

AUSTRALIA INDONESIA PARTNERSHIP FOR PROMOTING RURAL INCOMES THROUGH SUPPORT FOR MARKETS IN AGRICULTURE (AIP PRISMA-2)

Investment Design Document

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The Department of Foreign Affairs and Trade (DFAT) design for PRISMA-2 was prepared between February and August 2017. The design team included representatives from DFAT and a team of independent contracted specialists.

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Acronyms

Acronym	Meaning
<i>ADB</i>	Asian Development Bank
<i>AIPEG</i>	Australia Indonesia Partnership for Economic Governance
<i>AIP-Rural</i>	Australia-Indonesia Partnership for Rural Development
<i>ARISA</i>	DFAT's Applied Research and Innovation Systems in Agriculture program, implemented by CSIRO under AIP-Rural (2014-2018)
<i>ASEAN</i>	Association of South East Asian Nations
<i>BAPPENAS</i>	Ministry of National Development Planning
<i>BKPM</i>	Investment Coordination Board
<i>CAVAC</i>	Cambodia Agricultural Value Chain Program
<i>CMEA</i>	Coordinating Ministry for Economic Affairs
<i>CSR</i>	Corporate Social Responsibility
<i>DCED</i>	Donor Committee for Enterprise Development
<i>DFAT</i>	Department of Foreign Affairs and Trade
<i>GAP</i>	Good Agricultural Practice
<i>GDP</i>	Gross Domestic Product
<i>GoI</i>	Government of Indonesia
<i>ISP</i>	Intermediate Service Provider (e.g. a local retailer selling seeds or fertiliser to farmers or a local provider of transport or advisory services)
<i>J-PAL</i>	The Abdul Latief Jameel Poverty Action Lab
<i>Kemenristekdikti</i>	Ministry of Research, Technology and Higher Education
<i>KADIN</i>	Chamber of Commerce and Industry
<i>KOMPAK</i>	Governance for Growth Program
<i>KPIs</i>	Key Performance Indicators
<i>KSI</i>	Knowledge Sector Initiative
<i>KUR</i>	The Government of Indonesia's Micro-Credit Program
<i>MAHKOTA</i>	DFAT's Management of a Program Towards a Strong and Prosperous Indonesia program
<i>MDF</i>	DFAT's Market Development Facility
<i>MIS</i>	Management Information System
<i>MRM</i>	Monitoring Results Measurement
<i>MSD</i>	Market Systems Development
<i>NTB</i>	Nusa Tenggara Barat/West Nusa Tenggara
<i>NTT</i>	Nusa Tenggara Timur/East Nusa Tenggara
<i>OECD</i>	Organisation for Economic Co-operation and Development
<i>OJK</i>	Indonesia's Financial Services Authority
<i>PCC</i>	Program Coordination Committee
<i>PRISMA</i>	DFAT's Promoting Rural Incomes through Support for Markets in Agriculture program, implemented under AIP-Rural (2013-18)
<i>PRISMA-2</i>	DFAT's Promoting Rural Incomes through Support for Markets in Agriculture program (2019-2023)
<i>PT</i>	A Limited Liability Company in Indonesia
<i>PRIPs</i>	Progress Reports and Implementation Plans
<i>RFT</i>	Request For Tender
<i>RPJMN</i>	Indonesia's Medium Term Development Plan
<i>SA</i>	Subsidiary Arrangement
<i>SAFIRA</i>	DFAT's Strengthening Agricultural Finance in Rural Areas program, implemented under AIP-Rural (2015-18)
<i>SMEs</i>	Small-Medium Enterprises
<i>TIRTA</i>	DFAT's Tertiary Irrigation Technical Assistance program, implemented under AIP-Rural (2015-18)
<i>VfM</i>	Value for Money

1. Executive Summary

The Australia-Indonesia Partnership for Promoting Rural Incomes through Support for Markets in Agriculture (PRISMA-2) will be a five -year program (2019 – 2023) funded by the Australian Government's aid program and implemented in cooperation with the Government of Indonesia. The program will build upon the achievements and results of the current AIP-Rural program (2013-2018), using the market systems development (MSD) approach to support inclusive economic growth in Indonesia's agriculture, horticulture, livestock and aquaculture sectors.

PRISMA-2 will improve smallholder farmers' competitiveness and access to new markets, better inputs, know-how and technology. It will aim to achieve a sustainable 30% increase in the net incomes of a further 700,000 smallholder farming households in Indonesia by 2023. The five-year program has a budget of AUD95 million and will operate in six provinces: East Java, West Nusa Tenggara (NTB), East Nusa Tenggara (NTT), Papua, West Papua and Central Java.

The **end-of-program outcome** for PRISMA-2 is:

- A minimum 30% increase in incomes for 700,000 smallholder farming households by December 2023.

A total of 1 million smallholder farming households will benefit as a result of Australia's 10 year investment in the AIP-Rural and PRISMA-2 programs. Of the additional 700,000 smallholder farming households targeted through PRISMA-2, at least 60% will consist of people living below USD2.50 per day at PPP. While the majority of program beneficiaries will be classified as poor or near poor, PRISMA-2's impact will also reach non-poor farmers and other parts of the economy, given the wide-spread benefits of systemic change. Smallholder farming households are commonly composed of both men and women who contribute to different components of their household farm enterprise. PRISMA-2 will ensure that gender analysis is embedded into every stage of intervention design and quality processes, and that women farmers are specifically targeted in interventions to ensure men and women both benefit from the Program.

