COUNTRY STRATEGY AND
PROGRAMME EVALUATION

Republic of Indonesia

Executive Summary

IOE | IFAD Investing in rural people

Independent Office of Evaluation

Executive summary

A. Background

1. The Independent Office of Evaluation of IFAD (IOE) conducted the third Country Performance and Evaluation (CSPE) in the Republic of Indonesia, covering 2013 to 2021. The two previous evaluations were completed in 2004 and 2014. The main objectives of this CSPE are to: (i) assess the results and performance of the IFAD-financed strategy and programme in Indonesia; and (ii) generate findings and recommendations for the future partnership between IFAD and the Government of Indonesia for enhanced development effectiveness and rural transformation.

2. **Scope.** The CSPE assesses the results and performance of country strategies, lending portfolio, and non-lending activities conducted since 2013, after the conclusion of the last Country Programme Evaluation (CPE) and since the approval of the 2014/2015 Interim Country Strategy and 2016 COSOP. This CSPE covers nine loan projects (READ, VDP, SOLID, CCDP, IPDMIP, READSI, UPLANDS, TEKAD, and YESS) and 14 grants (Global Environment Facility/GEF grants and IFAD in-loan, country-specific and regional/global grants).

3. **Country background.** The Republic of Indonesia is the fourth most populous country in the world, with 270 million inhabitants comprising 300 ethnicities. It has nearly 75,000 rural villages, and one-third of the population are engaged in agriculture. In 2021, the World Bank returned Indonesia to 'lower-middle income' status amid COVID-19 after briefly gaining 'upper-middle income' status in 2020 (with Gross National Income per capita of US$4,050 in 2019). Indonesia is a presidential democracy with a decentralised administration comprising several levels of elected local government from provincial-, district-, and including village-level governments. In 2014, the Village Law was introduced, providing a regulatory framework to channel funds directly to village governments.

4. Poverty rates in Indonesia have steadily declined over two decades. In 2019, nine per cent of the population lived under the national poverty line (compared to 23.4 per cent in 1999), and two-thirds of them reside in rural areas. However, there are huge disparities among regions with a poverty rate much higher in Eastern Indonesia (33 per cent) than the national average. Furthermore, the maternal mortality and child stunting rates are particularly high, at 177 per 100,000 live births and 30.5 per cent (in 2019), respectively.

5. Agriculture accounts for 13.7 per cent of Indonesia's GDP. The sector is dominated by smallholders (over 90 per cent) who typically cultivate small plots of less than 0.8 hectares, with those in lowlands generally growing rice and those in the uplands growing cash crops. Despite improvements in irrigation, input supply and technical know-how, several challenges remain, including lack of access to quality seeds, improved technologies and reliable production information, and poor maintenance of irrigation systems and roads. Poor land management, rapid deforestation, and peat fires also put farming at risk. Moreover, access to markets has been constrained by lack of trust in cooperatives.

6. **IFAD in Indonesia.** Since the beginning of its operations in Indonesia in 1980, IFAD has approved 21 projects, of which one was cancelled. Accounting for counterparts funding, the total cost of the remaining 20 projects is US$2,765 million, of which IFAD has financed US$670 million. The nine investment projects covered in this evaluation received funding commitments of US$2.2 billion, with IFAD loans comprising US$449 million (21 per cent).

7. Under the recent COSOP, IFAD has three strategic objectives whereby smallholder producers: participate in remunerative agricultural markets; are more resilient to risks; have their needs met by rural institutions delivering responsive services. The 2020 draft of the UN Rome-Based Agencies (RBAs) Joint Country Strategic Plan

(2021-2025) for Indonesia also provides direction to IFAD's work over the next five years.

B. Main Findings

8. **Relevance** of country strategies and portfolio is rated as moderately satisfactory. The COSOPs and project portfolio align well with the Government's priorities and beneficiaries' needs. IFAD embraces relevant challenges, including long-term support for Government's decentralisation agenda, targeting youth, and politically sensitive issues such as peatlands protection and haze reduction. The shift in the portfolio's focus from production only to value chains reflects Government's changing priorities and is appreciated by some beneficiaries. However, less attention has been given to meeting underperforming SDGs and poverty reduction. The government's need for technical expertise, policy support, and increasing global presence has not yet been fulfilled by IFAD.

