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IMPLEMENTATION OF THE FIRST CYCLE OF THE POST-CRISIS PROGRAMME FOR PARTICIPATORY INTEGRATED DEVELOPMENT IN RAINFED AREAS FINANCED UNDER THE FLEXIBLE LENDING MECHANISM

1. The purpose of this information note is to comply with paragraph 13 of the flexible lending mechanism (FLM) guidelines (document EB 98/64/R.9/Rev.1), which stipulates that "for each FLM loan and prior to the end of each cycle, IFAD management will decide whether to proceed to, cancel, or delay subsequent cycles. Management will inform the Board accordingly".

I. INTRODUCTION

2. The overall objective of the FLM is to introduce greater flexibility into IFAD's project design and implementation in order to: match the project timeframe with pursuit of long-term development objectives when it is judged that a longer implementation period will be required to meet such objectives; maximize demand-driven beneficiary participation; and reinforce the development of grass-roots capacities. The specifics of an FLM loan include: (i) a continuous and evolving design process through implementation of distinct, three-to-four-year cycles; and (ii) clearly defined preconditions, or "triggers", for proceeding to subsequent cycles.

3. This information note reports on the progress of the Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA) in achieving the first-cycle triggers. Its contents are based on the results of the mid-term review jointly fielded by the Government of the Republic of Indonesia and IFAD.

II. BACKGROUND

4. **Basic loan data.** The loan of SDR 17.5 million financing PIDRA (currently equivalent to approximately USD 26.43 million)[1] was approved by IFAD's Executive Board at its Sixty-Ninth Session on 4 May 2000; it was signed on 21 June 2000 and became effective on 31 January 2001. On 26 April 2001, the Executive Board approved direct supervision of the programme. The loan has an eight-year duration and includes two distinct cycles of four years each. Completion is scheduled for 31 March 2009, and the loan will close on 30 September of the same year.

5. **Programme design and scope of works.** The programme was designed in 1998/1999, at a time when the country was undergoing major crises including the El Niño-induced drought (which caused extensive damage to agricultural production and food security, particularly in eastern Indonesia), the Asian financial crisis and a major political reform. PIDRA aims to reduce poverty in rainfed areas of the provinces of East Java, Nusa Tenggara Barat and Nusa Tenggara Timur. Prior to the financial crisis, the poverty rates recorded in these provinces were 11.3%, 17.6% and 20.6% respectively. The crisis pushed these rates up significantly, to 21.9%, 27.8% and 30.7%. In each province, the districts and villages targeted by PIDRA are those with the greatest depth and spread of poverty, thus confirming the soundness of including them in the programme.

6. The programme's objective is to sustainably increase the incomes, food production and food security, and to improve the living conditions, of 100 000 poor households in the programme area. This is to be achieved by: (i) setting up new self-help groups (SHGs) or strengthening existing ones, with the aim of making them sustainable, self-reliant and capable of undertaking their own development activities; (ii) promoting the conservation and improvement of natural resources; and (iii) improving village infrastructure. The programme has four main components: (i) community and gender development; (ii) agriculture and livestock development; (iii) village infrastructure and land management; and (iv) institutional support and programme management. These components are aimed at creating a support system for SHGs and other people's institutions, allowing them to develop and to manage their own resources and their environment as a basis for sustainable development.[2]

