

SUMMARY DESIGN DOCUMENT – AIPD-RURAL

Promoting Rural Income through Supports for Markets in Agriculture

Draft Version as of 31st October 2012

Executive Summary

Program name	The Australia Indonesia Partnership for Decentralisation – Rural Economic Development (AIPD-Rural)
Duration	4 years from July 2013 – June 2017 (with possible 2 nd phase of 5 years)
Location	5 core provinces with a specific focus on 20 districts: <ul style="list-style-type: none"> • East Java: Malang, Situbondo, Trenggalek, Sampang • West Nusa Tenggara: Lombok Utara, Lombok Barat, Dompu, Bima • East Nusa Tenggara: Timor Tengah Utara, Flores Timur, Ngada, Sumba Barat Daya • West Papua: Fakfak, Sorong Selatan, Manokwari, Raja Ampat • Papua: Merauke, Keerom, Pegunungan Bintang, Supiori Plus 4 additional districts (to be decided by the end of 2013) in the provinces of Maluku, D.I. Yogyakarta, Central Java, and West Sumatra
Goal	A 30% increase in incomes for more than 1,000,000 male and female smallholder farmers ¹ by 2022; 300,000 of which will be reached by June 2017
Objective	Increased competitiveness of poor male and female farmers: <ul style="list-style-type: none"> • Increased productivity • Improved business performance • A growing share of an expanding market • The continuous adoption of innovations that contribute to productivity, performance, and market growth
Outcomes	<ol style="list-style-type: none"> 1) Improved farmer practices 2) Increased access to input and output markets 3) Improved business enabling environment at the sub national level
Strategy	To address the systemic growth constraints in rural agricultural sectors that are most relevant to small farmers the districts in which the Program operates
Approach	A market-led approach of working with on- and off-farm market stakeholders (public and private sector) to stimulate both increased access to and the sustained delivery of public and private inputs and services that are likely to increase the incomes of poor farmers ²

¹ For a definition of smallholder or poor farmers see Appendix A: Poverty and Agriculture.

² For details of the M4P approach refer to DFID/SDC (2008) M4P Approach Synthesis, <http://www.m4phub.org/news/Evaluating-the-impact-of-M4P-programmes-synthesis-paper.aspx>

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List of Abbreviations

AIP	Australia-Indonesia Partnership
AIPD-Governance	Australia-Indonesia Partnership for Decentralisation – Governance
AIPD-Rural	Australia-Indonesia Partnership for Decentralisation – Rural Economic Development
APM	Assistant Portfolio Manager
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> – Agency for National Development Planning
BEE	Business Enabling Environment
BMZ	<i>Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung</i> – German Ministry of Economic Cooperation and Development
CM	Communication Manager
CMT	Core Management Team
DPD-Rural	Deputy Program Director for AIPD-Rural
DTT	District Technical Team
GIZ	<i>Gesellschaft für Internationale Zusammenarbeit</i> – German Agency for International Cooperation
GoA	Government of Australia
Gol	Government of Indonesia
LRED	Local and Regional Economic Development
MoHA	Ministry of Home Affairs
NTB	<i>Nusa Tenggara Barat</i> – West Nusa Tenggara
NTT	<i>Nusa Tenggara Timur</i> – East Nusa Tenggara
PCC	Program Coordination Committee
PD	Program Director
PM	Portfolio Manager
AIPD-RURAL	Promoting Rural Income through Supports for Markets in Agriculture
PTT	Provincial Technical Team
RMM	Results Measurement Manager
SA	Senior Adviser
SADI	Smallholder Agribusiness Development Initiative

1 Background

AusAID has supported rural development in Indonesia for decades, particularly in eastern Indonesia. Most recently AusAID funded the Smallholder Agribusiness Development Initiative (SADI) which commenced in September 2006 and ended in June 2010. The Governments of Australia (GoA) and Indonesia (GoI) decided to replace the SADI program with a new program to address the most significant constraints to rural income growth. Due to its geographic focus and mode of delivery, AusAID's new Rural Economic Development program will share management arrangements with the Australia Indonesia Partnership for Decentralisation – Governance (AIPD-Governance), delivered by AusAID in conjunction with the Ministry of Home Affairs. The new program, known as the Australia-Indonesia Partnership for Decentralisation – Rural Economic Development (AIPD-Rural), aims to develop rural enterprises in targeted provinces and districts.

Despite considerable progress in fighting poverty in Indonesia over the last ten years, there is still much work to be done to achieve equitable and inclusive economic growth. Under the Australia-Indonesia Partnership, both Governments share a goal of increasing growth in rural incomes in Indonesia, including in less developed areas in eastern Indonesia. This program supports policies of the Government of Indonesia's Development Planning Agency and Department of Agriculture as well as Provincial and District Governments. The Program also supports the Australian aid program's strategic goal of sustainable economic development through improving incomes, employment and enterprise opportunities.

Agriculture remains critical to the livelihoods of Indonesia's rural poor and is crucial to significant poverty reduction. Evidence suggests that 1% growth in the agricultural sector reduces rural poverty by almost 3%: "Indeed official figures show that 64% of poor households in Indonesia in 2009 were primarily employed in the agriculture sector compared to 44% of non-poor households"³. AIPD-Rural will support the Government of Indonesia's 2010-2015 medium term development plan, specifically the target of poverty reduction through increased (and inclusive) economic growth in rural areas, through the development of competitive agricultural economic structures.

Numerous factors contribute to low incomes for poor farmers. While they vary between locations and commodities, they generally include: poor cultivation techniques; lack of good seeds, planting material, pesticides, herbicides, fungicides or fertiliser; productivity far lower than the national average; poor infrastructure; expensive and irregular transport; long supply chains from the farmer to the end user; lack of quality incentives in pricing reaching farmers; lack of numeracy, literacy or financial literacy skills among farmers; lack of access to funds for both investment and daily expenses; and a complex regulatory environment which imposes additional local taxes and fees, and adds to the complexities of operating a business.

Despite various projects and government programs, relatively few poor farmers are enjoying the benefits. Public extension services have the potential to achieve high outreach, but are yet to reach this potential and currently often only benefit the better-off farmers. The private sector is still learning and exploring how to reach poorer rural farmers in cost effective ways. Some NGOs have developed effective approaches in working in an empowering way with poor farmers directly, but these activities are often limited in outreach.

³ McCulloch/Rajah (2010), Does Agriculture still have an Important Role to Play in Reducing Poverty in Indonesia?, Working Paper, AusAID Canberra.

2 Program Description

2.1 AIPD-Rural Program Context

Drawing on recent international experience in the application of market development methodologies, AIPD-Rural will improve farmer practices, link farmers to input and outputs markets, and improve the local business enabling environment. AIPD-Rural aims to address, in an equitable and sustainable way, constraints to competitiveness of poor farmers in order to increase their incomes. The program will do this by influencing and improving the way key stakeholders in the agriculture sector provide demand driven public and private services to farmers, and by improving the local policy and business enabling environment. The key challenge is to find the balance between sustainability, outreach and poverty impact.

The theory of change underpinning AIPD-Rural is based on market-led agricultural systems development. At the core of this approach is the theory that all people living in communities trade goods and services with one another to meet their needs – so they are already engaging in markets. AIPD-Rural aims to grow markets for commodities that are likely to increase the incomes of poor farmers by working with private and public sector market actors, to expand or enhance farmer access to change-inducing inputs, know-how and public services.

AIPD-Rural marks a shift in strategic focus for AusAID’s rural development program: building on lessons learnt from previous activities in Eastern Indonesia, AIPD-Rural does not directly provide services or solutions, but focuses on making public and private sector service markets work more efficiently and become more inclusive of the poor. The program aims, by working with the private and public sector and civil society, to improve the efficiency and effectiveness of markets for selected commodities with the greatest likelihood of increasing incomes of poor farmers. This approach involves picking commodities with the highest potential for both growth and poverty reduction. It then requires an analysis of the constraints to growth, identifying strategies to address these constraints, and implementing various interventions along the “value chain” to increase the quality and/or quantity of commodities (outputs) traded, and the returns for farmers.

This approach also involves analysis of the local factors contributing to economic exclusion and social disadvantage – through a focus, for instance, on the different roles of men and women along the value chain – and the design of activities to ensure more equal opportunity for all to participate in the benefits of economic activity.

2.2 Program Phase 1 and 2

It is envisaged that AusAID’s new Rural Economic Development program will be implemented in two phases, from 2013-2017, and from 2017-2022. While the end-of-program target is to increase incomes for 1 million farmers by 2022, the four-year first phase aims to increase the income of 300,000 farmers by 2017. The first phase of the broader program consists of a number of complementary activities designed to achieve these targets. These include:

- The AIPD-Rural Program, which aims to develop rural enterprises in targeted provinces and districts
- Co-funding to multilateral and bilateral partners that share the program’s goals, target groups and geographic focus
- Supporting the sustainable dissemination of applied and adaptive research relevant to the program’s target groups
- Matching grants to Indonesian regional government partners to procure farmer support services or build public-private partnerships to stimulate agricultural commodity markets.

A Managing Contractor will be engaged to implement the AIPD-Rural Program and provide on-the-ground support for market development activities under AusAID's broader Rural Economic Development program.

Utilising multiple modalities for program delivery responds to lessons learned through SADI⁴ – the Smallholder Agribusiness Development Initiative (AIPD-Rural's predecessor program) – and other programs regarding, *inter alia*, the need to work with a variety of partners on multiple issues to influence agricultural markets and livelihood systems. Practically speaking, the different modalities allow AIPD-Rural access and leverage in regard to multilateral, government and other partner programs and their networks, providing greater opportunities for scaling-up results.

