

Republic of Indonesia

Country Programme Evaluation

Executive Summary

1. **Country context.** Indonesia is a fast growing middle-income country (MIC) in South-East Asia and the fourth most populous country in the world. Indonesia's land area of 1,904,433 square kilometres extends over 17,000 islands, of which 6,000 are inhabited. More than 80 per cent of Indonesia's territory is covered with water. Its economy has solid macroeconomic fundamentals and has recently shown resilience to external shocks and global economic slowdown. Although the national poverty rate fell to 12 per cent in 2012, much of the population still remains poor and vulnerable. Nearly a quarter of Indonesians live below the official "near-poor" line (1.2 times the poverty line expenditure); two-fifths live below 1.5 times the poverty line expenditure. In recent years, half of all poor households have lost ground and have moved back into poverty. Almost 50 per cent of Indonesia's population is rural.
2. Rural poverty alleviation, IFAD's mandate, remains Indonesia's central issue. Agriculture is a major source of livelihoods and income for the two-thirds of the country's poor. Growth in agriculture is therefore instrumental for poverty reduction. The challenges facing this sector include low productivity, capacity deficits in government services accelerated by rapid decentralization, inadequate national budgets supporting agricultural productivity, low private sector involvement, climate change impacts, food security issues and raising the level of farmer empowerment.
3. **IFAD-supported programme.** Cooperation between IFAD and the Government of Indonesia started in 1980 and has involved 15 projects supported by IFAD loans totalling US\$409.9 million. This is the second country programme evaluation (CPE) undertaken by the Independent Office of Evaluation of IFAD (IOE) for Indonesia. The CPE covers nine years, five of which (2004-2008) are prior to the country strategic opportunities programme (COSOP) approved in 2008, with the remaining four years (2009-2012) part of COSOP 2009-2013. The COSOP has three strategic objectives: (i) increase the access of rural poor people to productive assets, appropriate technology and production support services to boost on- and off-farm productivity; (ii) enhance the access of rural poor people to infrastructure, input and output markets, and financial services; (iii) build the capacity of rural poor people to engage in local policy and programming processes.
4. The current CPE covers seven IFAD-funded projects. Two of these were completed: Income-generating Project for Marginal Farmers and Landless – Phase III (P4K) and Post-Crisis Programme for Participatory Integrated Development in Rainfed Areas (PIDRA), The East Kalimantan Local Communities Empowerment Programme (EKLCEP) was cancelled. Three are under implementation: Rural Empowerment and Agricultural Development Programme in Central Sulawesi (READ), National Programme for Community Empowerment in Rural Areas (PNPM) and Smallholder Livelihood Development Project in Eastern Indonesia (SOLID). The Coastal Community Development Project (CCDP) has recently been approved. The three grants approved by IFAD during the COSOP period are linked to the three ongoing projects. Indonesia also has some involvement in several regional/global grants.
5. **Portfolio performance.** The overall portfolio achievement is assessed as moderately satisfactory. Project objectives were relevant, but the design complex with a diffused focus. Recent projects covered very large geographical areas where population density was low, and there were capacity deficits at the subnational level. Resources were therefore spread too thinly.

6. The portfolio has made encouraging achievements in social mobilization and gender with self-help groups and building institutions, key features of all seven IFAD-supported projects. Marked progress has also been made in terms of investments for the enhancement of social infrastructure. However, results related to on-farm and off-farm development and agricultural productivity enhancement have been more limited. Although productivity enhancement and value addition were included in project design, they did not get adequate attention during implementation.
7. Sustainability is an issue given the limited capacity at village and community levels, as well as the weak monitoring and evaluation systems, which limit the ability of project management to learn from experiences and take action to ensure the sustainability of project achievements. In terms of innovation and scaling up, the two closed projects (P4K and PIDRA) provided opportunities for scaling up, but little has been achieved in the current portfolio given the insufficient attention to learning and knowledge management.
8. The shift to direct supervision and implementation support by IFAD is making a positive impact. Rapid improvement has been made in the past two years and supervision by IFAD has brought its staff closer to the ground. However, more attention needs to be paid to this, including the regularity of, and expertise included in, supervision missions. Direct supervision has the potential of being even more effective with the required adjustments.
9. IFAD country programme management was weak for most of the period covered by the CPE. There was a lack of management attention and leadership, demonstrated by the fact that there was no record of travel by the regional director to Indonesia after mid-2008. However, the new Indonesia country programme manager (CPM) assigned in 2011 is making excellent efforts to re-energise the partnership under the leadership of the new Asia and the Pacific Division (APR) director. IFAD needs to more effectively communicate both its strengths and limitations in relation to its programme in Indonesia, particularly in the context of Indonesia's MIC status.
10. The Government assumed ownership and responsibility for the IFAD programme. However, while the Government was fully committed to the design and concept of the projects, more could have been done to support project goals. The Government could have been more directional in requesting IFAD to limit its activities to small farmers and their groups, and improvements to agricultural productivity through technology and value chain development and through empowerment of these groups.
11. **Non-lending activities.** Results related to non-lending activities (policy dialogue, knowledge management and partnership-building) were limited, even though these are increasingly important given Indonesia's MIC status. Grants supported project-related activities but provided little additional leverage to enhance non-lending activities. In general, synergies across projects, between lending and non-lending and grants were insufficient.
12. IFAD has mainly participated in ad hoc project-level discussions, but has not leveraged implementation-generated knowledge for broader policy dialogue. A knowledge management and communication strategy for Indonesia was prepared during COSOP implementation, but the start made on web-based knowledge activities has yet to make an impact. Partnerships have not been strategic and selective. IFAD has by and large acted as a project-based organization in Indonesia, and there is a need for a paradigm shift, i.e. focusing on scaling up innovation through effective non-lending activities.
13. **COSOP performance.** COSOP's three strategic objectives are broadly relevant and comprehensive, and strike a balance between agricultural productivity enhancement, better infrastructure, access to markets and community empowerment, all leading to rural poverty reduction and therefore aligned to the

country's needs. However, priorities among the objectives were not defined, and the COSOP was overly ambitious with inadequate allocation of resources to achieve the expected results.