III. ACHIEVEMENTS OF THE FIRST CYCLE

7. **Ownership.** The first cycle, completed in December 2004, was allocated SDR 7.16 million (currently equivalent to about USD 9.83 million). The original financing plan envisaged 85.8% of costs covered by the IFAD loan, 11.7% by the Government and 2.4% by the beneficiaries covering 10% of the infrastructure costs. Consequently, the programme expected to receive for its first cycle USD 1.15 million from the Government and USD 246 000 from beneficiaries. Instead, in addition to 100% disbursement of the loan proceeds at mid-term, the Government contributed USD 1.8 million, or an average of 13.9% of the costs, including USD 400 000 contributed voluntarily by district governments. Beneficiaries contributed over USD 900 000 for infrastructure work, amounting to about 41% of the total infrastructure costs, and USD 650 000 as savings and other resources (such as interest from loans, fines, donations), which they deposited in their group common fund to extend loans to group members. The programme's first cycle investments increased, as a result, from USD 11.3 million to USD 13.2 million, with the IFAD loan decreasing in importance in the financing plan from 85.8% to 74.4% in favour of a high of 11.7% by beneficiaries. A great strength of the programme is its strong community and government ownership. In light of PIDRA's impact on poverty, the programme's executing agency, the Agency for Food Security and Community Empowerment of the Ministry of Agriculture, recommended that it be developed into a national programme for poverty eradication.

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[1] Based on an August 2005 exchange rate of SDR 1 = USD 1.5.

[2] For more details, see President's Report (document EB 2000/69/R.24/Rev.1).

8. **Institutions built and resources they mobilized.** In 237 villages, 70 subdistricts and 14 districts of three provinces, the programme has helped establish 2 068 SHGs of the poor, 181 village infrastructure development associations (VIDAs) and 175 watershed management associations (WMAs). The 58 760 people forming these institutions have all attended various rounds of training courses. These included 24 modules for group capacity-building and promotion of gender equality, in addition to six to ten different courses for skills development ranging from watershed management, participatory monitoring and evaluation and self-assessment, to off- and on-farm income-generation and microenterprise development, to product processing and marketing, and agriculture and livestock development. According to longitudinal studies, these people and their households have experienced improved food security and increased incomes thanks to the programme and the institutions it has built. They were helped to strengthen their capacities to manage their own resources, mobilize additional resources (both external or internal to their villages) and establish linkages with other institutions.

9. The SHGs extended 125 354 loans to their members for a total amount of USD 2.47 million. Some 42% of the loans were used to help undertake trading activities, 22% for agriculture-related activities, 11% to purchase consumables (e.g. food), 8% for livestock, 7% for education, 2.8% for socio-cultural activities, 2.2% for health, 1.4% for product processing and 0.2% to repay bad debts. The remaining 3.4% was used for other activities. The percentages present great variations in the three provinces, reflecting different opportunities and the different cultural, economic and poverty contexts in which the programme operates.

10. An analysis of the purposes of the loans extended by the SHGs shows that the availability of credit at lower interest rates than those prevailing in the money lending market made certain economic activities, such as trading, viable. This was because expected profit margins would be higher than the interest rate paid in the local credit market. It is noteworthy that none of the beneficiaries had ever had access to loans from a bank or a non-banking financial institution.

11. The VIDAs were able to mobilize contributions in materials and labour, and manage the USD 1.34 million additional to their over USD 900 413, far above the 10% prescribed. Reports indicated that PIDRA contributed to the construction of over 96 km of village access roads, 99 km of pipe gravitation systems, 127 rainwater tanks and 55 water catchment tanks, 149 dug wells, 48 meeting halls and 28 community centres. Meeting halls were built with local materials and entirely at the cost and with the labour of the people, without any contribution from the programme. The SHGs, as represented in the VIDAs, were instrumental in mobilizing the community's contribution. This was a new experience for them, and it increased their level of ownership. The process that PIDRA established resulted in better control over resource allocation and the management of works. The performance of contractors who implemented infrastructure activities in some villages was also better than that of contractors in programmes that were similar but where the poor did not manage funds and contributions. It is to the programme's credit that over 60 000 households have benefited from the infrastructure provided.

12. WMAs and their subgroups managed to build over 3 000 km of hedgerows and boulder bunds and nearly 1 000 hectares (ha) of land were terraced including about 4 000 of water drop structures and gully plugs. The associations also planted over 2.2 million trees, both for reforestation and horticulture. Communities built and managed 30 nurseries, obtaining saplings from the forest department or purchasing them from private nurseries.