For example, AusAID is supporting LRED (Local and Regional Economic Development) Program conducted by the German Agency for International Cooperation (GIZ) in cooperation with BAPPENAS to support local government's efforts to increase economic growth through better sectoral market development analysis and local economic development planning. This activity supports AIPD-RURAL's objective to improve the local business enabling environment by piloting analysis and planning processes for selected agriculture commodities in program focus areas, and addressing identified constraints in the value chain.

Another example of a potential support partnership includes cooperating with the Indonesian Ministry of Public Works and the World Bank to promote agricultural infrastructure using an improved participatory irrigation management approach. In this case farmers would be able to increase their productivity and income through an improvement of regulatory frameworks, the development of the Irrigation Management Institutions water management capacity, and the support to water user association members (*Perhimpunan Petani Pemakai Air*) to adopt new technologies and agribusiness skills. This activity supplements AIPD-RURAL's outcomes of better farming practices, access to input supplies, and an improved business enabling environment.

As the lead component implementing the program's market development approach, AIPD-Rural is the focus of this summary design document. AIPD-Rural operates within a broader program of complementary activities, all of which will contribute towards the AIPD-Rural objective of increasing rural incomes for poor male and female farmers.

2.3 Links to AIPD-Governance

AIPD-Rural will be delivered as a component of the AIPD-Governance, a program designed to support the Government of Indonesia's decentralisation policies and implementation strategies, and promote harmonisation of AusAID's programs supporting the decentralisation agenda in Indonesia. The strategic integration of AIPD-Governance and AIPD-Rural forms part of wider efforts within AusAID to maximise its development impact in Indonesia by leveraging synergies between sector-specific programs. These efforts recognise that the causes of under-development are often multiple, and that making an impact on poverty requires a coordinated, geographically targeted and multi-sector approach.

It is therefore anticipated that AIPD-Governance and AIPD-Rural will work closely with other sector programs to identify the development needs across their target areas to address the different facets of rural poverty, vulnerability and food insecurity. For example, AIPD-Rural will look to link with community development and social protection programs working in the same locations by providing

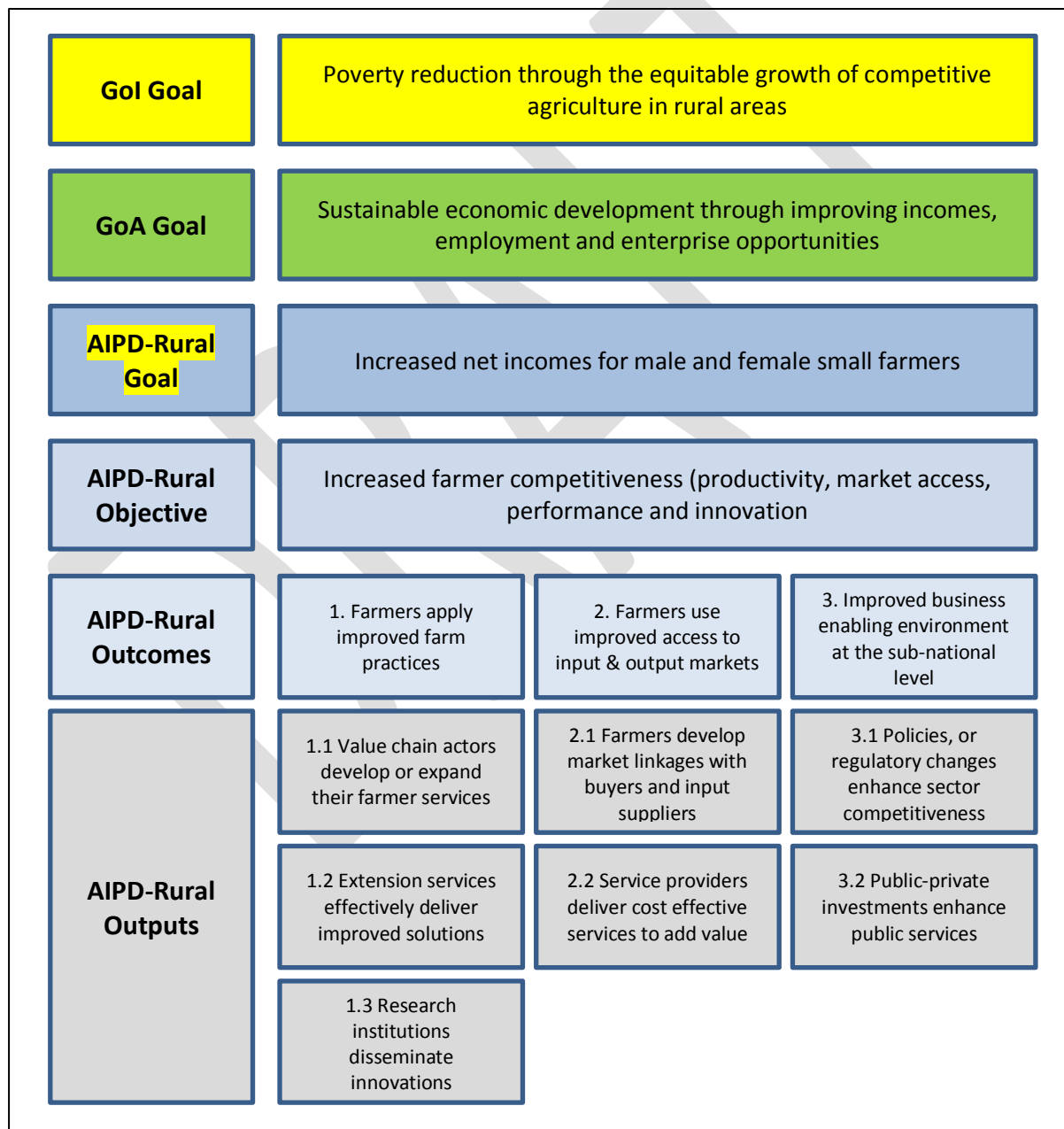
⁴ AusAID (2010) Smallholder Agribusiness Development Initiative – Independent Completion Report

opportunities for poor farmers who have benefited from social transfers and capacity building activities to increase their competitiveness and access to markets, thus securing sustainable livelihoods. While AIPD-Rural works to increase farmer incomes through the introduction of better pre- and post-harvest practices and technologies, AIPD-Governance might broaden its service delivery focus with local government in the same geographic locations to include agricultural infrastructure and support services.

2.4 AIPD-Rural Program Hierarchy

Figure 1 below illustrates the AIPD-Rural program hierarchy, and how program outputs and outcomes contribute to higher order program objectives. While the goals, objectives and outcomes are fixed, the outputs are illustrative only.

Figure 1: AIPD-Rural Program Hierarchy



AIPD-Rural's Goal is to contribute to a 30%, or more, increase in net incomes for 1,000,000 poor rural female and male farmers, 300,000 of which will be reached by June 2017. Changes in income of poor farmer households are measured by changes in net income (for semi-commercial and commercial farmers) and changes in food security (for subsistence farmers) as a result of changed production practices.

AIPD-Rural's Objective is increased competitiveness of poor female and male farmers. The competitiveness of farmers is influenced by access to effective public and private services, as well as the wider policy, infrastructure and regulatory environment.

AIPD-Rural's Outcomes to achieve improved competitiveness of poor farmers, the program focuses on three key outcome areas:

- 1) Outcome 1: Farmers apply improved farm practice
- 2) Outcome 2: Farmers utilise improved access to inputs and output markets
- 3) Outcome 3: Improved business enabling environment at sub-national level.

