of the schemes. Monitoring and supervision will be a joint responsibility in both cases.

19. The **third component** will involve support for the establishment of effective and flexible programme management through the provision of enhancements to existing rural institutions. It will aim at the development of the capacity of the concerned institutions to apply the principles of the programme in other development initiatives. The component will include operational and logistical assistance and the strengthening of the support for implementation and for supervision processes and will focus on the creation of a very efficient monitoring and evaluation system oriented towards the management of impacts so as to achieve results and linkages with the policy action initiative (PAI). This will be a key activity aimed at helping the Government respond to the requests for policy change arising from the analyses of structural constraints that the poor will undertake in their villages and will be transmitted to decision-makers according to the level of decentralization in that area of responsibility. The programme will specifically encourage enablers at all levels to respond to such

requests through the establishment of an outcome-based, grant-funded function, namely PAI, which will receive feedback on the implementation of new policies from the programme. The flow of information will therefore be two-way so as to inform national policy-makers of the concerns of the rural poor and of the data supporting certain policy orientations, while the central level will respond accordingly and receive feedback on implementation.

20. This function addresses the overarching recommendation of the country portfolio evaluation that expresses the need for experimentation on the ground as a key instrument in knowledge generation and documentation and as a basis for policy and advocacy dialogue. The PAI represents an opportunity for dialogue that can enable the poor to advocate for and promote policy change. The outcome-based ex-post reimbursement of the expenditures incurred for the analysis and drafting of policy will create the incentive to respond with prompt action and actual deliverables to the calls generated at the grass-roots level.

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

21. The programme cost has been estimated at USD 37.9 million. The largest component is sustainable rural enterprise development, accounting for 49% of the base cost, with rural finance the largest sub-component. Rural infrastructure is the second largest component, accounting for 34% of the base cost, with community infrastructure funds as the dominant sub-component. The programme management and institutional development component accounts for 16% of the base cost. The two sets of funds for use by communities and individuals, with support from province and district governments – enterprise credit funds and community infrastructure – jointly account for 66% of the base cost. The strong emphasis on the development of community capacity takes up 13% of the base cost, whereas recurrent expenditures are low, at only 7%.

22. IFAD will fund 89.6% of the programme costs through a loan and 1.3% through a grant in support of PAI (see paragraph 19). The balance of the costs will be met by the central Government, the government of Central Sulawesi Province and the nine district governments. The contribution by the beneficiaries has not been included in the financing plan given the programmatic approach adopted in the design, but it is anticipated that the beneficiaries will contribute in kind through labour for the activities induced and enabled by the programme, including the operation and maintenance costs for water supply, irrigation facilities and farm feeder roads. The contribution of participating banks and enterprises has also not been included.

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

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
<b>Sustainable rural enterprise development</b>					
Community empowerment	4 541.6	89.3	4 630.9	2	13
Rural finance	189.3	11 618.9	11 808.2	98	32
Sustainable rural production and value chain initiatives	1 720.0	121.1	1 841.2	7	5
<b>Subtotal</b>	<b>6 450.9</b>	<b>11 829.4</b>	<b>18 280.3</b>	<b>65</b>	<b>49</b>
<b>Rural infrastructure</b>	121.0		12	-	-
Community investment management					
Community infrastructure fund	583.0	12 000.0	12 583.0	95	34
<b>Subtotal</b>	<b>704.0</b>	<b>12 000.0</b>	<b>12 704.0</b>	<b>94</b>	<b>34</b>
<b>Programme management and institutional development</b>					
Government facilities and supervision	4 734.1	403.6	5 137.7	8	14
Policy action initiative	500.0	-	500.0	-	1
Monitoring and evaluation	313.9	-	313.9	-	1
<b>Subtotal</b>	<b>5 548.0</b>	<b>403.6</b>	<b>5 951.6</b>	<b>7</b>	<b>16</b>
<b>Total baseline costs</b>	<b>12 703.0</b>	<b>24 233.0</b>	<b>36 936.0</b>	<b>66</b>	<b>100</b>
Physical contingencies	181.4	11.2	192.6	6	1
Price contingencies	691.8	44.4	736.3	6	2
<b>Total programme costs</b>	<b>13 576.2</b>	<b>24 288.6</b>	<b>37 864.8</b>	<b>64</b>	<b>103</b>

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



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

Components	IFAD Loan		IFAD Grant		Government		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
<b>Sustainable rural enterprise development</b>											
Community empowerment	4 479.5	89.9	-	-	505.3	10.1	4 984.8	13.2	95.3	4 753.8	135.7
Rural finance	11 795.3	99.7	-	-	37.2	0.3	11 832.6	31.2	11 634.9	187.0	10.6
Sustainable rural production and value chain initiatives	1 776.0	87.1	-	-	261.9	12.9	2 038.0	5.4	127.3	1 852.9	57.7
<b>Subtotal</b>	<b>18 050.9</b>	<b>95.7</b>	<b>-</b>	<b>-</b>	<b>804.4</b>	<b>4.3</b>	<b>18 855.3</b>	<b>49.8</b>	<b>11 857.5</b>	<b>6 793.8</b>	<b>204.0</b>
<b>Rural infrastructure</b>											
Community investment management	136.0	100.0	-	-	-	-	136.0	0.4	-	136.0	-
Community infrastructure fund	12 583.0	100.0	-	-	-	-	12 583.0	33.2	12 000.0	583.0	-
<b>Subtotal</b>	<b>12 719.0</b>	<b>100.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12 719.0</b>	<b>33.6</b>	<b>12 000.0</b>	<b>719.0</b>	<b>-</b>
<b>Programme management and institutional development</b>											
Government facilities and supervision	2 819.1	51.7	-	-	2 631.9	48.3	5 451.0	14.4	431.1	4 534.9	485.0
Policy action initiative	-	-	500.0	100.0	-	-	500.0	1.3	-	500.0	-
Monitoring and evaluation	339.5	100.0	-	-	-	-	339.5	0.9	-	339.5	-
<b>Subtotal</b>	<b>3 158.6</b>	<b>50.2</b>	<b>500.0</b>	<b>7.9</b>	<b>2 631.9</b>	<b>41.8</b>	<b>6 290.5</b>	<b>16.6</b>	<b>431.1</b>	<b>5 374.4</b>	<b>485.0</b>
<b>Total programme costs</b>	<b>33 928.5</b>	<b>89.6</b>	<b>500.0</b>	<b>1.3</b>	<b>3 436.3</b>	<b>9.1</b>	<b>37 864.8</b>	<b>100.0</b>	<b>24 288.6</b>	<b>12 887.2</b>	<b>689.0</b>