Intermediate outcomes to be achieved during implementation of PRISMA-2 are:

- Targeted farming households achieve greater access to and improved use of new services, inputs and technologies supplied by private sector partners and their intermediate agents or service providers, such as retailers, traders and brokers.
- An expanded pool of private sector actors systematically targeting smallholder farming households in their business growth strategies and increasing their profit as a result.
- Selected decision makers (e.g. local and national government) and policy influencers (e.g. businesses, industry groups, think tanks, consultants) are equipped with evidence to influence changes in the Indonesian business enabling environment at the national and local levels.

PRISMA-2 will achieve impact by stimulating market systems development in the areas of agriculture, horticulture, livestock and aquaculture where they align with program objectives, based on analysis of pro-poor relevance, market opportunity and technical feasibility of addressing performance constraints.

PRISMA-2 will preserve AIP-Rural's proven systems, while retaining a flexible and adaptive management approach that continues to build on existing systems to manage new challenges in the future. It will identify new opportunities to reach scale and systemic change and continuously evolve and improve to retain the Program's position at the forefront of MSD innovation. Key changes between AIP-Rural and PRISMA-2 include:

- **Moving from a four-project model to a single, integrated program with one Contractor:** PRISMA-2 will have the full flexibility to deliver a wide range of solutions using the 'PRISMA model' as its core program approach and drawing on solutions and evidence from the other three AIP-Rural projects where relevant to achieving objectives.
- **Scaling up to achieve new ambitious targets:** moving from an outreach of 300,000 smallholder farming households (2013-2018) to an additional 700,000 households (2019-2023).
- **Increasing the geographic coverage of the Program:** adding Central Java to the existing five provinces of East Java, NTT, NTB, Papua and West Papua.
- **Strengthening the focus on policy influence, the wider agri-business enabling environment, and systemic change:** through equipping decision makers with evidence and the development of strategic partnerships with key policy and agri-business influencers.

PRISMA-2 will contribute to DFAT's policy support to the Government of Indonesia where appropriate, through its expertise, evidence and networks, and transfer of lessons learned. These contributions will be guided by clear strategies and coalitions between PRISMA-2, DFAT staff, other DFAT-funded initiatives, and other stakeholders where appropriate. The Program will also adopt an 'influence the influencers' approach by identifying stakeholders who are well positioned to influence decision makers and ensure they have the right evidence and strategies to advocate for change.

The Program will be managed by a single Contractor responsible for the management of all PRISMA-2 funds, disbursed through program interventions, and delivered through Partnership Agreements with partners including key private sector partners, industry groups and research/academic institutes. PRISMA-2 will bring together successful interventions, approaches and evidence from the four AIP-Rural sub-programs (PRISMA, SAFIRA, TIRTA and ARISA) where relevant to achieving PRISMA-2's objectives.

PRISMA-2 will be implemented in accordance with the Australia-Indonesia bilateral General Agreement on Development Cooperation and BAPPENAS will be the key Indonesian Counterpart. The Program will align with BAPPENAS priorities, outlined in the RPJMN¹, to ensure PRISMA-2 supports development plans at the national and sub-national levels and to enable coordination with relevant key line agencies in each of the program provinces at the sub-national level.

2. Analysis and Strategic Context

Introduction

The Australia-Indonesia Partnership for Promoting Rural Incomes through Support for Markets in Agriculture (PRISMA-2) is a five-year program funded by the Australian Government's aid program and implemented in cooperation with the Government of Indonesia. Australia's contribution is managed by the Department of Foreign Affairs and Trade (DFAT) in Indonesia. The Program will build upon the achievements and results of the AIP-Rural program, continuing to use the MSD approach to support inclusive economic growth in Indonesia's agriculture, horticulture, livestock and aquaculture sectors.

AIP-Rural uses an MSD or 'making markets work for the poor' approach to improve smallholder farmers' competitiveness and access to new markets, better inputs, know-how and technology. It aims to achieve a sustainable 30% increase in the net incomes of 300,000 smallholder farming households in Indonesia by December 2018. The five-year AIP-Rural program has a budget of AUD 112 million and operates in East Java, West Nusa Tenggara (NTB), East Nusa Tenggara (NTT), Papua and West Papua.

¹ The current RPJMN will expire in 2018. The PRISMA-2 program will be reviewed against the next RPJMN to ensure focus areas remain relevant.

AIP-Rural has made a significant contribution to increasing smallholder farming household incomes by improving market systems, particularly in eastern Indonesia. The Program's interventions have supported tangible and sustainable changes in how private sector partners operate while achieving the following key performance indicators (at end June 2017):

- 77,696 small-holder farming households² with 30% or more increased net income;
- An estimated 32,000 women were among the farmers that directly benefited;
- Average net attributable income change (NAIC) of AUD320 per year increase for each benefiting farming household;
- 69% of smallholder farming households benefiting consist of people living below \$2.50 per day (PPP);
- 105 private sector partners;
- 1165 intermediate service providers.