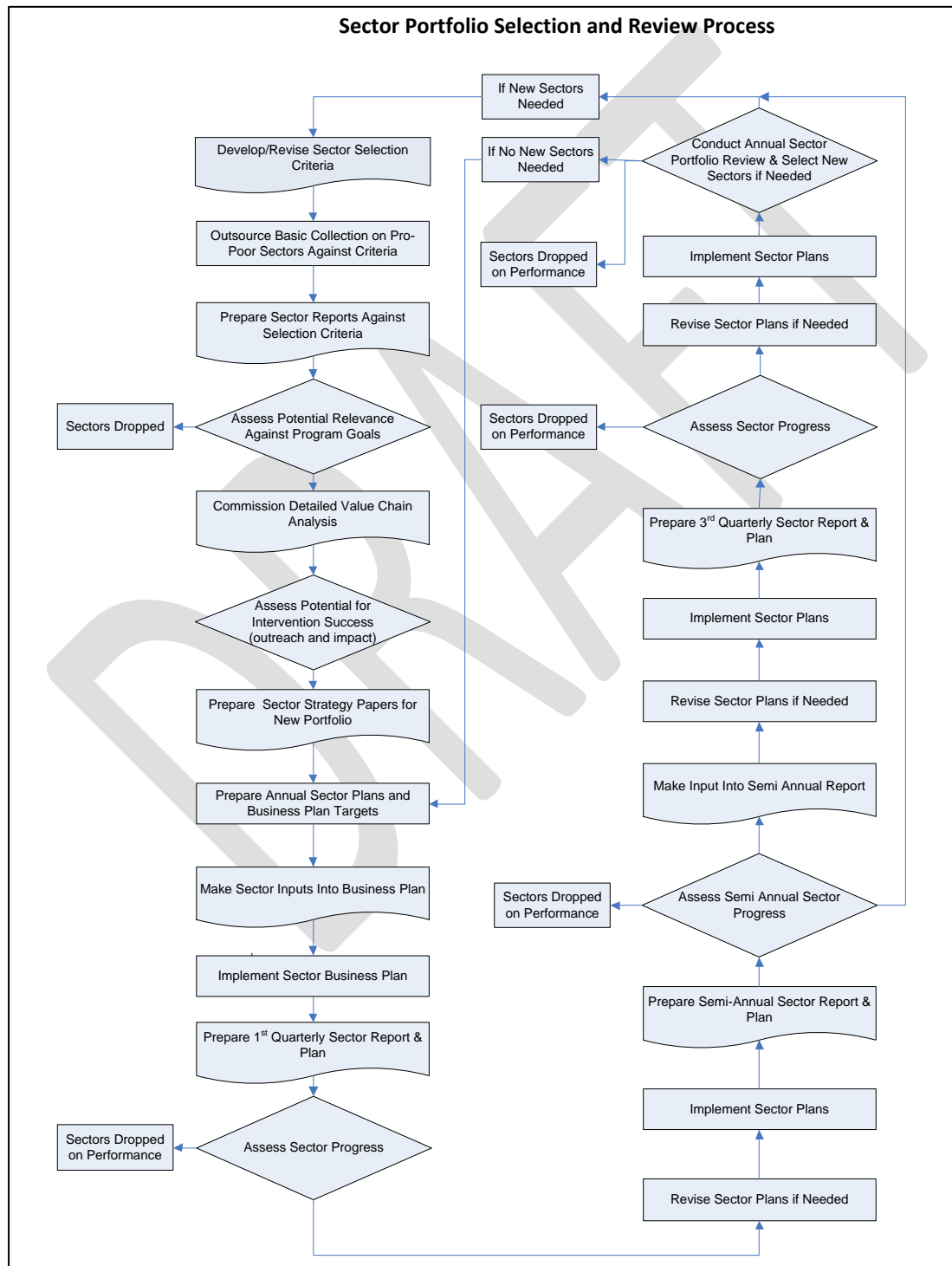
AIPD-Rural's Outputs and Activities. Based on the provincial and district strategies developed through thorough analyses and the identification of opportunities and constraints to market development, AIPD-RURAL will implement a series of activities designed to achieve the program outcomes. The activities listed below are provided as generic examples only, to guide the implementation of actual activities that will be determined through on-the-ground analysis and design of interventions:

- Outcome 1: Farmers apply improved farm practice Improved farm practice, including the use of adapted technologies, is essential to increased productivity. The Program will work, in partnership with relevant stakeholders such as, farmers, supply chain actors, public and private extension and research institutions, to promote systemic change for more efficient service delivery to poor farmers.
- Outcome 2: Farmers utilise improved access to inputs and output markets Supporting the development of more efficient supply chains will improve market access for the poor. This can be achieved through market stakeholders' investment in these supply chain to ensure availability and quality of products; facilitating greater interaction between market actors; better market transparency through improved information channels; stronger engagement by farmers in joint marketing activities; and improved access to finance.
- Outcome 3: Improved business enabling environment at sub-national level AIPD-Rural will focus primarily on business enabling environment issues constraining farmer competitiveness that emerge from Outcome 1 and 2 above. It will focus on improving local economic governance and regulatory capacity specifically related to the agricultural sectors in which the Program is working. For example, by focusing on specific local business enabling environments constraints identified through the analysis of value chains and through practical work with farmers, the Program can assist local government by assessing the economic value of removing or mitigating these constraints and then supporting in the implementation of the ensuing changes. Secondly, AIPD-Rural will work on improving the participation of the private sector in the planning and implementation of public expenditure through the creation of a district matching grant scheme that will blend public and private funds in addressing some of the above mentioned constraints to agricultural growth at the district or provincial levels. Such projects may for example include, new investments in vegetable markets, cattle holding grounds, exhibitions aimed at technology and innovation etc. For more details on this scheme refer to Chapter 2.6 Business Enabling Environment.

2.5 Program Strategy

The starting point for the Program’s strategy is its geographic focus. This focus is primarily Eastern Indonesia, but will also include one district each in the provinces of Maluku, D.I. Yogyakarta, Central Java, and West Sumatra. Based on this geographic orientation, the program will identify agricultural sectors that are important to large numbers of low income farmer, have growth potential, and show signs that this growth potential will lead to farmer income growth. Figure 2 summarises the program’s strategy in regard to the sector selection and review process.

Figure 2: Sector Portfolio Selection and Review Process



Following sector selection, value chain studies will be commissioned to analyse systemic constraints to both sector and farmer income growth for that particular area, district or region so that specific interventions can then be designed to address these constraints. This process of identifying, assessing, retaining or rejecting sectors will be continuous throughout the Program. The retention or rejection of a sector will depend on a sector's medium term contributions to AIPD-Rural's goal of incomes changes for a significant number of low income farmers. It is expected that the Program will start with about 10 sectors, although during Program implementation this number may increase or decrease based on the existing and potential impact of these sectors to AIPD-Rural's goals. This procedure of selecting sectors, assessing their relevance to AIPD-Rural's goals is depicted in Figure 2 in which sectors are reviewed on a quarterly basis (and consequently may be "dropped") and new sectors may be added to replace them on a semi-annual basis.

Interventions under each of the three outcome areas will flow out of the sector or value chain analysis, and will address the systemic constraints identified in these studies. Approximately 80-100 interventions are envisaged within the 4 year period of the project, but the precise number of interventions is not as important as their outreach and impact. It is anticipated that not all interventions will be successful in terms of their outreach, impact or value for money, but that those which are deemed successful will be scaled up and used as models for replication elsewhere.

In order to effectively assess success or failure, all interventions will require results chains that produce credible performance information and establish plausible medium term attribution to increases in farmer incomes. Interventions related to the enabling environment will also need to measure their results⁵. Interventions will also need to show how they addressing constraints to market access experienced by more vulnerable members of the target groups, particularly women.

The scope of an intervention will be defined by either: the intended target group (maize farmers, tomato growers, mango farmers etc.), the partner or set of partners engaged (mango processors, input suppliers, collectors etc.), the intervention impact method (the path towards farmer competitiveness like productivity, or off season farming), or, a significant geographic/climatic variation (dry land farming, coastal regions etc). Each of the districts identified by the Program should have at least two on-going interventions impacting on farmers in its area to ensure adequate program coverage. It is expected that the operational area of an intervention may spill over to include farmers from neighbouring districts. Similarly, some interventions may have the major part of their outreach in a neighbouring district, provided their outreach in the AIPD-Rural targeted districts is significant.

In anticipation of the time and resources involved in the process of identifying sectors, understanding their growth constraints in the targeted areas and designing high impact interventions, AusAID began screening for the opening portfolio of sectors in the first half of 2012. As of October 2012, ACIAR and AusAID have identified five sectors for further analysis. These sectors are maize, beef, mangoes, vegetables and pulses (peanuts, soya beans and mung beans). The detailed value chain study for mangoes is currently reaching its final stages, while the other four

⁵ The impact model for business enabling environment interventions must point to some change in target group income within the time period of the intervention (2-3 years). The DCED standard for performance measurement will be used by the AIPD-Rural program. Refer <http://www.enterprise-development.org/page/measuring-and-reporting-results>.

studies are still in their field work phase. These studies will be completed by March 2013 and each one will identify 10-15 potential intervention areas⁶ for their respective sectors.

Given the diversity of AIPD-Rural's districts, a separate study was commissioned in August 2012 to select a further six to eight sectors. This selection process will be completed by the end of November 2012, and will be followed by a further six to eight more detailed value chain studies. These will be conducted by locally based national and international NGOs with competence in value chain work and with the capacity to implement interventions once the AIPD-Rural Program is mobilised. This means that the Program may start with 12-15 well defined interventions⁷ in six to eight sectors, and another 10-15 intervention areas in another five sectors, by the time that the Program is commissioned. A decision on the final selection of sectors and the identification of interventions arising from these studies will be taken as early as possible following the engagement of the Managing Contractor.

2.6 Business Enabling Environment

Farmers interact with markets in a complex and dynamic environment. Their competitiveness depends on how these public and private service markets work for them. Government can have a substantial effect on these markets and their operating environment:

- Firstly, government is the main agent that shapes the wider environment: the basic conditions for overall development which impinge on civil society, including farmers and businesses of all sizes. This wider environment includes macro-economic conditions, political and legal systems, trade policies, infrastructure as well as basic government services.
- Secondly, government has a direct influence on the private sector in terms of the immediate environment in which farmers and businesses operate; for example through policies and regulations that are relevant to farmers and associated businesses.
- Thirdly, government can influence farmers and agribusinesses by direct intervention at the market or farm level, for example through the provision of specific support services or the operations of state-owned enterprises providing (subsidised) fertilisers to farmers.

Definitions of the enabling environment are numerous, and range from all-encompassing definitions to narrow ones. There is a widely held view that governments need to:

- improve policy, legal, and regulatory frameworks;
- build institutional capacity across sectors and at various levels;
- seek out and respond to citizens' needs and preferences;
- establish and maintain a range of oversight, accountability, and feedback mechanisms; and

⁶ An "intervention area" identifies a systemic constraint in a value chain, the addressing of which should lead to some form of value addition for the target groups involved. A well designed intervention takes an "intervention area" one step further and builds a plausible causal model that shows how change will be introduced and target group incomes improved.

⁷ The stages in the identification and selection of an intervention as follows: identification of systemic constraints to target group growth in a particular value chain, how to address these constraints is then formulated as intervention areas, intervention concepts are then developed within these intervention areas, these intervention concepts are then validated with partner commitments, and only after these commitments are made is an intervention cleared for implementation.

- mobilise and allocate public resources and investments⁸.