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

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

23. Procurement will be in accordance with IFAD guidelines. All procurement over USD 100 000 will be carried out following international competitive bidding. The procurement of civil works, goods and services (including technical assistance and service providers) below USD 100 000, but above USD 20 000 will follow local competitive procedures. All contracts above USD 20 000 will require the prior approval of the cooperating institution, including, in the case of technical assistance and training, terms of reference, qualifications and service experience satisfactory to IFAD. For amounts under USD 20 000, items will be purchased on the basis of local shopping procedures acceptable to the cooperating institution. Goods and services costing less than USD 2 000 will be procured through direct purchase.

24. The IFAD financing will be disbursed over six years. The actual rates will depend on the increased capacities and responsiveness of beneficiaries to the financing opportunities and services made available by the agencies and service providers operating through the programme. The Ministry of Finance will open and maintain a special account for the financing of IFAD's share of the eligible expenditures through an authorized allocation of USD 2.0 million. Disbursements to the special account will be made by IFAD on the basis of withdrawal applications prepared by the national programme manager and submitted to the ministry. Disbursements from the special account to the programme accounts, opened in local currency and maintained at the local offices of the National Treasury, will be made by the ministry in accordance with the approved AWPB. The granting or on-lending of the IFAD loan from the Central Government to the provincial and district governments will follow provisions of Decree No. 35 of the borrower. Withdrawals from the loan account may be made against statements of expenditures for categories of expenditure jointly determined by the Government, IFAD and the cooperating institution. Financial reports will be prepared on a semi-annual basis and submitted to IFAD and the cooperating institution for review. The overall responsibility for auditing will lie with an independent auditor selected from the private sector and approved by IFAD according to IFAD guidelines.

### **F. Organization and Management**

25. The community-oriented, demand-driven nature of this programme calls for a results-based approach to implementation and requires a slim but effective management structure. Given that the design provides for a combination of partners from different institutional backgrounds, the organizational structure sanctions their collaboration with the elements of the private and civil sector included in the already existing structures of public administration. The programme would adopt the policy of working within and strengthening existing institutional structures and not through parallel ones.

26. The Ministry of Agriculture would host the national programme office, which will be responsible for the coordination and supervision of the programme. A national steering committee (NSC) would be the forum for progress reporting and discussion, as well as policy guidance and change. It would comprise several ministries, including the Ministry of Forestry and Estate Crops, the Ministry of Finance, the National Land Administration Agency and the Ministry of Fishery and Marine Resources, in addition to the Ministry of Agriculture and the National Development Planning Agency. A policy-monitoring officer would collect the information emanating from the programme pertaining to relevant policy issues and would prepare a policy development plan and a list of issues on which the NSC would have to express its informed opinion. The analysis and studies that the NSC would require in order to provide its policy guidance and ensure the issuance of new policies would be funded through the PAI. The National Development Planning Agency would follow up on each policy change request arising from implementation and would follow up, supported by the policy-monitoring officer, with concerned ministries and agencies within the NSC. The departments of agriculture would host the provincial facilitation office – mandated with similar tasks, in addition to

capacity-building, coordination, communication and supervisory roles – and the district management office, responsible for tasks similar to those of the higher government layers and also of the delivery of more direct support to the communities and other stakeholders involved in the programme. A lead non-governmental organization would be recruited through competitive bidding to work within these offices, sharing implementation and management responsibilities, as well as a seat on the NSC.

### **G. Economic Justification**

27. The programme's economic impacts would occur in four major areas: (a) increased productivity as farmers take up new crop enterprises or combinations of crops; (b) an expanded client base and more robust risk management and lending products for participating banks through the rural re-financing facility; (c) expanded access to financial services for existing and new micro, small, medium and large domestic enterprises; and (d) increased productivity and the accumulation of human capital through infrastructure facilities, including farm roads, market-access roads and irrigation and clean water facilities.

28. All programme activities would have clearly identified and verifiable exit strategies prior to commencement. Sustainability is in the self-interest of the participating individuals and institutions. Engagement with the programme and the continuation of programme activities depend on local resource mobilization and ownership. Within this framework, participating individuals and institutions would not become dependent on temporary support, but would maintain a focus on the achievement of their own objectives. In addition, the majority of financed activities would be overtly linked to market opportunities even before they start. For instance, there would be no support for improved production unless it could be shown to lead to long-term financial benefits for both farmers and their commercial links in the value chain. Moreover, in the planning of activities, the involvement of these private sector entities would begin at the outset of the programme, with a clear strategy for the private takeover of any necessary long-term activities.

### **H. Risks**

29. The programme's innovative design does indeed induce an element of risk for successful implementation. The main risks identified and the relevant measures to mitigate the risks are: (a) the weak capacity of some implementing districts (offset by the additional technical assistance provided); (b) the somewhat transient support, on occasion, for participatory approaches and exit strategies (alleviated by the engagement with the private sector from the outset and by ensuring that participation in the programme is contingent on local ownership and resource mobilization); (c) the scarcity of suitably skilled and motivated personnel (offset through allowance for substantial post-engagement training and the mentoring of recruited staff); (d) the possibility to take short-cuts in capacity-building (overcome by a component sequence that introduces technical training and maintains linkages with mainstream economic actors after human and social capital elements have been adequately strengthened); (e) the difficulties in the development of lending products suitable to banks and borrowers (addressed by the inclusion of substantial inputs of technical assistance for participating banks); (f) low repayment rates because of enterprise failure or other causes (offset through the development of better risk management strategies during capacity-building activities); (g) the limited capacity of communities to devise infrastructure projects and apply for funding and assistance in implementation (addressed through the inclusion of substantial inputs for the training of communities and technical agency staff in participatory approaches); and (h) the inadequate maintenance of facilities by agencies and communities (offset through specific agreements between communities and programme management and participating districts and higher levels of government). It should be noted that the innovative nature of the programme requires effective support during implementation.