This Investment Design Document is a refinement and update of the AIP-Rural design prepared in 2013. It outlines the next five years of Australian Government investment in rural development in Indonesia. The next phase of investment through PRISMA-2 will take effective AIP-Rural interventions to scale and have an increased focus on systemic change and influencing change in the agribusiness environment. It is expected that transition activities will commence in late 2018, with the implementation of the new investment commencing in January 2019.

Country and Sector Issues

Economic Growth, Competitiveness and Poverty

Despite reasonably stable economic growth rates of around 5% annually, health and education outcomes in Indonesia are low compared to other countries in South-East Asia, regional disparities are high, and high and volatile food prices are a major constraint to poverty reduction. Currently there are around 28 million people living below Indonesia's national poverty line (10.6% of the population), and another 62 million considered vulnerable to shocks (23.9% of the population)³ (see Annex 1). 37.2% of children under the age of 5 are stunted with the incidence of stunting increasing between 2010 (35.6%) and 2013 (37.2%)⁴; and despite a steady decline in the unemployment rate, 5.6% of the labour force remains unemployed⁵. Most poor people in Indonesia live on Java, but the proportion of the population that is poor is higher in eastern Indonesia, especially for people who rely on agriculture for their livelihoods.

Over the past 15 years economic growth in Indonesia has coincided with rising inequality.⁶ Poverty reduction has begun to stagnate, with a near zero decline in 2014⁷. Income inequality is rapidly rising and up to one third is explained by inequality of opportunities. Healthy and well-educated children live side by side with children who suffer from malnutrition, learn little when they are in school, and drop out too early. There are also stark inequalities between regions; for example, 6% of children in Jakarta do not have access

² A typical rural household may contain 6 or more people, but on average 2.7 of them will be farmers

³ The Indonesian National Statistics Agency figures, based on March 2017 Susenas data, which sets the national poverty line at approximately IDR12,500 per person per day (or AUD1.25). If the World Bank poverty benchmark of USD1.90 per day is applied, then around 16% of the Indonesian population (39 million people) remain poor and approximately 40% of the entire population (103 million people) are considered near poor, with incomes hovering marginally above the national poverty line. See World Bank (2016) World Development Indicators [SL.POV.DDAY] accessed from <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, accessed May 9, 2017; World Bank (2017) Country Overview Indonesia, <http://www.worldbank.org/en/country/indonesia/overview>, accessed 8 May 2017.

⁴ World Bank (2015) The Double Burden of Malnutrition in Indonesia, <http://www.worldbank.org/en/news/feature/2015/04/23/the-double-burden-of-malnutrition-in-indonesia>, Accessed July 3, 2017.

⁵ World Bank, 2016, <http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=ID>, accessed July 3, 2017.

⁶ The Gini coefficient increased sharply from 30 in 2000 to 41 in 2011, where it stagnated until 2015. Over the past two years, the Gini has fallen to 39.3 (considered to be very high and falling short of Indonesia's RPJMN target of 36 by 2019).

⁷ World Bank (2016),), Indonesia's Rising Divide, <http://documents.worldbank.org/curated/en/267671467991932516/pdf/106070-WP-PUBLIC-Indonesias-Rising-Divide-English.pdf>, Accessed 11 May 2017

to proper sanitation, while 98% of children in rural Papua have no access⁸. Indonesia's poor are vulnerable to economic and natural shocks that can push them below the poverty line and make it difficult to participate in the formal economy⁹.

A long-standing and well-documented range of constraints undermine market competitiveness, skew incentives and impede investment and innovation. The cost of doing business is high; in 2017 the World Bank ranked Indonesia 91 out of 190 countries, with Malaysia at 23, Thailand at 46 and Rwanda at 56. The financial sector is relatively shallow, and corruption and protection of domestic industries distort the business environment. Transport and power infrastructure is poor. Public investment at the national level is squeezed by high expenditure on subsidies and at the sub-national level by unbalanced expenditure on administrative functions and personnel. Government spending on infrastructure is less than 2-3% of GDP (2000-2014), about one third of regional peers. Spending on research and development (R&D) is also very low. Industry reports high labour costs but inadequate labour skills.

Despite these constraints, BKPM reports that the private sector invested a total of USD44.7bn in Indonesia in 2016, a 12.4% increase over 2015 levels. Slightly more than half (53.6%) of this investment was directed to Java. In 2017 total private sector investment is projected to rise by over 10% to approximately USD49.5bn, with agriculture estimated to make up less than 8% of this. Foreign direct investment (FDI) accounts for 64.7% of this total. However, direct domestic investment (DDI) is growing at a faster rate than FDI. DDI increased by 20.5% over 2015 levels (to USD15.8bn); FDI increased by 8.4% during the same period (to USD28.9bn).