13. **Training.** Approximately 1 000 people – including government and NGO officers and field staff, village group organizers operating under a national programme office, three provincial coordination offices, three lead NGOs, 14 district management offices and 14 district NGOs – were trained each year in six to ten different topics. These ranged from group capacity-building to

watershed management, participatory monitoring and evaluation and gender mainstreaming, to promotion of income-generating activities, microenterprises and marketing, agriculture and livestock development.

14. **Coordination and policy guidance.** Some 14 district implementing committees (including beneficiary representatives), 14 district management committees, three provincial advisory committees and one national steering committee with representatives from different government agencies and NGOs were involved in coordinating the programme with other poverty eradication investments at each implementation level and in supporting policies in various areas important to the rural poor.

IV. COMPLIANCE WITH THE CONDITIONS PRECEDENT TO THE SECOND CYCLE

15. The programme has met the first-cycle triggers as follows:

(i) **The equivalent of SDR 5 370 000 will have been disbursed by the Fund from the loan account.**[3] As at December 2004, disbursement amounted to SDR 7 160 000. The programme has thus overachieved the target set as a condition precedent to the second cycle.[4] Disbursement trends[5] show how the programme's various building blocks have been developed over the years. PIDRA initially focused on the first and fourth components, setting up its management systems, ensuring that enablers and beneficiaries had the needed implementation skills and capacities. When absorption capacity was established, disbursement took place smoothly in the other components. Financial progress substantially met the targets established in annual workplans and budgets, recording on average over 90% of planned activities.

(ii) **Seventy-five per cent of SHGs will have been assessed as sustainable in an independent study undertaken by a university agreed on by the borrower and the Fund.** The mid-term review determined that 82% of the SHGs in East Java, 74.5% in Nusa Tenggara Timur and 65% in Nusa Tenggara Barat had reached a level of sustainability averaging 74%, which almost meets the target set. The objective of the SHGs was to empower the poor; the building blocks of empowerment (and sustainability) were identified as promotion of savings, management of finance, provision of loans for income-generating activities, and investment in building the organizational capacity of the poor to manage their own institutions and to build linkages with other institutions. These objectives were achieved. The assessment focused particularly on the organizational features of the SHGs; these were broken down into 16 indicators and included in the logical framework as impact indicators.[6]

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3 Seventy-five per cent of the total allocation for the first cycle.

4 With the exception of the Seventeenth Irrigation (East Java Province) Project (1982-1989), no other IFAD-financed project or programme in Indonesia has disbursed 100% of its allocated funds. More impressively, PIDRA has disbursed funds ahead of time.

5 Reported in Table 1 (Appendix).

6 They were the following: (i) vision and mission; (ii) economic status of members; (iii) meeting frequency; (iv) attendance; (v) participation of members in sharing responsibilities; (vi) rules and regulations; (vii) savings; (viii) sanctioning of loans; (ix) loan repayment; (x) rotation of common fund, cash handling, idle capital; (xi) resource mobilization; (xii) bookkeeping, audit and documentation; (xiii) training; (xiv) participatory monitoring and evaluation; (xv) participation in decision-making; and (xvi) credit plus activities. The data collected for each indicator enabled the team to categorize the SHGs as "good" (80% and above), "average" (55% to 79%), or "poor" (<55%). The means of verification used by the mission and indicated in the logical framework were: (i) books maintained by the SHGs; (ii) longitudinal studies; (iii) three supervision reports; (iv) three annual reports produced by the national programme office; (v) focus group meetings; and (vi) interviews with individual SHG members.

(iii) **Microwatershed management systems will have been adopted by at least 25% of the villages.** Microwatershed systems have been adopted in over 80% of the villages, through the formation of microwatershed management associations. There was ample evidence that several of the activities undertaken – such as planting candlenut, tamarind and fruit trees together with various forest tree species – will impact on people's livelihood bases. They will also impact on the natural resource base thanks to increased tree cover, which reduces erosion and increases percolation. It has been recommended that these activities be integrated into the broader village development planning process.