### **I. Environmental Impact**

30. The environmental screening and scoping note recommends a Category B classification. It is expected that the programme will have a positive impact on the environment as a result of various activities, such as the adoption of integrated watershed management approaches in community-based, sustainable natural resource management, the rehabilitation of degraded land and soil conservation, environmental screening prior to infrastructure project selection and the training of communities and technical agency staff in the monitoring of environment-related indicators and conservation practices.

### **J. Innovative Features**

31. The creation of growth with equity has been a common aim of many interventions, with questionable results in several country contexts. The model adopted by the programme follows the value and supply chain of agricultural production and ensures that the management of this chain is effective. It invests in human and social capital formation as a prerequisite to enable poor people to gain access to the opportunities offered through the programme for economic advancement, as well as to ensure that the distribution of opportunities and benefits is equitable. The model is new with respect to ongoing poverty reduction initiatives in Indonesia. There is no current initiative that poses the condition on every single investment that it be sustainable or that does not concentrate on only one or the other end of the value chain. Linkages have been established, but not in a systematic manner or in a systemic perspective and often without a constant focus during implementation on the endurance of the linkages after financing ceases. The programme invests heavily on both sides of the chain and addresses the crucial issues so that the poor can gain access to the market. In choosing enablers, the programme ensures that they will not foster dependence among those they support. It will also avoid the creation of the parallel structures that have emerged on occasion, particularly in forging multi-stakeholder partnerships and when innovation has required ad hoc institutional initiatives. It will strengthen existing private, public and civil institutions and the linkages they establish. It will support new institutions only if these emerge during work with the poorest households. Because the programme adopts a programmatic, non-prescriptive and demand-driven approach, it does not pre-select activities; it creates the framework within which communities can identify their investment proposals and private sector entities can seize business opportunities. Nor does it pre-select participating districts; it allows them to participate on the basis of their proven commitment to and ownership of its strategy and its approach. The programme embeds policy change outcomes within the district eligibility criteria for assistance, including the provisions pertaining to the commitment to work on a par with non-governmental organizations, to finance the operation and maintenance costs of certain infrastructure schemes, to transfer programme resources to community institutions, allowing the publication of programme documents, including those on financial management, and to respond promptly to policy change requests presented by poor communities. The programme embeds incentives for policy change within the various components. It also explicitly promotes the adoption of a participatory development communication strategy. Participatory monitoring and evaluation processes will also include collaborative communication initiatives, whereby programme implementers are accountable to the communities for their actions. Building up the capacity of implementers to communicate regularly on programme activities will enable a smooth flow of information within the organizational structure. Better communication skills will also support the documentation of impact and policy change on the basis of experiential outcomes and improved knowledge and experience-sharing with other programmes and stakeholders.

**PART III – LEGAL INSTRUMENTS AND AUTHORITY**

32. A financing agreement between the Republic of Indonesia and IFAD constitutes the legal instrument for extending the proposed financial assistance to the recipient. A summary of the important supplementary assurances expected to be achieved during financing negotiations is attached as an annex.
33. The Republic of Indonesia is empowered under its laws to borrow from IFAD.
34. I am satisfied that the proposed financial assistance will comply with the Agreement Establishing IFAD.

**PART IV – RECOMMENDATION**

35. I recommend that the Executive Board approve the proposed financial assistance in terms of the following resolutions:

RESOLVED: that the Fund shall make a loan to the Republic of Indonesia in various currencies in an amount equivalent to twenty-two million six hundred and fifty thousand Special Drawing Rights (SDR 22 650 000), to mature on or prior to 1 March 2015 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.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of Indonesia in various currencies in an amount equivalent to three hundred and forty thousand Special Drawing Rights (SDR 340 000) and 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  
EXPECTED TO BE ACHIEVED DURING FINANCING NEGOTIATIONS**

(Negotiations yet to be concluded)

1. The Ministry of Agriculture (the “Ministry”), the provincial government and the participating district governments of the borrower (the “Government”) will enter into a memorandum of understanding (the “programme MOU”), which will provide, among other things, for the financial management system, including detailed procedures for loan and grant disbursement and reimbursement, flow of funds, operation of the special account and grant bank account, 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 implementation of the programme in accordance with the financing agreement. The Government will submit a draft of the programme MOU to IFAD for comment 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.
2. **Selection of lead NGO.** The lead NGO will be selected through a transparent and competitive selection process in accordance with procedures and terms of reference approved by IFAD. Selection criteria will include: (a) legal status; (b) the existence of a memorandum of association with adequate by-laws; (c) the existence of a board of directors composed of professional and experienced members; (d) at least seven years’ experience in managing field operations for rural poor communities, with preference given to those with extensive experience in Central Sulawesi; (e) previous experience of cooperation with international donors; (f) familiarity and understanding of the underlying concepts of the programme and experience in agricultural development; (g) non-political and without religious affiliation or bias against working with any person or institution; (h) presence of sound administrative, financial and audit systems; (i) willingness to work in close collaboration with the Government; and (j) capacity and field experience in participatory gender-sensitive methodologies for community empowerment at the village level.
3. **Pest management practices.** As part of maintaining sound environmental practices as required by IFAD, the Government will ensure that all programme implementing agencies maintain appropriate pest management practices under the programme and, to that end, the Government will ensure that pesticides used under the programme do not include any pesticide proscribed by the Food and Agriculture Organization of the United Nations or by the World Health Organization.
4. **Responsibilities of lead NGO.** The lead NGO will work as a partner with the Government at various programme implementation levels, will deploy staff to various implementation units/offices, will provide training to staff and communities, and will deploy 150 village facilitation teams.
5. The following are specified as conditions for disbursement of funds from the loan and grant:
  - (a) No withdrawals may be made in respect of expenditures under the programme for any fiscal year until the respective AWPB for that year has been submitted to and approved by IFAD.
  - (b) No withdrawals may be made in respect of expenditures under the programme until the programme MOU has been signed by the Ministry, the provincial government and the participating district governments for the first year of the programme.
  - (c) No withdrawals may be made in respect of expenditures for international and local technical assistance or service providers until the Ministry has duly contracted the services of the lead NGO.