Agriculture

The composition of Indonesia's economy has changed significantly in the past 15 years; from dependence on agriculture to a more balanced economy with the industry and services sectors contributing the most to the Gross Domestic Product (GDP). According to 2014 World Bank data, agriculture contributes 14% to the nation's GDP while the industry and services sectors contribute about 43% each.¹⁰ However, agriculture remains an important employer (33% of the workforce in 2015 compared to 22% in manufacturing and 45% in services) and continues to be the leading economic activity in eastern Indonesia¹¹. Agriculture employs an estimated 46m people (approximately 32% women¹²), 25m of which are farmers (owners and tenants) with another 21m as part-time labourers. Some 44m hectares of land are dedicated to agricultural production, with one third given over to low-value paddy. Agriculture production (excluding forestry) totalled USD116.5bn in 2016 (USD78.1bn food crops and plantations; USD38.4bn livestock and fisheries). Indonesia is the world's largest producer and exporter of palm oil, the second largest rubber producer (accounting for almost 25% of global production), the third largest cocoa producer, and the fourth largest coffee producer.

Rajah and McCullough conclude that "rural agriculture is the most important pathway out of poverty rather than a trap from which the poor need to escape."¹³ The World Bank has found that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside

⁸ World Bank (2016), Indonesia's Rising Divide, <http://documents.worldbank.org/curated/en/267671467991932516/pdf/106070-WP-PUBLIC-Indonesias-Rising-Divide-English.pdf>, Accessed 11 May 2017

⁹ <http://www.indonesia-investments.com/finance/macroeconomic-indicators/poverty/item301?>

¹⁰ Indonesia has increased its share in total agricultural value added (13.9% in 2015), however this is largely due to a general global decline in agriculture value added and represents general stagnation over the past four years (14.3 in 2010; 13.7 in 2011). OECD Agriculture Policy Monitoring and Evaluation reports 2010 – 17.

¹¹ World Bank (2016) Indonesia Economic Quarterly (June 2016). World Bank, Jakarta, Indonesia. [p40] as well as ILO and ADB (2014) ASEAN Community 2015: Managing integration for better jobs and shared prosperity. International Labour Organisation, Bangkok, Thailand and Asian Development Bank, Manila, Philippines. [Table F1-6, p125]

¹² World Bank (2015), Female Employment in Agriculture (<https://data.worldbank.org/indicator/SL.AGR.EMPL.FE.ZS?locations=ID&view=chart>)

¹³ Rajah, A. and McCullough, N., Does agriculture still have an important role to play in reducing poverty in Indonesia, AusAID 2012

agriculture¹⁴. The ADB estimates that a 1% growth in agriculture reduces rural poverty by 2.9% and urban poverty by 1.1%¹⁵. In Indonesia, studies indicate that agricultural growth of between 8-14% reduces the poverty headcount by 1%.¹⁶ The challenge for Indonesia is how to expand economic growth in the agricultural sector and in regions outside Java in ways that are both sustainable and more equitable for all Indonesians – men, women, youth and people living with a disability.

Agriculture's share of GDP has fallen from about 50% in the mid-1960s to its current share of 13.7%. It has experienced consistently lower growth than average GDP growth. However, over the past five years, the sector has performed more robustly, with total value added growing at an average of below 4% per year.¹⁷ The government has set an annual target for agricultural growth at 3.8% between 2015-2019. McKinsey¹⁸ estimates that USD95bn in additional value added could be generated by 2030 if Indonesian agriculture could shift from low value to high value crops.

Food security remains an important political issue in Indonesia, however anti-competitive policies on imports, investment and subsidies have contributed to dysfunctional agricultural markets and food price volatility¹⁹. Indonesia has sought over the long term to achieve self-sufficiency in rice, and over the short term to ensure that the domestic price and available quantity of rice do not deviate greatly from their trend values. In addition to rice, the 2012 Food Law broadened the self-sufficiency policy to cover other key foods and expanded how the government could influence domestic food markets. The Food Law aims to promote more equitable, stable and sustainable food outcomes as well as food sovereignty and food safety in Indonesia²⁰. The Law calls for greater public investment in agricultural research and development and also includes trade policy measures. These measures were proposed to address at least five of the law's objectives: food self-sufficiency; higher incomes for producers; lower food costs for consumers; more diversity, higher quality and greater nutrition in the foods available to the consumer; and less volatility in the prices and available quantities of staple foods. Critics, however, point out that self-sufficiency policies create uncertainty and demand-supply gaps, leading to price fluctuations, high food prices compared to other regional countries, and fewer incentives for private sector investment in agriculture, all of which have negative impacts on the lower income quartiles of the population²¹. For those in the lowest decile of per capita expenditure, food spending can consume up to two-thirds of household expenditure. Indonesian consumers continue to pay high prices for foods rich in protein and micronutrients and non-tariff measures for animal and horticultural products have not translated into higher incomes for farmers²². This means that when food prices increase, the poor are forced to consume less nutritious foods, impacting nutrition levels.