AIPD-Rural will not be in a position to address all possible levels of interventions in regard to the business enabling environment of its interventions, and therefore needs to define an appropriate focus. Key criteria for BEE interventions under AIPD-Rural include:

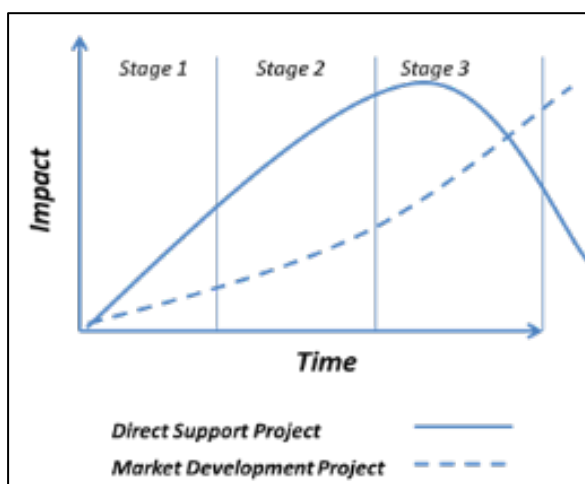
- **Focus on issues with direct impact on AIPD-Rural's objective and goal.** Each intervention in the field of business environment needs to be underlined with a result chain which shows clearly how the intervention contributes to AIPD-RURAL's objective and goal.
- **Focus in terms of level of government.** AIPD-Rural will have limited resources for addressing national macro-economic constraints and will therefore concentrate its attention on utilising its provincial and district networks to work on those issues that can be tackled within these locations.
- **Focus on interventions with a high probability of achieving sustainable results within the reach of AIPD-Rural.** Improvements in the wider enabling environment, such as land reforms, competition laws etc. are highly political issues and are long-term interventions. While they may be important to the AIPD-Rural's target groups the Program will hardly be in the position to facilitate change in these areas.
- **Complementarity with AusAID's work on good governance.** AusAID has a number of programs focusing on good governance, among others AIPEG and AIPD. Where appropriate, AIPD-Rural will work in a complementary way with these ongoing programs to identify opportunities for synergies.

AIPD-Rural will have two sub-components to its BEE component. The first will deal with those issues specific to its interventions that can be addressed with relatively small amounts of money and technical assistance. Such interventions might be related to advocacy to change a local policy or regulation impinging on farmer competitiveness, changing the orientation of local public research or extension services, removing a counterproductive subsidy, modifying the implementation of a local tax code, or engaging with the private sector in public expenditure planning. No intervention in these areas would be contemplated unless attributable impact could be foreseen for the target groups of AIPD-RURAL within the time frame of Phase 1.

The second sub-component of the BEE component would address more structural business enabling environment issues that require more significant public and private investments. A matching grant mechanism would be used to address these issues. The establishment, operation and evaluation of the matching grant would fall within the responsibility of the AIPD-Rural Program management and its Managing Contractor, but estimated funding of \$12.5 million would be subject to a separate Subsidiary Agreement with the appropriate Ministry of the Government of Indonesia. The matching grant scheme aims to complement AIPD-Rural's other components by stimulating greater public and private sector investments in commercial agriculture with outreach to low income farmers. AusAID has already co-funded, with the German BMZ, GIZ's Local and Regional Economic Development (LRED) project with BAPPENAS. This project works with local government at the district level to identify potential public-private-partnerships (PPPs). The core instrument for identifying PPPs is a structured workshop with local government officials and private sector representatives. In many cases, however, the identified projects are not funded because of poor access to resources. By combining the portfolio development capacity of the GIZ/BAPPENAS LRED project with the funding

⁸ Brinkerhoff (2004)

Figure 3: Project Impact over Time



capacity of AIPD-Rural’s proposed matching grant scheme of, it should be possible to ensure improved project quality. All projects would need a significant and visible private sector contribution, the proportion of which would be determined on a case by case basis. Project types may include:

- **Appropriate infrastructure** for production (irrigation, roads) and for moving goods, also storage facilities (warehouses) and local market facilities. Competitiveness is not only influenced by the availability and quality of infrastructure, but also by the cost and operational arrangements for making use of the infrastructure (eg user fees, retributions)

- **Transport and logistics services**, which play an important role in an archipelago state like Indonesia. Around 80% of the products from Eastern Indonesia are shipped to other places. The way transport and logistics services are organized has a huge impact on cost of products.
- **Agriculture education and training institutes** providing the basic skills for young farmers. They are channels for dissemination of research and may offer short-term skill upgrading for farmers.
- **Local and applied research and development.** Research and development play an important role in developing improved inputs and better farming practice. Research and development is not only provided by public institutions, but equally or perhaps more importantly by private companies. The way private and public research collaborates and how research finding are disseminated directly influences the performance of farmers.
- **Quality standards.** It is important for industry and trading companies to have standardised product quality. Quality standards have a direct impact on farmer income, as the price for crops is often linked to specific quality standards.

2.7 Program Approach: Market Development

In the last 5-7 years “market development” has emerged as one of the preferred approaches to small farmer development for many of the bi-lateral donor agencies. The approach aims to achieve significant and measurable impact on large numbers of farmers through systemic change. One of the unique distinguishing features of this approach is its focus on sustainability. Market development projects are sharply contrasted to those of direct delivery in which a donor or a government funds an implementing agency to simply “fix a problem” with a pre-defined number of enterprises or farmers. Typically, this results in a short burst of activities that may have impact, but little sustainability (see Figure 3).

The market development approach, on the other hand, examines the transactions that are common to a large group of farmers, identifies the ones that have the most significant impact and then looks for actors in the market place that have an incentive to “repackage” these transactions in a way that creates more value. Because businesses depend on other businesses to either supply them with goods or to buy their products, the change agents in market development are often businesses who see this change as part of their core business model. The role of the external agency, in this case the Program, is to identify the target groups, assess the most relevant changes that will have a significant impact on their competitiveness and then work with the market actors on making these

changes. This process of “connecting the dots”, which is performed by the instigator (ie the AIPD-Rural program), is one of facilitation.

AIPD-Rural should not be considered an agriculture program; rather it can best be considered a market-led agricultural systems approach. The key elements of this strategic approach are:

- AIPD-Rural builds on local systems and puts system actors and institutions in the driver's seat and asks: "if the problem is..., then who has the (basic) capacity and the incentive to work on, and invest in, innovative solutions to address it, what is their agenda, what are they doing and why is this not enough to eliminate the problem?"
- Based on this clear understanding of the problem, AIPD-Rural then searches for the right actors that have the strongest incentive, the strongest capacity to make the biggest change. This requires a creative, **inquisitive** mind, closeness to the sector, flexibility and negotiating skills. AIPD-Rural needs to be clear on the problem (clear on its strategy), but open and "opportunity driven" in terms of considering potential solutions to address it.
- To establish genuine partnerships AIPD-Rural needs to identify win-win situations. A genuine partnership is based on a common vision. This common vision will most likely be about making local service markets work in a more comprehensive and inclusive manner for the benefit of partners, the service provider and the customer.
- Building on sustainability from the start: "Who does what" within the partnership depends on "who should do what" after the end of the intervention. "Who pays what" again depends on "who should pay what" after the end of the intervention. This means being clear on the problem, but opportunistic in terms of the solution, so also here the Program should be tough and flexible at the same time: flexible in terms of the content of partnership (as long as there is a win-win situation), but tough when it comes to the conditions of the partnership. Real ownership shows with real commitment, and true commitment with real (financial) investments in relation to the partner's capacity.
- AIPD-Rural emphasizes "systemic" change, meaning new lasting relations between system actors (e.g., between input retailers and farmers, or between local collectors with farmers), with the ability to evolve over **time**, and with the ability to be replicated (e.g., local collectors expanding to a different area and applying the same model there, another local collector also getting interested in farmers and developing a similar model). This is the base for sustainable and efficient impact at scale.

An Example of Market-Based Interventions

A simple example of an activity that might improve farmer practices, as well as increasing access to input markets, is the provision of fertiliser for peanut farming. AIPD-Rural, for instance, may work with a fertiliser company to raise farmer awareness about the benefits of not only using the fertiliser in question, but using it in the manner that is most likely to raise production quality and quantity. AIPD-Rural might then assist the company to implement a public awareness campaign and at the same time train its network of retailers to more effectively provide information to farmers on using the fertiliser. The market research firm hired to design of this public awareness campaign may then learn that more than 60% of the tasks around peanut production in the target area are performed by women and that they are actively engaged in making the purchasing decision for fertiliser for this crop. Consequently a significant portion of the information package is targeted specifically to women and to address their needs. More and better use of the fertiliser eventually leads to better productivity for both male and female peanut farmers and this eventually leads to improved brand awareness of the fertiliser in question. This brand awareness then influences farmers' decisions in future about which fertiliser they buy. Other fertiliser companies see the profit in providing better service to peanut farmers (called crowding-in), and public awareness and retailer training campaigns are scaled-up, leading to increasing productivity across a broader area for more farmers. AIPD-Rural then steps away, and the cycle continues sustainably.

There are a multitude of factors that impact the effectiveness of markets for commodities such as peanuts. For instance, there may be government policy choices that constrain fertiliser market development; there may be no infrastructure to transport fertiliser to areas where peanuts may be grown; or there may be lack of extension services to assist farmer practices and productivity. The task of Program is to identify and prioritise the various constraints to increased farmer incomes and then design market-based interventions to address these constraints.