## ANNEX

- (d) No withdrawals may be made in respect of expenditures for incremental credit until the lead subsidiary agreement between the Government and the financial institution that will implement the rural finance sub-component of the sustainable rural enterprise development component has been approved by IFAD, and IFAD has received a signed copy of the agreement.
6. The following are specified as conditions precedent to the effectiveness of the financing agreement:
- (a) the Ministry has duly established the national programme office;
  - (b) the Provincial Department of Agriculture has duly established the provincial facilitation office;
  - (c) the programme implementation manual has been duly approved by IFAD;
  - (d) the Government has duly opened the special account and the grant bank account;
  - (e) the Government and IFAD have agreed on the financial institution that will implement the rural finance sub-component of the sustainable rural enterprise development component;
  - (f) the financing agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action; and
  - (g) a favourable legal opinion, issued by the Minister of Law and Human Rights of the Government in form and substance acceptable to IFAD, has been delivered to IFAD.



APPENDIX I

COUNTRY DATA

INDONESIA

<b>Land area (km<sup>2</sup> thousand) 2002 1/</b>	18 112	<b>GNI per capita (USD) 2002 1/</b>	710
<b>Total population (million) 2002 1/</b>	212	<b>GDP per capita growth (annual %) 2002 1/</b>	2
<b>Population density (people per km<sup>2</sup>) 2002 1/</b>	117	<b>Inflation, consumer prices (annual %) 2002 1/</b>	12
<b>Local currency</b>	Rupiah (IDR)	<b>Exchange rate: USD 1 =</b>	IDR 0.112
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1996-2002 1/	1.3	GDP (USD million) 2002 1/	172 911
Crude birth rate (per thousand people) 2002 1/	20	Average annual rate of growth of GDP 1/ 1982-1992	6.9
Crude death rate (per thousand people) 2002 1/	7	1992-2002	2.5
Infant mortality rate (per thousand live births) 2002 1/	32	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	67	% agriculture	18
Number of rural poor (million) (approximate) 1/	n/a	% industry	44
Poor as % of total rural population 1/	n/a	% manufacturing	25
Total labour force (million) 2002 1/	104	% services	38
Female labour force as % of total 2002 1/	41	Consumption 2002 1/	
<b>Education</b>		General government final consumption expenditure (as % of GDP)	8
School enrolment, primary (% gross) 2002 1/	111 a/	Household final consumption expenditure, etc. (as % of GDP)	71
Adult illiteracy rate (% age 15 and above) 2002 1/	12	Gross domestic savings (as % of GDP)	21
<b>Nutrition</b>		<b>Balance of Payments (USD million)</b>	
Daily calorie supply per capita	n/a	Merchandise exports 2002 1/	57 130
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	n/a	Merchandise imports 2002 1/	31 288
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	26 a/	Balance of merchandise trade	25 842
<b>Health</b>		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	2 a/	before official transfers 2002 1/	5 569
Physicians (per thousand people) 2002 1/	n/a	after official transfers 2002 1/	7 823
Population using improved water sources (%) 2002 3/	78 a/	Foreign direct investment, net 2002 1/	145
Population with access to essential drugs (%) 1999 3/	80-94	<b>Government Finance</b>	
Population using adequate sanitation facilities (%) 2002 3/	55 a/	Overall budget deficit (including grants) (as % of GDP) 2002 1/	-1 a/
<b>Agriculture and Food</b>		Total expenditure (% of GDP) 2002 1/	25
Food imports (% of merchandise imports) 2002 1/	11	Total external debt (USD million) 2002 1/	132 208
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	1 231 a/	Present value of debt (as % of GNI) 2002 1/	80
Food production index (1989-91=100) 2002 1/	124	Total debt service (% of exports of goods and services) 2002 1/	25
Cereal yield (kg per ha) 2002 1/	4 171	Lending interest rate (%) 2002 1/	19
<b>Land Use</b>		Deposit interest rate (%) 2002 1/	16
Arable land as % of land area 2002 1/	11 a/		
Forest area as % of total land area 2002 1/	58 a/		
Irrigated land as % of cropland 2002 1/	14 a/		

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

1/ World Bank, *World Development Indicators* CD Rom 2004

3/ UNDP, *Human Development Report*, 2004

**PREVIOUS IFAD FINANCING IN INDONESIA**

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of Approved Amount)
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	99.33%
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	78.79%
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	100%
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	81.46%
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	94.40%
East Java Rainfed Agriculture Project	IFAD	AsDB		19 Apr 90	09 Oct 90	31 Mar 99	G - I - 502 - ID	USD	22 000	99.14%
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	79.46%
South Sumatra 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	30.83%
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	56.66%
Eastern Islands Smallholder Farming Systems and Livestock Development Project	IFAD	UNOPS		06 Dec 95	22 Mar 96	31 Mar 04	G - I - 25 - ID	USD	100 000	34.93%
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	39.81%
P4K - Phase III	AsDB	AsDB	I	04 Dec 97	09 Jul 98	30 Sep 05	L - I - 458 - ID	SDR	18 250 000	69.07%
Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas	IFAD	IFAD		04 May 00	31 Jan 01	30 Sep 09	G - I - 99 - ID	USD	60 000	99.37%
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	14.75%
East Kalimantan Local Communities Empowerment Programme	IFAD	UNOPS		11 Dec 02	02 Jun 03		G - I - 155 - ID	USD	100 000	73%
East Kalimantan Local Communities Empowerment Programme	IFAD	UNOPS	HC	11 Dec 02	Not effective		L - I - 601 - ID	SDR	15 100 000	