Between 1976 and 2006 increased public spending on agriculture and infrastructure had a positive impact on agricultural growth. Thereafter, the effectiveness of government expenditure in the sector has proven to be less effective (for example, in terms of raising agricultural productivity), as expenditure has shifted markedly towards the *subsidy of private goods* rather than the provision of key public goods. Between 2000 and 2010 the national budget for agriculture increased by 12% annually in real terms (from

¹⁴ World Bank (2008) World Development Report 2008. World Bank, Washington DC, USA. [p.6]

¹⁵ ADB (2006), 'Indonesia: Strategic Vision for Agriculture and Rural Development', Manila, Philippines

¹⁶ Surayadi, A. Suryadarma, D. and Sumarto, S. (2009) The effects of location and sectoral components of economic growth on poverty: Evidence from Indonesia: Journal of Development Economics; and Cervantes-Godoy, D. Dewbre, J. (2010) Economic importance of agriculture for sustainable development and poverty reduction, OECD Working Party on Agricultural Policy, Paris

¹⁷ In 2010 the growth rate in agriculture was 2.9% in 2011, 3.0%, in 2012, 4%, in 2013 3.4% and in 2014 2.4%. See...<https://www.indonesia-investments.com/culture/economy/general-economic-outline/agriculture/item378>

¹⁸ McKinsey Global Institute (2012) The Archipelago Economy: Unleashing Indonesia's Potential

¹⁹ Anderson, K. (2013) Indonesia's Food Law of 2012. Report to USAID. United States Agency for International Development, Jakarta, Indonesia

²⁰ Anderson, K. (2013) Indonesia's Food Law of 2012. Report to USAID. United States Agency for International Development, Jakarta, Indonesia.

²¹ <https://www.amcham.or.id/fe/4090-indonesia-s-food-law-backfires>

²² World Bank (October 2016), *Indonesia Economic Quarterly: Pressures Easing*. <http://pubdocs.worldbank.org/en/202891477357946101/IEQ-OCT-2016-ENG-web.pdf>, Accessed 27 March, 2017

approximately USD1.2bn in 2000 to USD5.8bn in 2008).²³ Between 30 and 55% of the agriculture budget is allocated to input (fertilizer, seeds) subsidies for food crop production. Subsidies to various sectors of the Indonesian economy cost IDR160 trillion in 2016, of which IDR83 trillion or 0.6% GDP were to non-energy sectors²⁴. The majority of non-energy subsidies were for rice and fertilisers. The Organisation for Economic Cooperation and Development (OECD) estimates that Indonesia's producer support rose from 20% of gross farm receipts in 2013 to 29% in 2015. Total support to agriculture is large, at 4% of GDP – the highest of 25 countries analysed. Support provided in the form of payments to general services to agriculture is relatively low – averaging 5.2% of total support between 2013-2015²⁵.

The focus on subsidised provision of private goods has been accompanied with public investment in rural infrastructure and agriculture support services falling to 'exceptionally low' levels, resulting in a deterioration in rural roads, irrigation and extension services, all vital to raising productivity.²⁶ Irrigation still only covers 10% of productive land and public spending on agricultural R&D is extremely low by regional and global standards, at 0.27% of GDP. For example, in 2007 spending on R&D was equivalent to only half of spending on seed subsidies. Not only has this public investment regime undermined the development of a conducive business environment for agriculture and crowded out private investment, it has also failed to achieve its goal of raising productivity and self-sufficiency to their intended levels.

A range of other barriers affect private sector investment and operation in the agricultural sector. As is the case generally in Indonesia, **regulatory uncertainty** and the availability of **labour and domestic protection** are problematic. For example, the 2010 Horticulture Law discourages FDI in high-value crops, and the Food Law prioritises 'food self-sufficiency' in sub-sectors such as rice, maize, chilies, beef, shallots and sugar. **Land** prices and its availability are a particular problem in the sector, including legal restrictions on foreign ownership of agriculture land. Weak **land titling and registration** undermine investment security. With only 4-5% of their portfolios invested in agriculture, banks are extremely reluctant to lend to the sector. Small **farm size**, a lack of **concentration** (e.g. commercial hubs) and **facilities** such as transport logistics and drying lead to trading inefficiency in supply chains.

In spite of these barriers, private sector investment in agriculture has grown. From 2010-2016, private investment totalled USD16,762.82m²⁷. Large-scale private investments in production are greatest in estate crops (palm, rubber, coffee, cocoa, sugar) and in poultry and aquaculture. Food crop production is overwhelmingly dominated by smallholders and their investment is not recorded in official investment data. The most significant investments, however, tend to go into inputs like crop protection and seeds, and into processing such as feeds, crude palm oil, rubber, cocoa, dairy and cassava. Rising economic nationalism appears to have tilted the playing field in favour of domestic investors.

The private sector has learnt to seek opportunities and operate in the substantial gaps that the government has left them. This is most notable in the crop protection market which government abandoned in 1985, but even in the highly-subsidized fertilizer sub-sector where the private sector's share of the market may now be as high as 25%. Most existing firms in this sector are cautiously optimistic about the prospects for growth in Indonesian agriculture. They regard public sector withdrawal from markets like seeds and fertilizer as being 'inevitable' and the current trade restrictions as being unsupportable, in the long run, as

²³ Armas, E. et al (2012) Agriculture Public Spending and Growth in Indonesia; World Bank Policy Research Working Paper 5977. National spending on agriculture includes central government spending on irrigation, the budget of the Ministry of Agriculture, sub-national government spending on agriculture and irrigation, and agricultural subsidies.]