14. COSOP management has been weak: the COSOP was not used as a living document with annual reviews, the results framework was complex, the mid-term review was carried out late, and technical support to the country programme was insufficient. IFAD appears not to have devoted the required management attention to its cooperation in Indonesia from around 2004-2005 until more recently (i.e., as mentioned earlier, a new CPM assigned in 2011 has been making a good start to remedying the situation). With a Rome-based CPM, the IFAD-Government cooperation has been adversely affected by the lack of a country presence, though there are firm plans to post the CPM out to Jakarta in the near future.
15. **Overall IFAD-Government partnership.** The partnership between IFAD and the Government of Indonesia is highly valued by both, reflecting mutual trust and cordial relations. IFAD's commitment to poverty reduction among the rural poor in Indonesia has been appreciated. The Government has reiterated its commitment to IFAD by doubling its replenishment contribution in the IFAD's Ninth Replenishment (2011), as compared to the 8th replenishment (2008).
16. IFAD in Indonesia has earned a reputation for being a small, friendly, non-intrusive, flexible United Nations agency with a genuine interest in reducing rural poverty. IFAD's commitment to poverty reduction among the rural poor in Indonesia has been appreciated, but IFAD is not widely known.
17. Given that agriculture is and continues to remain a very important sector in the Indonesia economy, there are significant opportunities to improve the effectiveness of the IFAD-Government partnership. IFAD could play a leading role in promoting productive, competitive and high value smallholder agriculture.

Overall assessment of the Government-IFAD partnership

<i>Assessment</i>	<i>Rating^a</i>
Portfolio performance	4
Non-lending activities	3
COSOP performance	3
Overall IFAD-Government partnership	3

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

18. The CPE offers five **key recommendations:**
19. **Recommendation 1: Make small farmers the principal beneficiary of the IFAD programme.** IFAD should place small farmers and their food and high value crops at the centre of its efforts. The focus on rice should not result in neglecting the needs of high value export crops, such as coffee, cocoa and rubber. Given relatively scarce resources, IFAD should limit its role to high value crops grown by smallholders with an appropriate and increasing role of value chains.
20. To support these goals, IFAD should design and implement a new comprehensive national strategic programme for small farmer agricultural development, with four key objectives: (i) address national level issues that impact on the lending portfolio and supervision activities at the project level, and coordinate the non-lending activities (policy dialogue, knowledge management and partnership-building) for all projects in the programme; (ii) monitor innovations in IFAD-financed projects and support scaling up involving other partners' projects and government national programmes; (iii) help IFAD to serve as the voice for small farmers in policy and

- knowledge exchange forums, and establish a brand name for IFAD in this role;
(iv) support the Government's South-South initiatives relating to agriculture.
21. This programme would be financed jointly by IFAD grant funds and grants from bilateral donors active in agriculture in Indonesia. IFAD should develop its lending portfolio and non-lending activities with the above objectives in mind, and align investment, technical assistance, policy dialogue, knowledge and analytical work to make a real impact on the lives of small farmers.
 22. **Recommendation 2: Channel funding and technical support to core agriculture.** Core agriculture consists primarily of food and high value cash crops. IFAD, through its next COSOP, should draw the boundaries of its Indonesia programme around core agriculture activities. The strategic objectives and target groups should be in alignment with these boundaries. Core agriculture activities should be targeted to empowering small farmers and their groups in geographical areas where there are a large number of small farmers and the preconditions for a successful donor intervention exist. IFAD operations should focus on improving the access of small farmers to agricultural technology and services, and help them to develop value chain links to input and output markets. This will help small farmers raise productivity and adapt to climate change.
 23. **Recommendation 3: Build strategic partnerships on core agriculture.** IFAD should evaluate the strengths and weaknesses of potential partnerships in the core agriculture areas of IFAD's focus. Given the high transaction costs involved in building partnerships, selectivity is key. Partnerships with donors, civil society and the private sector should focus on activities relating to core agriculture and small farmers.
 24. **Recommendation 4: Strengthen IFAD country programme management.** IFAD should specify with greater clarity country programme management responsibilities and mechanisms within the context of decentralization to install the necessary capacity within IFAD to manage the COSOP in Indonesia. Accountability for performance should be more sharply defined and necessary incentives should be put in place. COSOP should also make specific recommendations on how to establish within IFAD core competencies to deliver results in the decentralized context of country engagement, balancing access to global expertise with tapping high quality local resources.
 25. **Recommendation 5: Enhance the Government's role in IFAD-supported activities.** Shifting the focus to core agriculture will assist IFAD in developing focused strategic relationships with the main technical counterparts of the Government. The success of IFAD in alleviating poor small farmer problems depends on its ability to build capacity at the village level so that small farmers interact with key players from government departments, private sector entities and civil society. The establishment of capacity at the district level and its effectiveness at the village level will have to be the centrepiece of all subnational IFAD projects. The next COSOP should come up with a more practical way of using outside capacity for monitoring and evaluation initially, and then gradually building up capacity within the projects.