9. Higher-level objectives in designs are dictated by IFAD corporate requirements and formulation, but these are not sufficiently contextualised, and pathways for achievement are not clear. Moreover, ambitious and increasingly complex project designs did not adequately take into account the implementing agencies' capacities, which led to the frequent need for re-design.

10. Targeting was better addressed in earlier projects and involved a more rigorous selection process to ensure targeting of the poorest households. Although COSOPs identified Eastern Indonesia as a geographic focus, targeting has gradually shifted away from the region. Furthermore, targeting the poorest beneficiaries and villages has increasingly given way to practical considerations of district readiness and potential for development. Nevertheless, IFAD has appropriately responded to the need of targeting youth.

11. **Coherence** of country strategies and portfolio is rated as moderately satisfactory. IFAD had a comparative advantage with its previous niche focus on agricultural development for Eastern Indonesia. However, the recent emphasis on value chain and more widespread geographic targeting risks duplication (but also potential for cooperation) with other development players. While there are strong intentions to cooperate, few concrete attempts have been made to create synergies and collaborate with other agricultural development actors due to the lack of sufficient financial and human resources.

12. The country strategy and portfolio lack internal coherence. The COSOP 2016 does not provide a coherent long-term vision showing how IFAD's support has evolved over time and intends to support the Government's needs as a middle-income country (MIC) in the future. This is evident from project theories of change that do not readily fit together, and lack connection with overarching objectives. Grant integration into projects has also been limited, which is a missed opportunity to add optimal value. Nonetheless, the project portfolio has demonstrated a chronological coherence with successive project designs and approaches building on the lessons learned from previous ones.

13. **Knowledge management** is rated as moderately unsatisfactory. Knowledge management (KM) and advisory support are highly valued by the Government as a MIC but have been constrained by limited resources. KM and policy engagement financing reduced by 50 per cent between 2013 and 2021, and less than 3 per cent of staff time was allocated to these. Well-defined KM strategies are absent in all projects, and frequently KM is addressed too late and seen as an add-on. Moreover, the in-loan grants have not been used strategically to strengthen the KM function. Consequently, IFAD has not fulfilled its potential and expected role in providing the Government with innovative models for scaling-up.

14. **Partnership building** is rated as moderately satisfactory. Co-financing has increasingly taken place over the evaluation period, in line with IFAD stated intentions to actively search for new co-financing in Interim COSOP 2014-15. While

these partnerships are important to add value, they also pose risks of reducing IFAD's influence on projects and the need to compromise on working approaches and its internal coherence given the large scale of loans involved. Valuable partnerships also have been built with other actors, e.g., Rome-based Agencies, the private sector, and research bodies. However, little has been achieved in expanding innovative practices through partnering with NGOs.

15. **Country-level policy engagement** is rated as moderately satisfactory. IFAD has contributed to the formulation of the 2014 Village Law through its Community-driven Development (CDD) projects. Several instances of policy engagement were also apparent, including the use of policy studies as inputs to the National Medium-Term Development Plan and Peatland policy development through grants. However, the potential for wider policy engagement has been undermined by insufficient dedicated resources and weak KM and monitoring and evaluation (M&E) systems.

16. **Effectiveness** of the portfolio is rated as moderately satisfactory. Rural community empowerment and organisation showed mixed achievement. Group formations were central to project interventions but were viewed by beneficiaries as mainly a means to receive services and were not fundamental for organising collective activities such as Farmer Field Schools (FFS) and inputs sharing. On the other hand, better results were seen in groups with purposes beyond access to resources, such as community-based coastal management groups (CCDP), fire protection groups (GEF grants) and the Water Users Associations (WUA) (IPDMIP). Closed projects have provided valuable lessons learned on participatory village planning. Carefully selected and well-trained village facilitators have also been effective in empowering rural communities and enhancing participatory approaches to engage people. However, fewer consultations have been undertaken with village governments in recent projects, and decision-making has shifted upstream.

17. The portfolio has effectively disseminated technologies and increased farmers' knowledge and capacity through FFS. Adoption of FFS-promoted technologies and recommended inputs has increased yields and improved natural resources management. For instance, in IPDMIP, farmers benefiting from training and soil testing kits have a better understanding of and use of improved seeds, and significantly reduced their use of chemical fertilisers, which increased yields and lowered production costs while decreasing groundwater pollution and soil degradation.