²⁴ IMF (2017) Article IV Consultation Minutes and Report – Indonesia. International Monetary Fund, Washington, DC., SA. [Tables 5 and 5, pp43, 44].

²⁵ OECD (2017) Agricultural Policy Monitoring and Evaluation 2017. Organisation for Economic Cooperation and Development, Paris, France. [p110]

²⁶ See for example: Armas, E. (2012) Agriculture Public Spending and Growth in Indonesia; World Bank Policy Research Working Paper 5977; FAO (undated) Corporate Private Sector Investment in Agriculture in Indonesia; Tabor, S (2015) Indonesia: Constraints to Economic Growth; ADB, Papers on Indonesia, No 10.

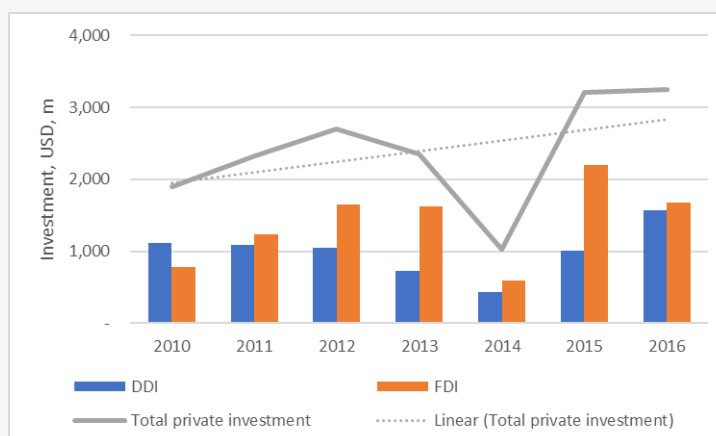
²⁷ Domestic and Foreign Direct Investment Realisation (2013-2016); BKPM By way of contrast, albeit not like-for-like comparison, in 2008 FDI in Thailand's agriculture and food processing industries was approximately USD13bn.

food shortages become more acute and price spikes more frequent. They point to (a) diminishing additional land being available for production and (b) increasing demand for food being the key drivers of the need to focus more on national productivity.

More competitive agriculture markets are needed to drive rural growth, reduce poverty and increase food security in Indonesia. Farming households need to increase productivity and quality, and to have better access to markets. For this to happen, a

major challenge is to increase the level of private sector investment in agriculture and, correspondingly, to re-balance public sector efforts so that they support rather than inhibit private sector investment. This has been the focus of AIP-Rural and will continue under PRISMA-2, using the MSD approach. A matrix of investment in food crops, plantations, livestock and fisheries can be found at Annex 2.

Private sector investment in agriculture, BKPM (2010-2016)



Strategic Setting and Rationale for Australian Engagement

As a close neighbour, Indonesia is a key partner in Australia's bilateral, regional, and global interests. A prosperous, balanced and growing Indonesia supports stability, security, trade and cooperation in our shared region. Indonesia has reached middle income status and achieved substantial development progress in recent years, however challenges remain such as infrastructure bottlenecks, skills deficits and institutional weaknesses. To address these challenges Australia works with Indonesia to target fundamental constraints to Indonesia's growth and poverty reduction, where Australia can add most value. Australia has increased support for aid for trade, contributing to the 20% target for Australian development program expenditure on aid for trade globally by 2020.

The overarching goal of Australian development cooperation with Indonesia is to boost inclusive growth by improving Indonesia's competitiveness. The Indonesia Aid Investment Plan (2015-19) notes the development program will encourage inclusive economic growth by strengthening the operation of agricultural markets, raising agricultural productivity, improving food security, and helping to boost poor farmers' incomes and employment by addressing constraints such as access to loans. The current AIP-Rural investment and proposed PRISMA-2 program align closely with the Strategy for Australia's Aid Investments in Agriculture, Fisheries and Water through its focus on strengthening markets and innovations to increase productivity and market opportunities for the poor. The Program contributes significantly to aid for trade targets (99% of AIP-Rural is counted as aid for trade) and integrates gender equality and women's economic empowerment considerations and strategies into the design and implementation of interventions. The Program is a key example of Australia's innovation and private sector engagement strategies in action; employing an MSD approach that leverages co-investment from the private sector for every intervention and introduces agricultural innovations to farmers to increase quality and productivity.

For Indonesia, AIP-Rural contributes to national strategic plans such as the Medium-Term Development Plan (RPJMN 2015-2019), including: accelerating productivity, competitiveness and inclusive growth and development, reducing poverty and addressing regional disparity between the east and west by focusing on eastern Indonesia. Indonesia's main agricultural policy priorities include achieving self-sufficiency in key commodities such as rice, maize, soybean, sugar and beef; achieving national food security; balancing the needs of producers and consumers; increasing farmer welfare through higher income; diversifying food

sources away from cereals; increasing the competitiveness of agricultural production, value-added processing and export; and managing the effects of climate change²⁸.