2.8 Gender and Social Inclusion

AIPD-Rural Program's approach to gender and social inclusion is based on the recognition that women, poorer men, the young or elderly, people with disabilities, and ethnic minority groups in the community often lack access to opportunities and resources which impact on their lives. Although women often play primary roles in on-farm production they are generally excluded from membership of key decision making forums. Women are generally not members of farmer associations, for instance, and therefore often lack access to training and information.

Both the Indonesian and Australian Governments recognise that past and current discriminatory practices have led to widespread gender inequality. Both Governments are signatories to the Convention of Elimination of All Forms of Discrimination against Women (CEDAW), and have made policy commitments and developed programs aimed at promoting gender equality.⁹ The Australian Government's gender and development policy aims to promote equal opportunities for women and men as participants and beneficiaries of development. Key objectives include improving women's access to economic resources and promoting women's participation and leadership in decision making at all levels, recognising that providing equal rights and access to resources and opportunities to women is crucial to the goal of reducing poverty. This is reflected also in the Australia Indonesia Partnership Country Strategy (2008-13), where commitment to promoting gender equality is identified as one of four priority areas in the partnership.

⁹ Indonesia's Presidential Instruction 9/2000 identifies a commitment to mainstreaming gender into all development initiatives and states that donors must also mainstream gender into all support programs. It includes also the establishment of gender focal points and gender working groups within GOI Ministries. The Ministry of Women's Empowerment is responsible for supporting and monitoring the system.

Inefficiencies in relation to off-farm activities are often linked to weak understanding and communication amongst different market actors, low levels of trust and the appreciation of different positions and reasons for action/behaviour, which ultimately result in inappropriate and ineffective linkages. Given women's key role in many value chains, there is a clear need to improve both men and women's access to information, especially on issues such as technologies, quality standards and pricing, for all players in the supply chain – based on the differing needs and opportunities available to men and women.¹⁰ It will therefore be critical for each Program intervention to be based on an understanding of the specific factors that affect women and the role they play in the production of different commodities, value chains and practices. Personnel to ensure that these principles are integrated into the design, implementation and evaluation of interventions will be located in the Results Measurement part of the Program's organisational structure.

3 Program Duration and Location

Program Duration: The Program is designed to be implemented in two phases (4 and 5 years respectively) over a period of 9 years, to enable the program to achieve sustainable results at scale.

Geographic Areas: AIPD-Rural will work in 20 districts of 5 provinces in Eastern Indonesia: East Java, NTB, NTT, West Papua and Papua. In addition to these 20 districts in 5 provinces, 4 additional districts will be added in the provinces of Maluku, D.I. Yogyakarta, Central Java, and West Sumatra. The specific districts in these provinces have not yet been identified. There will be three stages to rolling out intervention into these areas:

- Stage 1 (the 1st 12 months): focusing on commissioning prepared interventions for NTT, NTB and East Java; selecting sectors and conducting value chain studies and designing interventions for Papua and West Papua.
- Stage 2 (month 13 to 18): initiating prepared interventions for Papua and West Papua; conducting value chain studies and designing interventions for the 4 districts in D.I. Yogyakarta, Central Java, and West Sumatra.
- Stage 3 (month 18 onwards): commissioning interventions in D.I. Yogyakarta, Central Java, and West Sumatra.

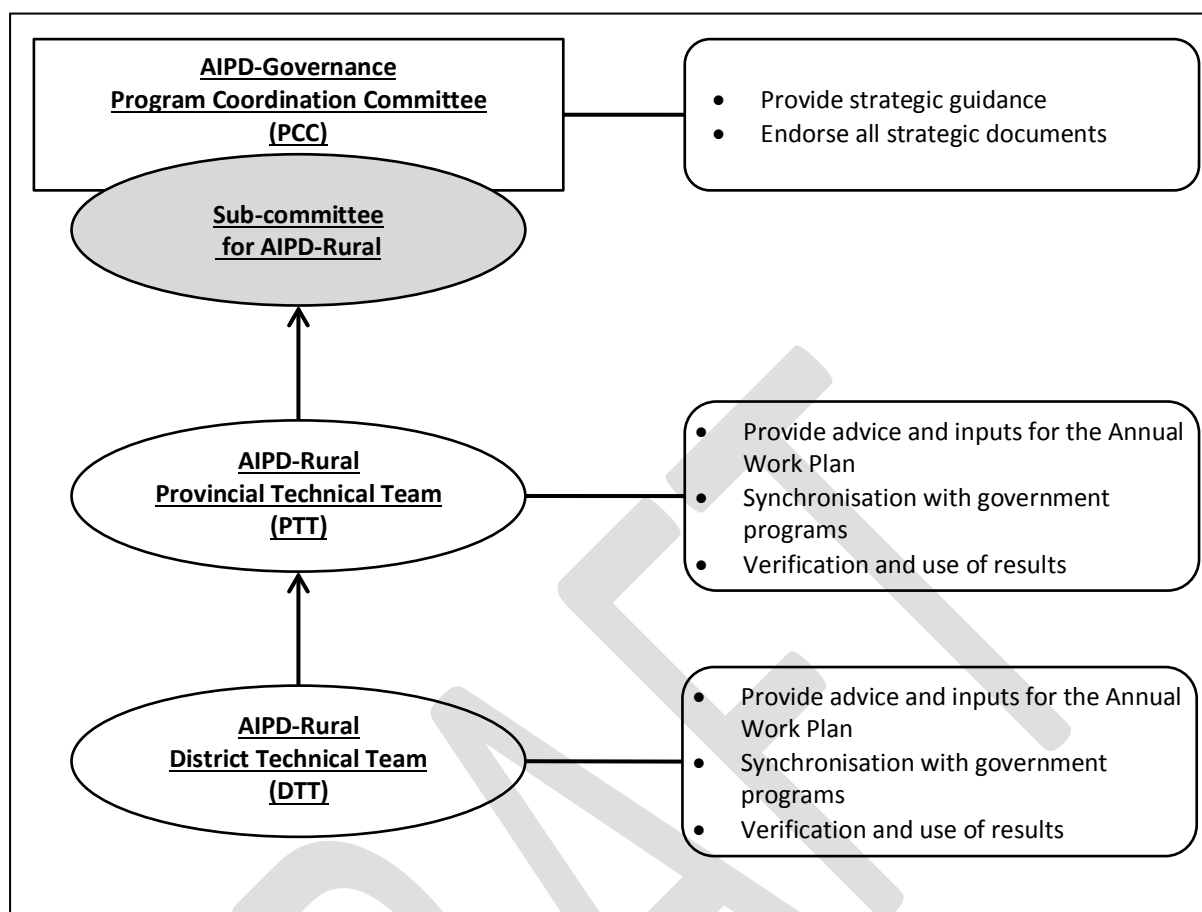
4 Program Governance Arrangements

4.1 Program Governance Structure

The final program governance structure will be defined in the Subsidiary Arrangement between AusAID and Ministry of Home Affairs (MoHA). The program governance structure presented below is proposed by AusAID.

¹⁰ In some cases the gender division of labour may appear to proceed harmoniously and result in a good product. In other cases, if men or women have little understanding of the requirements of the next stage in the chain, gradual losses in product quality and quantity along the chain will yield a relatively poor product. Interventions aimed at adding value through processing and marketing need to consider how to increase understanding between chain actors, identify which gender may benefit at which stage, and determine whether women can be drawn into those activities that add the most value.

Figure 4: Program Coordination Structure



The AIPD-Rural program governance will take advantage of the existing AIPD-Governance architecture, particularly at the national level. The AIPD-Rural Program Coordination Committee (PCC) will be a sub-committee of the AIPD-Governance PCC (see Figure 3). The sub-committee for AIPD-Rural will meet separately to discuss AIPD-Rural issues. This Sub-committee will have the same function, responsibility, and agenda as the main (AIPD-Governance) PCC, namely to provide strategic guidance and endorse all associated documents such as the Annual Work Plan and Progress Report. The AIPD-Rural Sub-committee will comprise MoHA and AIPD-Rural representatives as Executive Members with decision making authority, supplemented by Advisory Members who will provide advice to inform decisions. The Advisory Members will be nominated by the Executive Members and may include representatives from other ministries or public institutions, research institutions, private sector associations, or civil society organisations, depending on the subject of discussion. Additional technical expertise may be engaged as required. Representatives from the AIPD-Rural Sub-committee will report the meeting results in the main PCC. The Sub-committee will meet once a year, whenever feasible, before the annual PCC meeting, in back-to-back meetings).

Operational relationships will be established at the provincial and district level. AIPD-Rural will have Provincial Technical Teams (PTT) and District Technical Teams (DTT) that will work at the technical level. These teams will meet annually to provide advice and inputs for the Annual Work Plan, synchronisation with government programs, and verification of results. The teams will be made of representatives from sub-national government, AIPD-Rural, research institutions, private sector associations, or civil society organisations. The meeting results of the DTTs will flow into PTT meetings that in turn will flow into the Sub-committee for AIPD-Rural at the national level.