(iv) **All progress reports will have been submitted to the Fund on time.** Progress reports suffered in terms of quality and timeliness in the first two years of implementation. However, both aspects have improved considerably since then. Management has given priority to the monitoring and evaluation system, enabling reports to be submitted on time or with only short delays. This attention has also helped respond to the need for integrating at mid-term the indicators of the results and impact monitoring system, on which the programme has already reported.

(v) **The lead programme agency will have established satisfactory partnerships with each lead NGO and with district NGOs; and implementation agreements, approved by the Fund, will have been agreed for the second-cycle programme activities.** Various independent studies were undertaken to assess the quality of the partnerships, including one by the Centre for Rural and Regional Development Studies at Gadjah Mada University. In addition, the mid-term review mission held discussions with government officers, local leaders and NGOs. Several SWOT[7] analyses on this relationship were also conducted during the field visits. The assessment concludes that the existing partnerships are satisfactory. This is a major achievement for the Government, considering its lack of experience at programme start in working on a par with NGOs. As soon as the lead programme agency receives confirmation that the programme will proceed to its second cycle, it will secure the needed NGO services.

(vi) **The borrower and the Fund will have agreed on any adjustments to programme activities and modalities recommended by the mid-term review and, if so requested by the Fund or the borrower, the loan documents will have been amended.** The recommendations of the mid-term review and the design features for the second cycle were discussed, and agreed on, with the Government and NGOs during the wrap-up meeting. The next step is the amendment of the loan agreement.

V. LESSONS LEARNED

16. A review of the programme's achievements and performance in the first cycle highlights a number of lessons and recommendations that are essential for the implementation and design of the second cycle. These include the need to:

- promote the establishment of broader networks and institutional linkages in order for the SHGs to grow; facilitate transformation of village institutions through mainstreaming of

[7] Strengths, weaknesses, opportunities and threats (SWOT) analysis is a tool used to audit the strategic position of an organization and its environment. It provides information that is helpful in matching the organization's resources and capabilities to the competitive environment in which it operates.

SHGs;[8] guarantee a stronger presence of the poor in the village institutions and in the management of their funds, with enhanced control over budget use by the poor, and systems for sanctioning dysfunctional behaviour;

- enable the creation of sustainable linkages with mainstream financial institutions for increased access to credit;
- increase local community capacity for integrated natural resource management;
- expand opportunities for livelihood enhancement, provide required capacities to seize such opportunities, and create a conducive, pro-poor policy environment;
- integrate programme activities into the broader community development process and influence the programme's impact on equity, gender and sustainability;
- invest more in basic infrastructure and mobilize more local expertise for extension and training aimed at skills development for generating and increasing income;
- increase the efficiency of budget use, improve the programme's organizational structure and optimize roles and functions according to levels of responsibility and institutional comparative advantage;
- improve coordination so as to avoid duplication of activities between the district management committees and district implementing committees. The national steering committee and the provincial advisory committees also need to improve the output of their work and provide appropriate guidance to the programme; and
- introduce, within an overall improvement of the coordination and policy guidance functions, a lead NGO at national level to ensure better coordination of the activities of the national programme office with local NGOs.

17. Experience has shown that for increases in social and human capacity (including provision of social services) to be sustainable, there must be parallel increases in incomes and economic opportunities. Consequently, the first cycle's thrust needs to be complemented with efforts to develop sustainable livelihoods for the poor through: (i) promotion of small enterprises – including diversifying and strengthening agricultural markets and financial services, which both have limited outreach at present – and income-generating activities[9]; (ii) provision of infrastructure, particularly in areas not currently served; (iii) promotion of integrated community-based natural resource management; and (iv) enhancement of the management capacity and skills of individuals and people's institutions. These measures are needed to sustain increases in the availability of inputs and services of importance to the economic livelihoods of the poor. As a result, and in the second cycle, the programme will need to tackle poverty by establishing conditions leading to an increase in the

[8] SHGs have proven to be appropriate institutions and adequate tools for poor people's empowerment. Institutions, by themselves, do not empower. In fact, they have the potential to disempower if their structure is inappropriate and the systems outdated and ineffective. They also disempower if the official organizational and financial management systems are imposed on them and standardized. Mainstreaming in this case does not mean that the mainstream imposes its system and culture; on the contrary, the programme will work with the official institutions to enable them to recognize the emerging groups and respect their systems, provided they are transparent and adequate. Genuine people's institutions provide the space within which the poor can build up their confidence and skills to establish relationships with other institutions on an equal footing.