HC = highly concessional; I = intermediate

## LOGICAL FRAMEWORK

Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
<b>GOAL</b>			
Increased and rising incomes and improved livelihood conditions for disadvantaged rural people in upland, lowland and coastal areas of Central Sulawesi	<ol style="list-style-type: none"> <li>1. Number of HHs (HHs) with improvement in household assets ownership index, based on additional assets (productive assets, bikes, radios, improved housing, tin roofs, etc.)</li> <li>2. Reduction in the prevalence of child malnutrition (weight for age)</li> <li>3. Number of HHs that have improved food security (e.g. reduction in length of lean/hungry season, increased number of meals a day)</li> </ol>	Completion assessment, National statistics surveys, District statistics and surveys, Programme's Progress Reports, Auditor's Reports,	Every Programme investment choice is market-led. Implementation focus is maintained on community empowerment No major natural or man-made calamity occurs
<b>OBJECTIVE</b>			
Sustained growth of rural economic activity for male and female residents of marginalized rural communities in Central Sulawesi	<ol style="list-style-type: none"> <li>1. Levels of HH income and income growth rate</li> <li>2. Number of poor people, disaggregated by gender</li> <li>3. Number of HHs with safe water</li> <li>4. Number of HH with road access to markets</li> <li>5. Number of projects where new/changed pro-poor legislation or regulations are enforced at the local or national levels</li> </ol>	Completion assessment, National statistics surveys, District statistics surveys, Programme's Progress Reports, Auditor's Reports,	National and provincial economic policies remain positive GOI's decentralisation programme continues successfully Province and District legislature support Programme's principles and strategy
<b>SUB-OBJECTIVES</b>			
<b>Component 1: Sustainable Rural Enterprise Development</b>			
Rural men and women empowered to use financial, technical, market and government services for advancement of their economic well-being.	<ol style="list-style-type: none"> <li>1. Amount of local resources leveraged by the Programme</li> <li>2. Number of contracts between mainstream economic agents and village enterprise groups and individuals</li> <li>3. Number of new clients for banks</li> <li>4. Number of new jobs created</li> </ol>	Completion assessment, National statistics surveys, District statistics surveys, Programme's Progress Reports, MTR Report and MT Assessment Report, Supervision Reports,	Public, private and civil sector institutions involved in the programme have ownership of the proposed Programme model and maintain commitment to its goal.
<b>Sub Component 1: Community Empowerment</b>			
Rural men and women empowered to plan, implement and manage investments and activities at community level	<ol style="list-style-type: none"> <li>1. Number of groups with women and poorest HHs as leaders</li> <li>2. Number of village AWPBs included in local government plans</li> <li>3. % decrease of number of conflicts reported by village formal and informal institutions.</li> <li>4. % decrease of forest encroachment cases</li> </ol>	Programme Progress Reports, District plans, Facilitator reports / case study reports, Facilitator reports / case study reports, MTR Report and MT Assessment Report, MT Assessment, PODES (Village Potential Statistics)	Implementers follow components' implementation sequence (i.e. community capacity building takes place before establishing linkages with mainstream economic institutions and promoting adoption of improved technologies) Enabling policies are issued and implemented

Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
<b>Sub Component 1. 2: Financial Services and Entrepreneurship Development</b>			
Lending products of and available funds from commercial and rural banks and finance companies meeting the needs of micro, small and medium enterprises (MSMEs) for working capital and investment.	<ol style="list-style-type: none"> <li>Number of incremental MSMEs accessing loans from participating banks</li> <li>Number of Savings and Credit Groups accessing loans from participating banks</li> <li>% increase of participating banks' lending for investments in agriculture related activities.</li> </ol>	Rural Re-Finance Facility (RRF) reports, Participating bank reports / case studies, Programme Progress Reports, MTR Report and MT Assessment Report, Supervision Reports	New lending products are suitable to demand. Risk management strategies effectively implemented
<b>Sub Component 1.3 Sustainable Rural Production and Value Chain Initiatives</b>			
Farmers and fishermen in marginal communities with sustainable access to appropriate technology, management skills and private sector entities operating in the rural supply chain for goods and services.	<ol style="list-style-type: none"> <li>Number of new enterprises operating after three years</li> <li>Number of jobs generated by small and medium enterprises</li> <li>Number of HHs provided with long-term security of tenure of natural resources, including land and water</li> <li>Ha of common property resources (under improved management practices)</li> <li>Ha of rehabilitated land redistributed to landless households</li> <li>Number of Appropriate Rural Technology Training Teams (ART3) financed by private entities (including farmers)</li> <li>Number of established business advisory services</li> <li>Trends in area of land classified as critical;</li> <li>Trends in groundwater quality;</li> <li>Trends in the degree of marine degradation due to improper fishing practices.</li> </ol>	Extension services reports, Mid term review / completion surveys / case studies, Programme Progress Reports, MTR Report and MT Assessment Report, Supervision Reports	Only market-led and environmentally sustainable investments are supported by the Programme
<b>Component 2. Rural Infrastructure Development</b>			
Well planned and managed public facilities enabling the men and women of poor rural communities access to mainstream markets, production opportunities and utilities.	<ol style="list-style-type: none"> <li>Adequate O&amp;M funds mobilised by communities and local governments.</li> <li>Incremental income generated by infrastructure availability</li> <li>% decrease of incidence of waterborne diseases</li> </ol>	Programme Progress Reports, Facilitator reports / case study reports, Facilitators' reports / case study reports, District and provincial statistics,	Agreements between communities and Programme management on infrastructure development works, including responsibilities for O&M finalised and acted upon.
<b>Sub-Component 2.1: Community Investment Management Development</b>			
Communities and technical agencies skilled in selecting, planning and managing infrastructure projects	<ol style="list-style-type: none"> <li>Number of proposals for infrastructure investment presented by communities on time and technically considered as valid and environmentally sound.</li> <li>Number of proposals for infrastructure development that derived from the expressed priorities of the poorest HHs.</li> <li>Trend on time required for technical and environmental screening of communities proposals</li> </ol>	Programme Progress Reports, District plans, Facilitator reports / case study reports, Facilitator reports / case study reports, Auditor's Reports,	Quality training provided by the participatory approaches consultant and training by rural infrastructure specialist on environmentally sound construction.
<b>Sub-Component 2.2. Community Infrastructure Funds</b>			
Infrastructure meeting the needs of rural communities for access to the mainstream economy, for raised well being and for production	<ol style="list-style-type: none"> <li>Disbursement rate of loan funds related to infrastructure investments category</li> </ol>	IFAD Loan and Grant System reports	Annual Government Budget disbursed on time. Successful implementation of participatory processes of investment identification
<b>Component 3 Programme Management and Institutional Development.</b>			

Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
Effective and flexible programme management, providing enhancements to existing rural institutions through engagement and operational support.	<ol style="list-style-type: none"> <li>1. Quality and timely submission of M&amp;E/RIM reports</li> <li>2. Participation of at least 75% of the heads of government agencies working with the rural poor and at least the heads of District Parliamentary Economic Commissions participating in semi annual public workshops presenting progress of the Programme</li> <li>3. Number of policies drafted by the National Steering Committee and implemented throughout the IFAD-supported Country Programme target areas.</li> </ol>	Progress Reports, Supervision Reports, Auditor's Report and Financial Statements, Newspapers, local NGOs' networks, AWPBs, Banks' Reports, Reports of the Chambers of Commerce, Local Statistical Data	GOI maintains commitment to the principles inspiring the Programme. Legislatures at provincial and district level are effectively involved. Communication strategy of the Programme is effective. M&E/RIM system functions well. Commitment of Inspectorate General of MOA and BKNP (government's auditing agencies) to participate in joint reviews with the Programme's independent auditor.
<b>Sub Component 3.1 Government Facilitation and Supervision</b>			
Government institutions capable of playing the enablers of rural poverty reduction and development.	<ol style="list-style-type: none"> <li>1. Number of articles and public events in which local grassroots based NGOs praise the government for the transparent implementation of the Programme</li> <li>2. Regular publication on local newspapers and the Programme's website of auditor's reports, financial statements, tender awards, progress reports and AWPBs.</li> <li>3. Number of linkages between poor communities and mainstream economic agents (banks, agribusiness enterprises etc.)</li> </ol>	Progress Reports, Supervision Reports, Auditor's Report and Financial Statements, Newspapers, local NGOs' networks, AWPBs, Banks' Reports, Reports of the Chambers of Commerce, Local Statistical Data	Overheads are kept to the minimum. Communication strategy is well conceived and implemented. Auditor's reports record unqualified opinions. Implementers maintain their facilitation role, away from direct implementation.
<b>Sub Component 3.2 Policy Action Initiative</b>			
District, Provincial and national policies favouring projects and programmes for reduction of poverty in disadvantaged areas	1. Number of policies drafted by the National Steering Committee and implemented throughout the IFAD-supported Country Programme target areas.	Policy Action Initiative progress reports Expenditure claims submitted by BAPPENAS	National Steering Committee for all IFAD supported programmes/projects functions well
<b>Sub Component 3.3 Monitoring and Evaluation</b>			
Data collection and assessment services providing timely feedback on programme implementation and impact	<ol style="list-style-type: none"> <li>1. Quality and timely submission of M&amp;E/RIM reports</li> <li>2. Programme external stakeholders know the Programme and its progress.</li> </ol>	Progress Reports, Newspapers, local NGOs and ODA agencies' networks,	Implementers maintain focus on effective M&E/RIM system establishment and communicating the Programme to broader public audience.

Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
<b>OUTPUTS</b>			
<b>Component 1 Sustainable Rural Enterprise Development</b>			
<b>Sub Component 1.1 Community Empowerment</b>			
Village institutions skilled in participatory planning and management Formation and functioning of new village enterprise groups and individuals. Income generating activities for poorest HHs	<ol style="list-style-type: none"> <li>1. Number of groups operational/functional, by type</li> <li>2. Number of women and poorest HHs on community management committees</li> <li>3. Number of village plans completed on time</li> <li>4. Number of group and individual enterprises started</li> <li>5. Number of income-generating activities started</li> <li>6. Number of community management groups formed/strengthened</li> <li>7. Number of people belonging to groups, by type of group</li> <li>8. Number of groups with women in leadership positions</li> <li>9. Number of community projects implemented (by type)</li> </ol>	Programme Progress Reports, District plans, Facilitator reports / case study reports, MTR and MT Assessment Reports.,	Quality TOT undertaken throughout the Programme. Qualified village facilitators/consultants are recruited Regular supervision and mentoring
<b>Sub Component 1.2 Financial Services and Entrepreneurship Development</b>			
Village new enterprise organizations skilled in planning and management; Strengthened village enterprise groups; Credit facilities for enterprise owners, including Savings and Credit Groups (SCGs)	<ol style="list-style-type: none"> <li>1. Number of active savers (disaggregated by gender)</li> <li>2. Value of savings mobilized (by gender)</li> <li>3. Number of active borrowers (disaggregated by gender)</li> <li>4. Value of gross loan portfolio (loans outstanding – loans written off) (disaggregated by gender)</li> <li>5. Value of re-financing of loans by participating banks</li> <li>6. Value of re-financing loans repaid to RRF</li> <li>7. Array of new lending products introduced</li> <li>8. Credit extended by each new lending product</li> <li>9. Number and value of loans to market intermediaries</li> <li>10. Value of loans to market intermediaries repaid</li> <li>11. Number and value of loans for small enterprises</li> <li>12. Value of loans for small enterprises repaid</li> <li>13. Savings accumulated by groups</li> <li>14. Number and value of bank loans through groups</li> <li>15. Value of bank loans through groups repaid</li> <li>16. % increase of bank clients</li> <li>17. % increase of bank poor clients in respect to the better off ones</li> <li>18. % increase of bank profit</li> <li>19. % of bank portfolio at risk (outstanding balance of overdue loans)</li> <li>20. % of bank operational self-sufficiency</li> <li>21. % of bank operating cost/loan portfolio</li> </ol>	Baseline Survey Report (for before and after comparisons). MT Assessment Report, MTR Report, Programme Progress Reports, District plans, Facilitator reports / case study reports, Banks Progress Reports, Bank Indonesia Progress Reports,	Facilitators/Trainers are constantly trained as planned. Regular supervision of Bank Indonesia of participating banks' operations Policy advice and drafting by NSC and RRF advisory committee All progress reports are of good quality and shared.
<b>Sub Component 1.3: Sustainable Rural Production and Value Chain Initiatives</b>			
Improved farm production techniques; Improved natural resource management. Pilot tests in applied technology and community led natural resource management (including expanded	<ol style="list-style-type: none"> <li>1. Ha of incremental crops grown (cereals, forage, fruit, legumes, vegetables, roots and tubers)</li> <li>2. Number of fisherfolk trained in new technologies</li> <li>3. Number of persons trained, by gender and sector</li> <li>4. Number of farmers using purchased inputs</li> <li>5. Number of farmers participating in research trials</li> <li>6. Number of demonstrations held on farmers' land</li> </ol>	Progress Reports, Supervision Reports, Local Statistical Data, Extensionists/Trainers reports, Case Studies, MTR Report and MT Assessment Report, Completion assessment	Market-led investment choices Enabling policies are issued/implemented Effective coordination among implementers

Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
access to land through rehabilitation of degraded land) are applied	7. Number of people accessing technical advisory services facilitated by project 8. Number of research-for-development extension /dissemination events attended by target HHs 9. Number of landless HHs with now access to land 10. Number of Community natural resource management plans 11. Number of these plans submitted to District Governments for recognition		
<b>Component 2 Rural Infrastructure Development</b>			
<b>Sub-Component 2.1 Community Investment Management</b>			
Improved project selection and management approaches Improved construction supervision approaches	1. % of days of water delivery/required 2. Number of HHs served by wells 3. Number of functioning infrastructure 4. Number of farmers with secure access to irrigation water	Progress Reports, Supervision Reports, Local Statistical Data, MTR Report and MT Assessment Report, Completion assessment	Public Works Dept. familiarised and comfortable with poor communities' decision making role Public Works Dept screens proposals quickly
<b>Sub Component 2.2: Community Infrastructure Funds</b>			
Increased number of access roads and increased availability of clean water supply facilities, increased availability of village irrigation facilities, increased availability of electricity supply facilities, miscellaneous infrastructure facilities including markets.	1. Ha of irrigation schemes rehabilitated/constructed 2. Number of farmers working on rehabilitated/new schemes 3. Number of user groups formed 4. Km of roads constructed/rehabilitated 5. Number of market centres constructed 6. Number and length of links constructed 7. Number of HHs served by new access links 8. Number of water supply systems constructed 9. Number of HHs supplied with clean water 10. Number and area of schemes in operation 11. Length of extensions constructed 12. Number of HHs served 13. Facilities constructed	District plans and progress reports, Completion surveys / case studies, Programme Progress Reports, MTR Report and MT Assessment Report, Supervision Reports,	Community investment proposals and government budgets approved and funds disbursed on time. Agreements between communities and Programme management on infrastructure development works, including responsibilities for O&M finalised and acted upon.
<b>Component 3: Programme Management and Institutional Development</b>			
<b>Sub Component 3.1 Government Facilitation and Supervision</b>			
Government institutions capable of playing the enablers of rural poverty reduction and development.	1. Number of linkages established between target communities and mainstream economic agents 2. AWPBs are clearly outlined and with cost break down and narrative description indicating with precision desired outcomes and required investments. 3. All financial, impact, physical progress reports, auditor's reports and budget are published on the local newspaper and discussed in public. 4. Civil society and target group's representatives are regularly invited to be member of committees evaluating the bids for contract awards.	Progress Reports, Supervision Reports, Auditor's Report and Financial Statements, Newspapers, local NGOs' networks, AWPBs, Banks' Reports, Reports of the Chambers of Commerce, Local Statistical Data	GOI maintains commitment to the principles inspiring the Programme. Qualified Lead NGO is selected. Communications strategy is effective. M&E/RIM system functions well.
<b>Sub Component 3.2 Policy Action Initiative</b>			
Pro-poor policies enacted	1. Number of policies drafted by the National Steering Committee	Policy Action Initiative progress reports	National Steering

Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
	and implemented throughout the IFAD-supported Country Programme target areas.	Expenditure claims submitted by BAPPENAS	Committee for all IFAD supported programmes/projects functions well
<b>Sub Component 3.3 Monitoring and Evaluation</b>			
M&E/RIMS reports are of good quality, used as management tools, shared throughout the various levels of implementation and submitted on time.	<ol style="list-style-type: none"> <li>Participatory M&amp;E reports by communities included in Progress Reports</li> <li>Data collection on all key impact indicators; impact is well documented.</li> <li>Feedback from Programme external stakeholders on knowledge about the Programme and its progress</li> </ol>	Progress Reports, Newspapers, local NGOs and ODA agencies' networks.	Implementers maintain focus on effective M&E/RIM system establishment and communicating the Programme to broader public audience.