4.2 Coordination with the Ministry of Home Affairs

The technical counterpart of AIPD-Rural is the Ministry of Home Affairs, in particular the following technical directorates:

1. *Direktorat Jenderal Pemberdayaan Masyarakat dan Desa (PMD), Direktorat Sumber Daya dan Teknologi Tepat Guna Perdesaan (SDA dan TTG)* – (Directorate General for Empowerment of Communities and Rural Areas, Directorate for Natural Resources and Appropriate Technology for Rural Areas). Its main tasks and functions are to formulate the policy and facilitate the implementation of:
 - Conservation and rehabilitation of rural environment
 - Utilisation of rural land and coastal areas
 - Development of rural infrastructure
 - Mapping and assessment of appropriate technology for rural areas
 - Socialisation and cooperation of rural technologies
2. *Direktorat Jenderal Pemberdayaan Masyarakat dan Desa (PMD), Direktorat Usaha Ekonomi Masyarakat (UEM)* – (Directorate General for Empowerment of Communities and Rural Areas, Directorate for Community Business). Its main tasks and functions are to:
 - Strengthen the institutions for food security and rural agriculture business
 - Promote microfinance and rural business as the driver for local economic development
 - Expand market networks, and improving the access to support for the development of rural lead commodities
 - Develop household business and industry
 - Optimise rural economic potential and social assistance for marginalized communities
3. *Direktorat Jenderal Bina Pembangunan Daerah (Bangda), Direktorat Pengembangan Ekonomi Daerah (PED)* – (Directorate General for Empowerment of Local Development, Directorate of Local Economic Development). Its main task is to establish economic potential analysis in each district, including:
 - One Stop Service/Shop for public services and business licensing
 - Local infrastructure
 - Local investment
 - Business partnerships
 - Inter-district economic cooperation
 - Institutions empowering local economic development

Details on the synergy between AIPD-RURAL and the programs of the technical counterparts will be defined in the Subsidiary Arrangement and Annual Work Plan.

5 Program Management Arrangements

The Senior Management Team for AIPD-Rural will be directly engaged by AusAID and will include the AIPD Program Director, a Senior Adviser (market development specialist) and a Deputy Program Director (DPD) – value chain specialist. The AIPD Program Director is responsible for maintaining overall strategic direction, and for ensuring that program synergies and efficiencies between AIPD-Governance and AIPD-Rural are optimized. The Senior Adviser will advise on portfolio quality and the DPD Rural will be responsible for the day to day leadership for AIPD-Rural, and manage the interface between the Program and the Government of Indonesia.

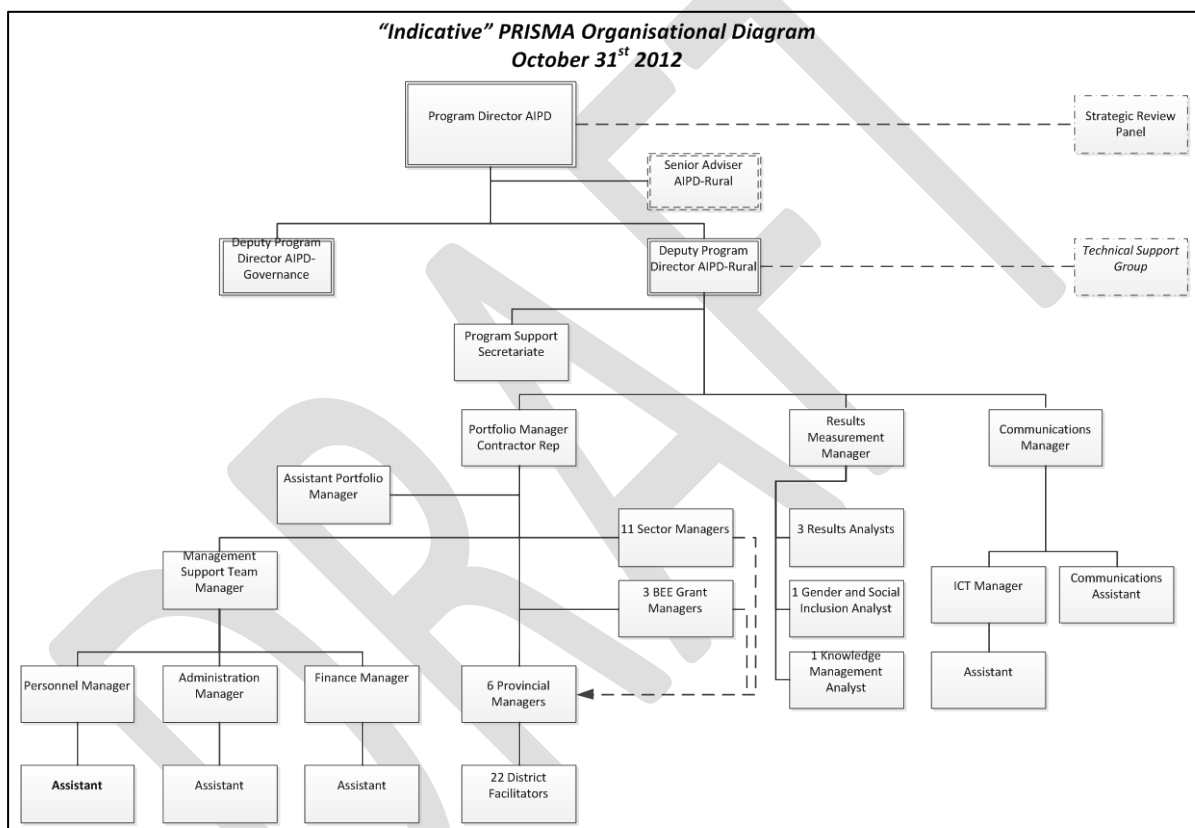
Reflecting current arrangements for AIPD-Governance, AIPD-Rural's Managing Contractor will be engaged to recruit Program professionals, support staff (employing similar remuneration tables as

AIPD), and provide administration and logistics support. Key positions under the Managing Contractor will be the Portfolio Manager, Assistant Portfolio Manager, the Results Measurement Manager, the Communications Manager, one each of the Sector/Value Chain and BEE Grant Managers and one Provincial Manager (Surabaya).

A Core Management Team, consisting of the seven above-mentioned personnel, plus the Senior Adviser, will be chaired by the DPD-Rural and will provide advice and support to AIPD-Rural management, as well as provincial and district staff that are responsible for delivering the program on the ground. Provincial Managers will drive provincial program delivery.

The organisational diagram presented below (see Figure 5) is indicative of how personnel could be deployed for the implementation of the Program.

Figure 5: Indicative Organisational Diagram



5.1 Roles and Responsibilities of Key Management Bodies or Positions

AIPD Program Director: This person is ultimately accountable for the results of both AIPD-Governance and for AIPD-Rural. Most of the day-to-day management work will be delegated by this person to the Deputy Program Director (DPD). Nevertheless, the PD will approve overall Program policies, strategies, geographic orientation and the appointment of senior personnel. The PD reports to Director of Decentralisation, Poverty Reduction and Rural Development in the Jakarta office of AusAID.

Strategic Review Panel: This is an independent advisory body consisting of high level expertise in the field of market development, rural development and agriculture. It will consist of between 5-7 people. Its role will be to advise top level AIPD-Governance and AIPD-Rural on the overall strategic orientation of the AIPD-Rural. It will oversee mid-term reviews, evaluations and significant policy shifts. This group will meet face to face once a year but would be available for inputs, throughout

the year, on a case by case basis depending on the circumstances of the project. This group will report to the Program Director.

Senior Adviser AIPD-Rural: The SA provides guidance on the strategic design and implementation of operational systems for the Program: including portfolio development (sector choice, intervention quality, matching grant establishment), results measurement (operationalizing the DCED Results Measurement Standard), human resource development (staff and partner capacity building), and knowledge management (recycling learning to improve Program performance). This person reports to the Program Director.

The Deputy Program Director: Is responsible for the day-to-day leadership, management and representation of the Program including: the convening of AIPD-Rural's PCC Sub-Committee, Provincial and District Technical Teams, the preparation and monitoring of annual plans and budgets; the compilation of progress reports; the performance assessment of senior management personnel; and leading the interface between the Program and the GoI. The DPD reports to the Program Director.

Technical Support Group: This is a pool of high-level short-term experts that can be used to perform a number of ad-hoc tasks including: capacity building of staff and external stakeholders, the design of results measurement systems, the auditing of these systems, technical support for a wide range of interventions, and management support as and when required.

The Portfolio Manager (Managing Contactor Representative): The PM is responsible to the generation of high quality interventions that are in line with Program goals, this includes: the selection and regular assessment of agricultural sectors, the preparation and revision of sector strategies, complete with their analysis of systemic constraints, intervention areas and intervention concepts, the identification, delegation and commissioning of interventions related to outcomes 1, 2 and 3 and overseeing the establishment and operation of the Program's Matching Grant fund for public-private partnerships at the district level. This person will work closely with the Results Measurement Manager to ensure portfolio quality. The Portfolio Manager reports to the DPD.

Assistant Portfolio Manager: The APM is responsible for the day-to-day management of the portfolio including developing the portfolio pipeline, managing portfolio meetings, assessing the relative work load of portfolio personnel, ensuring that operational targets are being met, ensuring that sectors are reviewed on time and adjustments made etc. A second substantive task of the Assistant Portfolio Manager will be to assist the Portfolio Manager to oversee the planning, establishment, operation and evaluation of a matching grant scheme. In this task he/she will be assisted by the BEE Grant Managers. The Assistant Portfolio manager will report to the Portfolio Manager.

The Results Measurement Manager: The RMM is responsible for ensuring that all interventions are compliant with the DCED Results Measurement Standard, including: preparing credible Results Chains and measurement plans, developing an attribution strategy, identifying predicted impact numbers for outreach and target group income changes, exploiting all opportunities for gender impact, ensuring activities pose no negative environmental consequences. This person will work closely with the Portfolio Manager in the preparation of quarterly reports on all interventions to ensure that the outputs of the Results Measurement System are fed back into intervention adaptation. The Results Measurement Manager will report to the DPD.