[9] Income-generating activities are those that the members of the SHGs took up during the first cycle and will continue to carry out. They are small, part-time activities that do not require new skills, technologies and market linkages; the financial investment they require is also small and can be met by the SHGs from their common fund. Microenterprises, on the other hand, require a larger and regular financial infusion, better management, new skills, technologies and markets; they also have the potential to develop into full-time activities, to become a major source of livelihood and to continue after the programme ends.

livelihood options of poor upland marginal households and in their ability to realize these options. This will lead to increased and rising incomes even after the programme ends, and to an improved, supportive and sustainable natural environment. These recommendations are in line with those of the country programme evaluation of 2003.

V. CONCLUSIONS

18. The programme design involved a high level of complexity and institutional innovation and was therefore put under the FLM to accommodate the need for flexibility and change. Considerable progress has been made in the first cycle in establishing the institutional and planning environment that will enable the programme to achieve its objectives.

19. IFAD management considers that there is a firm basis for the continuation of the programme. The Government of Indonesia has shown clear commitment to the success of the programme throughout its implementation and is willing to scale it up nationwide. IFAD is committed to supporting this endeavour.

TABLE 1: ANALYSIS OF DISBURSEMENTS BY YEAR

(SDR)

Category	2001	2002	2003	2004	2005	Total
Civil works	-	-	186 559 40	221 716.64	43 326.46	451 602.50
Agricultural inputs and supplies	-	521.60	11 158 85	47 259.23	11 591.50	70 531.18
Vehicles and equipment	-	554 865.56	385 466 98	131 568.22	-	1 071 900.76
Technical assistance training and studies	-	356 817.89	975 955 79	958 450.79	-	2 291 224.47
Matching grants	-	-	49 640 22	242 116.97	15 327.00	307 084.19
Incremental costs – allowances	-	13 265.27	103 055 60	137 385.55	21 855.36	275 561.78
Incremental costs – monitoring, operating maintenance and office expenditures	-	174 130.03	515 564.36	396 813.26	-	1 086 507.65
Authorized allocation – special account	1 605 587.44	-	-	-	-	1 605 587.44
Total	**1 605 587.44**	**1 099 600.35**	**2 227 401.20**	**2 135 310.66**	**92 100.32**	**7 159 999.97**

TABLE 2: STATUS OF FUNDS BY CATEGORY

(SDR)

Category	% Financing		Allocated	Disbursed	% Disbursed	Committed	Total
	Foreign Exchange	Local Exchange					
Civil works	100	100	890 000.00	451 602.50	50.74	-	438 397.50
Agricultural inputs and supplies	100	100	460.00.00	70 531.18	15.33	-	389 468.82
Vehicles and equipment	100	100	1 060 000.00	1 071 900.76	101.12	-	-11 900.76
Technical assistance training and studies	100	100	2 600 000.00	2 291 224.47	88.12	-	308 775.53
Matching grants	100	100	450 000.00	307 084.19	68.24	-	142 915.81
Incremental costs – allowances	100	100	300 000.00	275 561.78	91.85	-	24 438.22
Incremental costs – monitoring, operating maintenance and office expenditures	90	90	1 400 000.00	1 086 507.65	77.61	-	313 492.35
Second cycle			10 340 000.00	-	-	-	10 340 000.00
Authorized allocation – special account			-	1 605 587.44	100.00	-	-1 605 587.44
Total			**17 500 000.00**	**7 159 999.97**	**40.91**	**-**	**10 340 000.03**