PRISMA-2 will continue to support Indonesia's poverty reduction and agricultural priorities where appropriate by working with private sector partners to scale up successful interventions piloted through AIP-Rural, as well as implementing new interventions to stimulate broader systemic change in agricultural markets and the agribusiness environment. The Program will contribute to the Medium-Term Development Plan (RPJMN) priorities, particularly mission five²⁹, which focuses on achieving inclusive growth and poverty reduction by maximising the labour force and market potential across the agricultural, industry and services sectors. PRISMA-2 will also contribute to the achievement of the Sustainable Development Goals (SDGs) in Indonesia, particularly SDG 1 (end poverty in all its forms); SDG 2 (end hunger, achieve food security and improved nutrition and promote sustainable agriculture), SDG 8 (promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all).

The MSD approach employed by PRISMA-2 reflects a more mature development cooperation partnership with Indonesia – an 'economic partnership' – that focuses on leveraging Indonesia's own substantial resources. PRISMA-2 will support Indonesia to develop its own agricultural sector, including by focusing on Indonesia's staple food items to meet domestic consumption and on areas of economic speciality/advantage with strong potential for export. A strengthened second phase of investment that builds on the achievements of AIP-Rural will benefit both Indonesia and Australia in terms of market growth, increased trade and investment, and greater regional stability.

Market Systems Development

Market systems development or 'making markets work for the poor' is an approach based on more than two decades of experience in engaging with the private sector. It has been successfully used by AIP-Rural and will continue to be used in PRISMA-2³⁰. Conventionally, rural development programs have tended to be public sector-led, with an emphasis on delivering 'solutions' (e.g. information, skills, seeds, fertiliser, finance, equipment) directly to farmers or rural enterprises. Evaluations indicate that such an approach has frequently been unable to ensure the sustainability of benefits to the targeted population once program-funded activities cease.³¹

The MSD approach does not deliver solutions directly. It introduces pro-poor innovations through markets, with the expectation that if the innovation is relevant, market forces will sustain the change. The approach is analytical and relies on rigorous measurement. It starts small, tests, and then scales up: testing and proving the feasibility and relevance of pro-poor commercial concepts that will attract further commercial investment, to create a multiplier effect that leads to large-scale and sustained impact. The approach is based on economic partnership and incentives. Interventions are more likely to succeed if there is a private sector partner with the motivation and capacity to invest, and continue to do so in the long run, because it is in their commercial interests to do so. In this way, the private sector partner has a stake in and ownership of solutions and is likely to continue investing after aid support has ceased.

Effective private sector engagement involves harnessing the willingness of the private sector to invest in ways that can achieve development outcomes while serving the interests of the private partner's core business. It is this 'shared value' that creates the prospect of lasting pro-poor change. Greater involvement of the private sector is a matter of pragmatism; a way to leverage additional resources and energy to

²⁸ Government of Indonesia (2015) Strategic Plan for Agriculture (2015-19). Ministry of Agriculture, Jakarta, Indonesia.

²⁹ Rencana Pembangunan Jangka Menengah Nasional (RPJMN) 2015-2019

³⁰ Mid-Term Review (MTR) AIP-Rural, DFAT, December 2016.

³¹ Fargher, J. D. *et al.* (2010) Independent Completion Report of SADI. Australian Agency for International Development, Canberra, Australia.

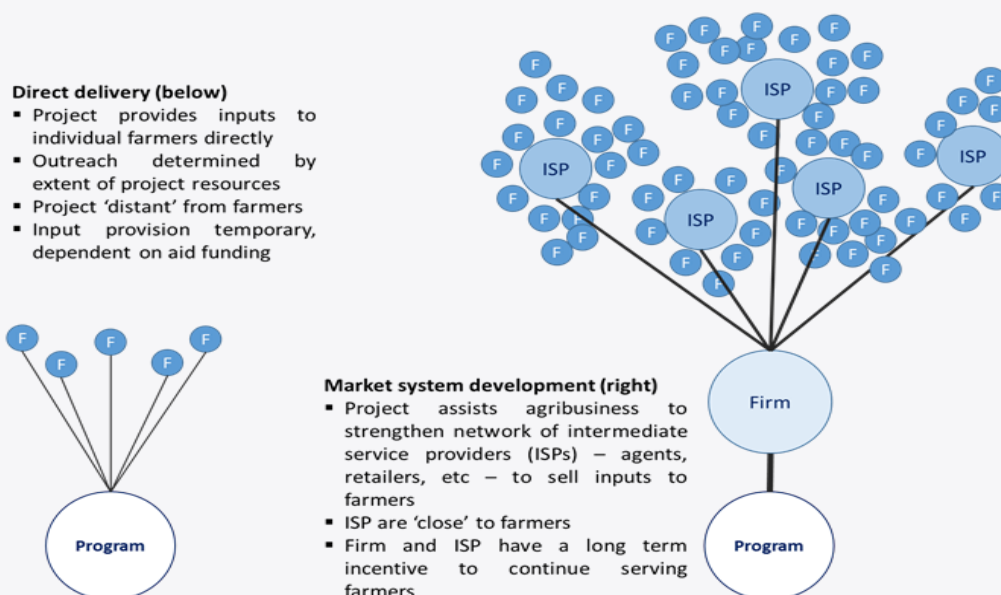
achieve public objectives. It is about rebalancing efforts, to avoid over-dependence on scarce public resources and to achieve a more effective division of roles, based on who is best able to do what.