Communications Manager: The CM has two main responsibilities, communicating the Program's core message to all stakeholders and secondly providing technical assistance to intervention staff in the design of terms of reference and supervision media companies that will be hired in the execution of individual interventions. For the first responsibility the Communications Manager will: handle

public relations and associated events; the design, editing and publication of the Program's printed materials; the presentation and content of a website and newsletter; and, prepare guidelines on the branding of the Program. The second part of this person's job will be to assist implementation personnel with the identification of firms that can undertake social marketing (communicating the desired behaviour change to the target group) and assist in their oversight and the evaluation of their respective results. The Communications Manager will report to the DPD.

Sector/Value Chain Manager: This person is responsible for the cluster of interventions in his/her sector or value chain. The Program may have up to 11 of these managers. They may handle up to 3 sectors depending on volume of work in each sector. This manager is responsible for: the commissioning of value chain studies, the quality of sector analysis, the identification of intervention concepts, overseeing the delegation of these interventions for implementation and regularly assessing their relative importance and relevance to the Program's portfolio. One of these managers will act as a "primus inter pares" to assist the Portfolio Manager in the development of systems and procedures for sector work. The Sector/Value Chain Manager reports to the Portfolio Manager.

BEE Grant Manager: This person is responsible for the design and implementation oversight of business enabling environment interventions that arise from Outcomes 1 and 2 (Program Hierarchy), and for the generation of interventions connected with a district level Matching Grant scheme. The Program will have up to 3 persons to perform these functions. One of these managers will act as a "primus inter pares" to assist the Portfolio Manager in the development of systems and procedures for BEE work. The BEE Grant Manager reports to the Portfolio Manager.

Provincial Manager: Is responsible for the oversight of the intervention portfolio in their province. At the same time they are the first line of communications with the provincial authorities of the GoI. The Provincial Manager will set the agenda for the Provincial Technical Team and follow up on their advice. There will be 6 Provincial Managers: one for each of the original 5 provinces and 1 for the other 4 Districts in the 4 additional provinces. The Provincial Manager reports to the Portfolio Manager

District Facilitator: Is responsible for the oversight of interventions in their district and for the relations of the Program with the district officials of the GoI (District Technical Team). It is expected that the portfolio, per district in the first phase of the Program, will consist of pipeline interventions and operational interventions, in total this should make up between 3-5 interventions for which they are responsible. Their responsibilities include: the design, re-design or reformulating of intervention concepts, relations with intervention partners, designing of results measurement surveys and their analysis, and the oversight of any sub-contractor employed in the execution of the intervention. One District Facilitator may be assigned to one or more districts depending on the workload. The District Facilitator reports to the Provincial Manager.

Core Management Team: The CMT is composed of the DPD-Rural, SA, PM, APM, RMM, CM, one Sector Manager and one BEE Grants Manager. It will be chaired by the DPD and the secretariat function is performed by the Portfolio Manager. It will meet regularly and its functions are to: establish Program priorities, annual targets and budgets, report on progress, and set up or streamline management procedures or processes (human resource performance standards, financial regulations, staff development and transfers, etc.)

5.2 Human Resource Strategy

The nature of the project calls for particular attention to be placed on the quality of people recruited and the monitoring of their performance standards. Especially for the operational positions much of the work requires the need for an analytical understanding of: markets and how they work; the current and potential incentives of key market actors; the logical construction and presentation of

how interventions will lead to measurable results; the calculation of attributable target group impact; and, how to impart and effectively communicate new ideas of change to conservative audiences.

Recruitment: The DPD-Rural and Senior Adviser are already employed directly by AusAID. The managing contractor will submit personnel for seven additional senior positions, these are: the Portfolio Manager, the Assistant Portfolio Manager, the Results Manager, the Communications Manager, one Senior Sector Manager, one Senior Business Enabling Environment Manager and the Provincial Manager for Surabaya (head office location). All other positions are subject to open competition. Because of the demanding analytical and aptitude requirements of these positions, recruitment strategies will need to be elaborated in the bid submissions of the Managing Contractors. Preference will be placed more on individual competencies and motivation as opposed to past experience.

Capacity Building: It is anticipated that the majority of recruited personnel will have had limited exposure to value chain analysis (with a focus on systemic change) and little exposure to market development or Making Markets Work for the Poor. An essential part of the first months of implementation will be placed on building the theoretical and practical capacity of these personnel. This should happen through a combination of class room instruction (M4P, Value Chain and Results Measurement) delivered by high calibre internationally experienced experts in market development, and applied on-the-job lectures, discussions and exercises in areas such as: constraint analysis, causal model construction, intervention design, environmental impact, gender and social inclusion, survey planning and data collection, statistical significance, and smallholder agricultural profitability calculations.

Performance Assessment: All staff will be assessed annually. In addition to this they will have at least one other mid-year review against delivery targets that are consistent with their job and overall targets of the Program. The bulk of implementation staff (District Facilitators, Provincial Managers, Sector Managers, BEE Grant Managers and the Portfolio Manager) will be assessed in the early stages of project execution against “predicted” impact and outreach of the whole portfolio. As the portfolio matures they will be assessed against “measured” impact and outreach and the value of this contribution to Program targets and goals. To assist in this assessment the Program will use the process standard for predicting and measuring impact as developed by the Donor Committee for Enterprise Development¹¹. In addition to the use of these performance standards on output delivery incentives will be provided to those who make significant contributions to the learning agenda of the Program through the preparation of case studies, components for training courses, the preparation of manuals or new procedures. These individuals and their contributions will be assessed on their merit.

Personnel Roll Out Plan: The Program will eventually have a set of provincial and district offices as focal points for implementation. As mentioned in the section on Geographic Coverage, the Program will expand its coverage in 3 Stages:

- Stage 1: NTT, NTB and East Java;
- Stage 2: Papua and West Papua; and
- Stage 3: Maluku, D.I. Yogyakarta, Central Java, and West Sumatra.

¹¹ The DCED Results Measurement Standard provides clear guidance on the minimum requirements for intervention design and data collection. This guidance will form the basis for plausible impact and outreach projections as well as for measured results.

In the first year of operation all staff for Stages 1 and 2 will be recruited in one batch. During this year all staff will be physically located in the office in Surabaya. The purpose of this is to optimise the class room and the on-the-job capacity building of staff and secondly to develop a coherent team and Program culture based on creative thinking, excellence in analysis, and an orientation to operational performance. At the end of year one or the beginning of year 2, recruitment will begin for Stage 3. Again these people will spend up to one year in the head office in Surabaya completing their induction capacity building while organising value chain studies and the design of interventions for their districts.

6 Program Reporting and Results Measurement

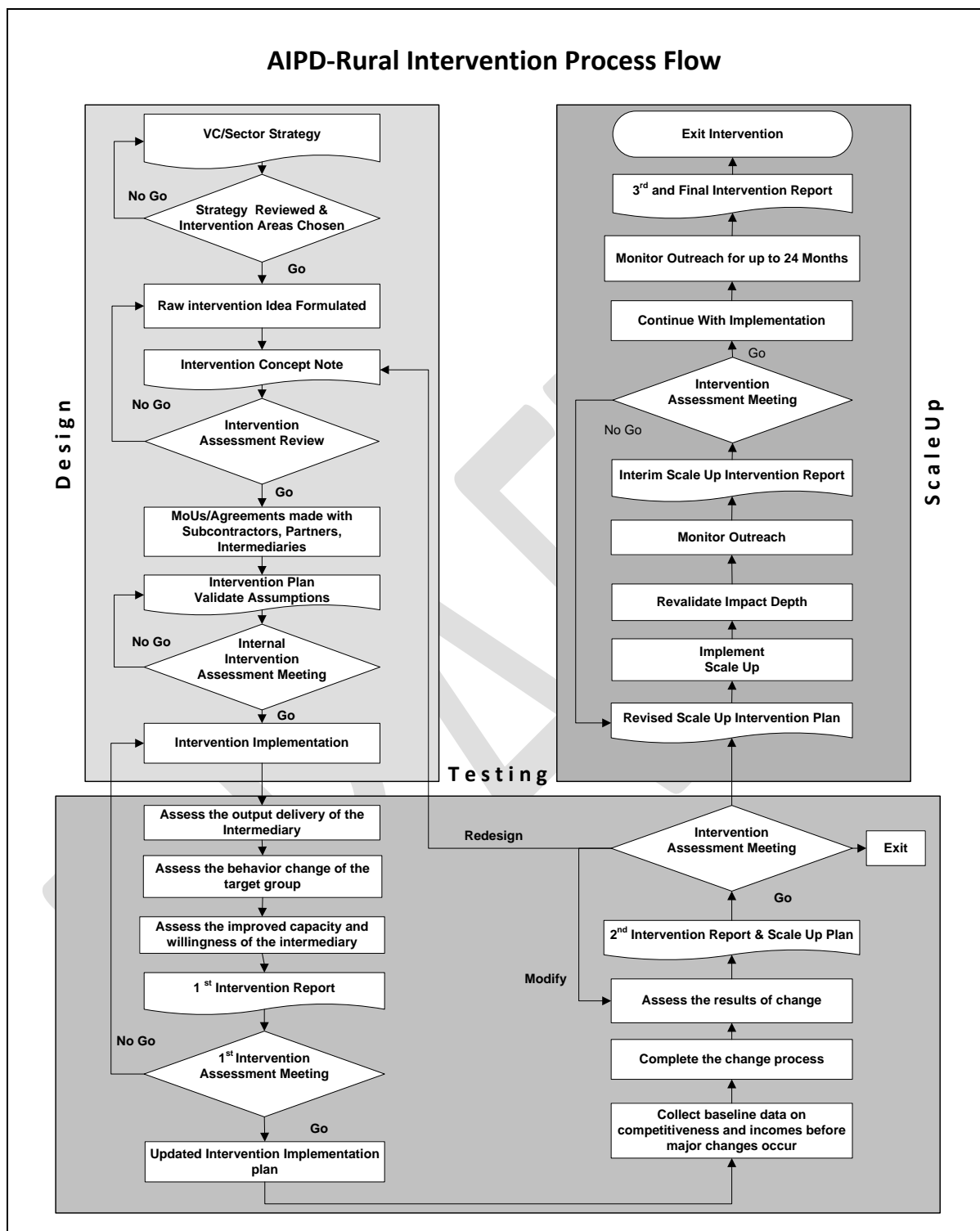
AIPD-Rural will develop a Results Measurement Framework during the inception phase. The program logic should not be assumed to be static, but critically re-examined on the basis of lessons learnt and changing environments.