ACTIVITIES			
Activities for Output	Key Inputs	Costs	Assumptions
<b>Sub-Component 1.1 Community Empowerment</b>			
<p>Training of village institutions in participatory planning and management</p> <p>Establishment of new village enterprise groups and individual enterprises.</p> <p>Training of existing and new enterprises</p> <p>Income generating activities for poorest HHs</p>	<p><i>Establishment of facilitator services:</i> Recruit 304 facilitators; 45 supervisors; Procure 47 motorcycles; Organise 7 initial training courses and 7 refresher courses for facilitators; Organise 161 exposure visits for facilitators and supervisors;</p> <p><i>Village Institutions' Capacity Development; Including the Interests of the Poor and Public Sector Outreach:</i> Organise 150 introductory workshops; organise 300 village survey/PRA for baseline and impact assessment; organise 900 AWPBs formulation workshops; develop training manuals and materials; organise 900 training events for the poorest households; develop appropriate materials for them; organise 900 information disseminations events; organise 600 training courses and 300 exposure visits for local government staff; develop materials for their training; organise 600 training courses for village institution leaders; recruit 900 person days of specialised training.</p> <p><i>Strengthening Economic Management Capacity; Public Sector Programme Management:</i> Organise 150 introductory workshops; organise 900 organisation and management workshops; organise 300 exposure visits for local government; develop materials</p> <p><i>Private Sector Outreach:</i> Undertake 600 studies for economic opportunities (incl. market studies); develop training/extension material; organise 600 business planning and management workshops; recruit 20 person day of specialist consultancy;</p> <p><i>Including the Interests of the Poor:</i> procure three months of consultancy services on assessment of economic opportunities; organise 600 mentoring events for small groups; develop training materials; organise 600 workshops and recruit 900 person days of consultancy services.</p>	<p>Establishment of facilitator services: 1.158 million USD</p> <p>Village Institution Capacity Development: 159,000 USD</p> <p>Strengthening Economic Management Capacity: 201,100 USD</p> <p>Total incl. rec. costs: 1.791 million USD</p>	<p>Quality TOT undertaken throughout the Programme. Qualified village facilitators/consultants are recruited</p> <p>Regular supervision and mentoring</p>
<b>Sub-Component 1.2 Rural Finance</b>			



ACTIVITIES			
Activities for Output	Key Inputs	Costs	Assumptions
Establishment of Rural Re-Finance Facility Development of lending Products Credit for Enterprises and Savings and Credit Groups	Recruit a RRF manager and an assistant Manager, a secretary and purchase office equipment  Recruit a banking consultants of 8 months; organise 12 workshops for the socialisation of the RRF;	Establishment of the RRF: 92,200 USD Development of Lending Products: 211,900 USD Credit: 15 million USD Total 15.332 million USD	High quality consultancy services procured
<b>Sub-Component 1.3 Sustainable Rural Production and Value Chain Initiatives</b>			
Commercial integration of Rural Enterprises Formation of Agribusiness Council Formulation of Subsector Commercialisation strategies Test Innovative Commercial Strategies Improve rural enterprise productivity through extension outreach, technical innovations and support to commercial seed enterprises Capacity building for Service Providers Compilation of Register of Service Providers Improve natural resource management through land care pilot test, village land tenure mapping, eco production pilot	Recruit two consultants for the agribusiness inventory and for the development of commercialisation strategies; organise a workshop to launch the agribusiness council; organise strategy testing through selected enterprises; recruit 216 extensionists for the Appropriate Rural Technology Training Teams; organise 900 farmers' training sessions; develop a training manual and organise farmers to farmers training sessions and exchange visits; organise mobilisation of 108 months of Training of Trainers; recruit a consultant for preparation of technical innovations manuals; organise a 5 months period of consultancy services for initiation of commercial seed enterprises; recruit (i) a consultant for the compilation of the register of service providers; (ii) a consultant adviser for the training of business service providers; (iii) 4 consultants for land care; village land tenure mapping; eco accreditation training initiatives; as well as (iv) consultants for 216 assignments as technical service providers and 216 assignments as business development service providers	Commercial Integration of Rural Enterprises: 140,444 USD Improve Rural Enterprise Productivity: 1.786 million USD Improve Capacity Building for Service Providers: 77,000 USD Improve natural resource management: 2054 million USD Total 2.734 million USD	High quality consultancy services procured
<b>Sub-Components 2.1 and 2.2 Community Investment Management and Community Infrastructure Funds</b>			
Improvement to Project selection and Management Approaches Improvement to project supervision approaches Provision of funds for access roads, cleaner supply facilities, village irrigation and other miscellaneous infrastructure Survey and design for infrastructure projects Grant agreements with communities are established and funds transferred to the communities.	Procurement of 8 month consultancy services from a participatory approaches consultant and organisation of 168 training sessions on participatory approaches to investment identification and management. Training on book-keeping and financial management for community institutions as well as on technically including environmentally sound specifications of infrastructure schemes.	Community Investment Management: Total 137,500 USD Community Infrastructure Funds: 12.583 million USD	Successful adoption of participatory approaches to project identification and management
<b>Sub-Components 3.1 and 3.2 Government Facilities and Supervision; Policy Action Initiative</b>			
Government facilities are procured; implementation and supervision capacity is strengthened at all levels; policy drafting and issuance	<i>Central Government:</i> Recruitment of a policy monitoring officer, a finance officer, a monitoring and evaluation officer and a communications officer plus procurement of office equipment and transportation means. Policy studies are undertaken under the aegis of the National Development Planning Agency (BAPPENAS).  <i>Provincial Government:</i> Recruitment of a Lead NGO and local NGOs/service providers for each district including a Provincial Deputy Facilitator, an Accountant, a Community Development	National Programme Coordination Office: 666,300 USD National Development Planning Office (Policy Action Initiative): 0.5 million USD  Provincial Facilitation Office: 414,700 USD Provincial Development Planning Office: 47,900 USD  District Management Office: 1.056 million USD District Planning and Operations: 490,900 USD	Procurement of goods and services takes place according to IFAD procurement guidelines.

ACTIVITIES			
Activities for Output	Key Inputs	Costs	Assumptions
	Officer, a Rural Infrastructure Officer, and a Rural Enterprise Specialist plus procurement of office equipment and transportation means  <i>District Government:</i> Recruitment through the PFO of a district facilitator, plus purchase of vehicles and office equipment.		
<b>Sub-Component 3.3 Monitoring and Evaluation/ Results and Impact Management</b>			
Staff is trained in M&E/RIMS	Organise 36 training courses and recruit 16 consultants specialised in M&E; conduct 3 household surveys, one as a baseline studies, two for impact monitoring and assessment; conduct completion assessment and 9 case studies per district.	Monitoring and Evaluation: 283,900 USD	M&E/RIMS is used as a management tool and therefore placed at the centre of implementers' attention

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