18. Effectiveness in market access and value chain development has been limited. All projects faced challenges in establishing market linkages and value chain approaches adopted to-date have been largely promoting market orientation rather than being market-led. CSPE interviews and the online survey indicated that this is the least effective aspect of the programme.

19. Overall, the outreach figures of projects have been positive in terms of revised targets, with some projects closely achieving these targets and two projects exceeding revised targets of beneficiaries reached. Regarding the extent to which services provided have been responsive to beneficiaries' needs, field visits and key informant interviews indicate Village Facilitators have provided effective support and motivation to beneficiaries, contributing to high beneficiary participation during project implementation.

20. In rural finance, farmers continued to opt for informal trusted financial services as primary means to access finance. Projects have also tried to build financial resilience by encouraging beneficiaries to accumulate savings, improve financial planning and access timely loans. While savings groups have been established and training has been conducted, there is no data to indicate whether savings have provided farmers with a buffer in times of adverse shock or managed their cash more effectively.

21. **Innovation** is rated as moderately satisfactory. The projects portfolio features a range of innovations in the Indonesian context, but documentation of innovations

and KM have been limited and the way MIS and M&E systems are set up does not support developing innovations, which requires trial and error. Nonetheless, evolution from productivity-focused to whole value chain approach in the portfolio has been noted as unique to the region. FFS have successfully introduced innovative farming techniques and skills, which farmers adopted. GEF5/SMPEI has introduced an innovative approach for peatlands management as it engages farmers in real-time fire monitoring and warning systems. An early innovation of a strong private-public partnership was initiated in READ, and ongoing projects aspire to develop market linkages in value chains. However, evidence has been limited on sustained market linkages developed in closed projects and progress made in ongoing projects.

22. **Efficiency** is assessed as moderately unsatisfactory. There have been delays in project start-up periods and early implementation due to persisting issues in slow procurement and contracting processes, use of part-time staff, and high personnel turnover. However, the implementation pace improved in the last years of implementation, and all closed projects achieved timely project completion and satisfactory loan absorption rates (on average at 96 per cent). Project management costs and costs per beneficiary are relatively high yet reasonable and within design estimates, considering the costs of managing projects in Indonesia’s context. Ongoing project implementation and disbursement rates have been slow, exacerbated by COVID-19 and challenges in implementing the on-granting mechanism and are unlikely to complete disbursement within the contracted period.

23. **Rural poverty impact** is rated as moderately unsatisfactory. There is scant credible evidence of rural impacts attributable to project interventions given weak design, execution and quality assurance of impact studies. Nonetheless, anecdotal evidence indicated improved production techniques and market access had positively impacted beneficiaries’ income. Regarding asset accumulation, while impact studies of READ, CCDP and SOLID claimed increased access to assets, it is hard to confirm whether these assets were accrued due to project interventions.

24. There is also no compelling evidence on projects’ impacts on human and social capital. While qualitative findings suggest that FFS had positively impacted farmers’ receptiveness towards new knowledge, technology adoption and improved farming practices, systematic studies to confirm this impact were absent. There were some instances of groups that have benefited from promotional efforts by projects and have been visited by academics thereby contributing to bridging social capital. However, there is no systematic data collection to document these impacts.

25. IFAD’s project portfolio had limited influence on institutional changes and policy. In terms of Natural Resources Management (NRM), however, IFAD projects and GEF grants have made a significant contribution to national and regional policies in peatland management. Another notable contribution to policymaking includes improvements to village governance, particularly in participatory practices and the use of the Village Fund.

26. **Gender equality and women’s empowerment** is rated as moderately unsatisfactory. Country programme performance has been limited due to the lack of context-specific analysis and strategies. COSOP 2016 explicitly put women as an intentional target group, but it is weak in explaining pathways to empowerment. Project gender strategies were not improved after design and lacked contextual understanding. Interventions largely concentrated on quotas fulfilment and meeting targets of women’s participation and were lacking in addressing the underlying causes of gender inequality and reducing women’s workload burdens. While women’s participation targets were met in the closed projects and are on track for ongoing projects, evidence indicating women’s improved access to resources and services is limited. Government does not regard the remaining challenges as high priorities, consequently, the willingness to put much effort into GEWE has been low.