Part 1 of this Results Measurement Framework will focus on accountability and improvement, and will monitor: program quality; implementation of program principles; integration of cross-cutting issues; progress in establishing effective relationships with stakeholders (both public and private sector); progress against timelines and budget for each intervention; capacity development of individuals and of organizations; and unexpected outcomes and risks. This part of the framework must clearly identify how lessons learnt will be fed back into Program planning and to relevant Government of Indonesia agencies.

Part 2 of the Results Measurement Framework will focus on the monitoring and evaluation of Program outcomes, objectives and its goal (see Figure 1: AIPD-Rural Program Hierarchy). Monitoring will occur separately for each intervention's contribution to these targets. Figure 6 illustrates the principle of how each intervention will be designed, tested and if considered to be successful (on the basis of their outreach, impact and value for money) scaled-up. The feedback loops will provide adequate opportunities to postpone, modify, or drop interventions that are sub-standard.

The overall Results Measurement Framework will be consistent with AusAID policies on monitoring and reporting results. In addition to this it will be compliant with the Results Measurement Standards as elaborated and endorsed by the Donor Committee for Enterprise Development. The key principles of this Standard are that: a) results measurement is seen as a continuous process rather than an event organized at important stages of Program implementation; b) for this measurement to be efficient and effective this process has to be managed internally but assessed externally; and, c) this internal assessment, learning and adjustment will lead to continuous Program improvement. To underline the Program's commitment to objectively measuring results and contributing to the wider community of practice, AusAID will engage a third party contractor to be embedded under the results manager to identify interventions for deeper scrutiny and using more elaborate statistical models for assessing target group impact and their attribution to Program activities.

Figure 6: Intervention Process Flow



7 Risks

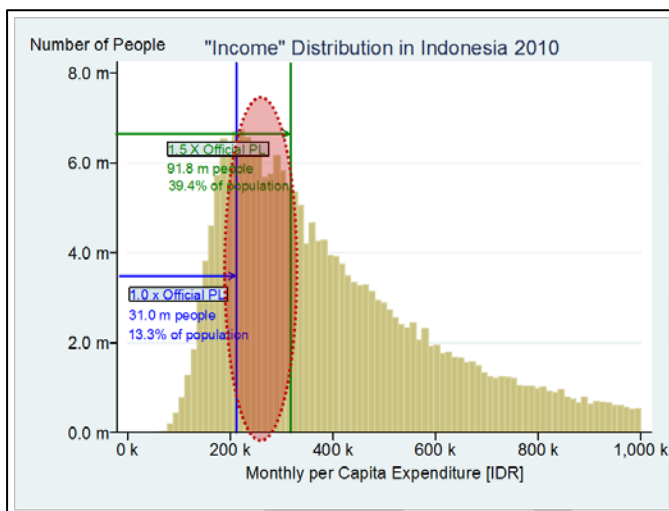
A number of risks to the success of the AIPD-RURAL program were identified in the original design document, particularly with regard to management, coordination and geographic targeting issues. These risks will be updated once program implementation commences. Two particular risks bear mentioning in this summary document. The first concerns the fact that AIPD-Rural’s market development approach is a relatively new way of delivering aid for both AusAID and the Government

of Indonesia: namely, its market-based approach entails a primary focus on private rather than public partnerships, and an entrepreneurial and opportunistic approach to implementation and partnership building. The need to pilot a large number of interventions, many of which may not succeed or be scaled up, will be factored into the Program's annual budgets and work plan. AusAID is currently developing a capacity building program to raise the awareness and increase the understanding of our counterparts in regard to the program's rationale and strategic approaches.

The second risk is also related to the program's focus on the private sector, and concerns the broader regulatory and policy environment within which commodity markets operate. There is a risk that the Program's efforts to promote inclusive markets for selected commodities may be hampered by high level policy changes and regulatory constraints beyond the sphere of influence of the AIPD-Rural program. While broader regulatory risks will never be completely avoided, this risk will be addressed by the Program's support for a range of partners working to address national policy settings and capacity, such as our partnerships with multilaterals institutions. It will also be addressed by a targeted and applied approach to the business enabling environment reform, wherein specific problems are identified and solutions sought through dialogue with local public and private stakeholders. This issue points to the need to prioritise the establishment of strong relationships with Government of Indonesia counterparts at the district, provincial and national levels.

Appendix A Poverty and Agriculture

There is no single definition of poverty. For example, in Indonesia there are 2 poverty lines that are widely used. The first is the international poverty line (PL) of US\$ 2.00 Purchasing Power Parity (PPP) defined by the World Bank and second is the official or national poverty line determined by *Badan Pusat Statistik* (Central Agency for Statistics). The international PL reflects an internationally standardized measurement method of poverty and is devised for cross-country comparisons while the official PPS PL acknowledges the need of different poverty lines for urban and rural areas, as well as for different parts of the country, i.e. national, provincial, and district poverty lines. While such a differentiation reflects the different living conditions in different locations better, the official PL is often criticized for being set lower than it should be.



The figure¹² to the left shows that the official poverty rate in 2010 was 13.3% (31.0m poor people out of 233m total population). However, the distribution of "income"¹³ reflects the reality that a considerable number of people live just above the poverty line. These so-called "near-poor" people are not much better-off than the poor. They are extremely vulnerable to shocks, like illness, death of family members or natural disaster that can easily draw them back below the poverty line. Increasing the poverty line by just 50% triples the number of poor and near-poor people (91.8m people). The

poverty rate then jumps to 39.4%, which is closer to the poverty rate defined by the international PL of US\$ 2.00 PPP (46.1%). Based on SUSENAS data from July 2010, around 65-80% of farmers in AIPD-Rural target provinces were considered poor or near-poor.

AIPD-RURAL's intervention strategy to reach large numbers of its target group entails a "planned market penetration" approach that targets innovators amongst the poor and near-poor farmers (pre-commercial and semi-commercial) instead of concentrating exclusively on the poorest of the poor. Studies¹⁴ have shown that, in general, only around 10-20% of farmers are likely to adopt new practices¹⁵ in their first wave of introduction. These "early adopters" are often, but not exclusively, farmers with some assets (near-poor farmers) that have a stronger orientation to producing a surplus for a market, are less risk averse, and ready to make small investments. After successful adoption by early adopters, when the benefits of new practices are concretely proven, copy-cat behaviour by more risk adverse farmers can be encouraged. By actively tracking the innovation adoption and dissemination process and by working with market actors that have a stake in the innovation's propagation, intervention modifications can then be made to optimize more widespread take up.

¹² Source: SUSENAS (July 2010)

¹³ Although poverty is commonly associated with household income, its measurement is based on household consumption or expenditures rather than household incomes.

¹⁴ E.g. Rogers (1962) Diffusion of Innovations

¹⁵ A new practice may involve planting a new crop, marketing existing crops in a new way, adding value in pre or post-harvest processing, using a new input etc.

In reality there is no clear distinguishing line between poor or near-poor farmers or for that matter subsistence or commercial farmers. In general, however, the majority of the target group can be characterized as farmers with a cultivation area¹⁶ of 1 ha or less or landless farmers (agriculture labourers). Those who are landless may raise a cow, feeding it from public land and/or work as day labourers. Those with land cultivate a variety of crops depending on the soil conditions and apply various risk mitigation strategies. In coastal areas, their main income may be from fishing with seaweed possibly having been added over time. In NTT, for example, they may farm dry lands and grow maize or peanuts. In Flores on the other hand, they may have a small number of cocoa trees and also produce limited amounts of cloves and sometimes rice. They generally apply traditional methods in farming practices, use very limited external inputs and have low productivity.

Women are strongly involved in the production. Most of the work, other than preparing the soil, is shared between women and men or done by women. Along coastal areas, men normally do the work in the water or on the boat, while women prepare the nets or the ropes for seaweed farming.

Most poor farmers produce small quantities of some crops which are then sold in the local market or to collectors. This is often sold in small quantities to meet immediate cash needs. As they sell produce in small quantities they have little bargaining power and the price they receive for their produce is relatively low. The poor farmer often spends a larger portion of their income on necessities and has limited ability to save or to reinvest in productive ways.

In order to improve incomes for small farmers the program must address the immediate problems that cause poor farming practice, poor access to markets and that constrain the enabling environment. For this to have an impact on significant numbers of farmers in the long-term, the interventions addressing the problems must be implemented in such a way that they support improved dissemination of solutions for these problems. This will allow these solutions to be replicated and 'scaled-up' in other locations and to other sectors.

¹⁶ The size of land owned by a farmer (less than 1 ha) is widely used as a criterion for determining whether a farmer is poor or not. However, while this may be true for farmers in Java and Lombok islands, it may not be applicable to farmers in NTB, NTT, Papua, and West Papua where poor farmers may own 2ha of land or even more.