27. **Sustainability** is assessed as moderately satisfactory. Sustainability of closed projects was achieved mainly through sequential follow-up projects: VDP evolved

from PNPM rural and activities continued in TEKAD; READ's elements were adopted in READSI. Across projects, the use of existing farmer groups for project activities and projects adapting to local needs and building on existing initiatives were common facilitating factors for sustainability. Financial sustainability and funding invested to build local ownership were also key factors to support or continue project activities. While in-built operations and maintenance plans provided a prospect for sustainability, uptake has been slow and successful implementation depended on project implementers' capacity. Besides the successful partnership with MARS, few linkages were established with private sector off-takers that continued after project closure.

28. **Scaling up** is rated as moderately satisfactory. Several instances of scaling-up activities were done by Government and other IFAD projects outside Indonesia. One notable example is the use of community-driven development (CDD) approaches to scale up and inform the village law. PNPM Rural has demonstrated how financial resources planned at the village level can effectively meet the community needs and provided guiding principles that led the design of the 2014 Village Law and the Village Fund. CCDP's integrated and proactive approach to marine conservation was also adapted by Government and the World Bank, with an extensive Replication Manual produced by the project management office in 2017. Due to the weak KM and M&E system, however, these two examples are the only significant successes of scaling up documented.

29. **Environmental and natural resources management (ENRM) and climate change adaptation** are collectively rated satisfactory. GEF-funded projects have provided technical and financial support that contribute to national and regional ENRM-related policies and regulations, particularly peatland management. The projects have also shown significant success in mapping and monitoring peatland areas that also features an early warning system for fire risks. Several interventions, such as mangrove rehabilitation and preservation activities in CCDP and sustainable palm planting in SMPEI projects, have also encouraged farmers to adopt conservation approaches contributing to their increased resilience to climate change impacts. While projects introduced alternative income-generating activities, additional funding and technical support are needed to enhance results performance in alternative livelihoods.

30. Several project interventions have promoted climate-smart agricultural practices to support farmers' adaptation to climate change, including CCDP, UPLANDS, IPDMIP, and READSI. Local-level awareness and capacity building in climate risk management have also been undertaken at the project level—for instance, CCDP through ecotourism activities, UPLANDS through FFS, and IPDMIP through extension officer training. While progress has been made in strengthening community resilience to climate change, several constraining factors such as institutional bottlenecks and capacities and private sector concessions remain challenges for climate change interventions.

31. **IFAD's performance as a partner** is rated as moderately satisfactory. IFAD performed well in re-establishing a trusted relationship with the Government, aligning the portfolio with COSOP aspirations, and attracting more co-financing to fund larger projects. IFAD's projects have been designed to disburse funds too quickly during the early years, inadequately taking into account the time and support needed by project management units (PMUs) to set up. Supervision and support missions were valued by Government but would have benefited from greater support given to M&E. ICO resources are insufficient given the size and geographic spread of the portfolio, which also contributes to limited capacity to deliver on non-lending activities such as KM and policy engagement.

32. **Government performance** is rated moderately unsatisfactory. Government has actively informed IFAD on how they envisage projects addressing their priorities and made high financial commitments to loan projects. However, actual expenditure has

been limited, worsened by COVID-19 and the introduction of the on-granting mechanism. Project management has suffered from insufficient time and resource allocation, inexperienced staff, high personnel turnover, and lack of incentives to prioritise projects activities. Procurement processes were often behind schedule, and key roles remained vacant in several projects. During implementation, projects are less responsive to beneficiaries' needs due to limited flexibility than intended in the design. The M&E, Management Information System (MIS) and key surveys have been developed slowly and are not used to inform management decisions or policy. Steering Committees have also not been operationalised, and collaboration across and within ministries has been limited.

C. Conclusions

33. **IFAD has earned a respected position with the Government due to its consistent support over decades and readiness to support Government's long-term objectives**, such as its decentralisation agenda. It recognises that institutional and systemic changes take time and has provided dependable support during the processes, even when it has resulted in an inevitable trade-off in implementation efficiency. **At the field level, village facilitators and FFS are valued.** Farmers have benefitted from increased knowledge and capacity, which also led to the adoption of innovative techniques and, consequently, farmers' self-reported improved yields.

34. **Over time, the country programme has become less focused and coherent with more scattered geographic targeting.** This risks dilution of its poverty focus with IFAD's portfolio gradually shifting away from the poorest areas of Indonesia. It also has reduced opportunities for an in-depth understanding of local contexts. Key thematic areas, such as value chains and business development, gender, nutrition, environment and rural finance, are insufficiently understood in context, which is not only specific to Indonesia as a MIC but differ immensely across the country. The systems lens adopted in project designs has also led to increased complexity and a loss of strategic focus where IFAD has a comparative advantage. **Both internal and external coherence is lacking across the country programme, of which the current COSOP has insufficiently provided strategic direction for a cohesive programme.**

35. **Persisting issues of weak project management and poor coordination across ministries have contributed to the delayed implementation and low initial disbursement rates.** Considerable IFAD resources have been channelled to support this long process of capacity building at the subnational level on top of its support for decentralisation. This has left significant resource gaps in other pivotal areas that the Government expected from the partnership, such as piloting innovative models for scaling up and raising Indonesia's profile internationally.

36. **Despite the priority given to innovation, both partners have not committed sufficient time and resources to develop useful M&E and KM systems**, which are key instruments for documenting and sharing innovations and models. Resources were wasted on M&E systems that were too complicated, had limited function, and were frequently developed too late to be useful. Promising practices of farmer-led monitoring systems from CCDP and MARS have not yet been fully utilised nor shared with other projects. The Government has not given sufficient recognition to the need of building M&E and KM capacity. The ICO lacks the resources to adequately engage in a KM strategy and facilitate learning across projects and partners. While IFAD has provided some support to meet global environmental targets, more could have been achieved with well-targeted KM in place.

D. Recommendations

37. **Recommendation 1. Base the new COSOP on a long-term strategic vision that drives cohesive programming that meets Government's evolving needs as a MIC.** Coherence can be achieved with a sharper geographic focus, interlinking

projects and purposeful sequencing as well as integration of grants into the programme. Greater attention also needs to be given to external coherence and particularly on how the programme adds value, complements the work of others and avoids duplication. The programme should concentrate on a few key strategic areas fully aligned with the RPJMN 2020-2024 where IFAD's international expertise is critical in order to unify effort. Narrowing the scope will ensure that resources can be better targeted, for example, on Eastern Indonesia and on private sector/value chains, with special emphasis on generating decent sustainable work for poor families and widening the diversity of private sector partners

38. **Recommendation 2. Develop project designs suited to the capacity of implementing agencies, the needs of targeted districts, and project duration**. Projects should be less complex and include components to strengthen the capacities of the implementing agencies and implementing partners if necessary. Explore how project staff can be part of the design through use of retroactive financing or project preparation facilities. Project designs should provide sufficient time and resources to set up the management and the financial systems at start up.

39. **Recommendation 3. Strengthen Project Management Units to support a more integrated programmatic approach.** IFAD and Government should engage in dialogue over alternative programme management arrangements including the potential for a single programme management unit. The lead ministry could manage this with full-time personnel who are trained in all aspects of project management and committed for the full project duration. This PMU will need to have the authority and responsibility to co-ordinate with other directorates, ministries and all financing partners.

40. **Recommendation 4. Prioritise knowledge management through a country programme wide strategy, which engages partners, promotes policy dialogue and stimulates regionally and internationally recognized technical capacity.** Design knowledge management for better transfer of lessons learned between projects and develop timely knowledge products that are useful and appropriate for different audiences, including for sharing internationally. Fully integrate knowledge generation and management into programme implementation with an adequately budgeted KM system so that all implementation staff including at the local level assume ownership and responsibility for this key intent. Knowledge sharing also should be facilitated among development partners and government by supporting the creation of an inter-sectoral policy forum related to the food system approach, building on the RBA collaboration and strategy, which can contribute to sustainability and scaling up.

41. **Recommendation 5. Develop a practical M&E system that promotes innovation and enables effective management.** Priority must be given to developing simple, relevant, focused M&E tools for farmers to use themselves that can be aggregated for project purposes. More emphasis should be placed on metrics that encourage innovative practice and less emphasis on targets and outreach. Based on these metrics, develop a more effective means of demonstrating achievements of innovations for scaling-up that includes both qualitative and quantitative methods. Consider splitting MIS from M&E of innovation, which are staffed and managed separately.