Farming households operate as small businesses. However they often lack access to up-to-date information, knowledge of modern agricultural practices, business training, finance, and access to markets (for both inputs and products). These market failures can result in low productivity, limited sales and low profit, and low re-investment back into the business, and ultimately an entrenchment of household poverty. This is often closely linked to the private sector failing to recognise the poor as a valid market segment, deserving of services, products and partnership.

Instead of direct delivery to farmers, donors instead partner with businesses to deliver outcomes. Donor-funded activities are temporarily used to leverage investment from business and stimulate wider changes in markets. An intervention aims to open-up a commercial opportunity for a private sector partner, so that they have an incentive to co-finance its adoption and then take it over, adapting and expanding it on their own, ensuring sustainability.

The approach focuses initially on the private sector, as businesses are usually most receptive to innovation (when commercial benefits are clear). Sustained momentum, however, is achieved by bringing about wider change in the system through working with other market actors, such as government and representative bodies and other private sector actors, to address other supporting functions and rules in the system, e.g. standards and regulations, core business models, and other functions and rules that support these (see Box 1). A combination of different interventions is normally required to bring about a sustained change in the way a system works so that it has the ability to adapt and be resilient and inclusive in the long-term.

For example, in an MSD approach it is common to work with a large business that has a network of ISPs (see diagram below). This has several benefits: (a) it allows projects to benefit from a network effect to maximise outreach. Instead of working directly with farmers, a project can work with a few large businesses, who have networks of dozens or even hundreds of ISPs, who in turn reach thousands of farmers; (b) ISPs tend to be 'close' to farmers, in terms of physical location, but also in terms of culture, language, familiarity – they are therefore often more trusted and more accessible than 'distant' organisations or projects; (c) all actors in the network have a commercial incentive to attract and retain customer loyalty, in order to maintain market share – interests and motivations are aligned towards the long term.



With access to new services, inputs, and technologies from partners and their ISPs, and communication of the opportunities they offer, farmers gain the knowledge, resources and motivation they need to improve their practices, leading to higher productivity, sales and profits, which generates net additional income. If 'early adopters' are seen to be effective, more farmers adopt new practices. As more smallholder farming households become successful, more businesses will recognise the commercial opportunities in serving them, creating a critical mass in the system ('crowding in'). PRISMA also directly stimulates this crowding in by working with multiple businesses. By avoiding direct delivery, PRISMA-2 ensures that change is sustainable after the program ends. As key market constraints are addressed successfully by interventions with the private sector, the evidence generated can be used by other market actors, such as industry bodies (e.g. chambers of commerce or PISAgro), think tanks and research organisations to communicate with policy makers who shape the business environment, hence reinforcing the changes in the system. PRISMA-2 does not seek to influence policy directly, but instead equips decision makers with evidence and 'influences the influencers' to drive change when policy windows emerge (see Sustainability section). DFAT (using evidence and experience from the program) can seek to support change directly where there is an opportunity to do so. Box 5 below provides an example from AIP-Rural of how the program can influence policy.

The benefits of an MSD approach are that stimulating private sector investment and ownership increases the prospects of achieving sustainability and scale. It also increases value for money; aid funding can achieve more for the same investment. The approach's rigorous analysis and results measurement using the Donor Committee for Enterprise Development (DCED)³² methodology allows interventions to be designed in a highly context-specific and adaptive manner, based on detailed understanding and feedback loops. This enables tailor-made solutions suited to the diverse needs of Indonesian smallholder farmers, reflecting different climates, cultures, infrastructure and agricultural problems. By working in partnership with actors that are permanent parts of the system, as opposed to delivering solutions directly, change processes tend to be locally owned and therefore more acceptable, because they are not seen as externally imposed. An illustration of the MSD approach in action in AIP-Rural can be found in Box 1.

³² The Donor Committee for Enterprise Development's Standard for Results Measurement provides programmes working in complex market systems with the framework, tools and incentives to monitor their results in a systematic way. Credibility is enhanced through an optional external audit of the measurement process used by the programme. The DCED Standard was developed in 2008 in collaboration with many programmes in the field; it includes all the elements now accepted as 'good practice'.

Box 1. Market Systems Development – Pigs in Flores

Better productivity increases incomes for 300,000 farmers

FARMERS



Ibu Maria has owned pigs on her small farm in central Flores since 2011. She used to spend several hours a day collecting and preparing local feed like banana leaves, papaya and cassava tubers. Before PRISMA, fattening piglets to adult size took around two years.

Through PRISMA's interventions, small-scale farmers like Ibu Maria have learned how to build good pig pens and fatten their pigs using high quality commercial feed. Her cross-bred sow now lives in a clean, covered enclosure behind her home and its piglets take 3-4 months to grow to marketable size. The improved progeny sell for around IDR3m, compared to IDR2m for the local breed. 'Feed is expensive but the result is good,' she says. She now has a regular flow of income to help look after her six children.

Ibu Maria is proud of her sow. She cleans its pen twice a day but spends far less time preparing feed than she used to.

Improved and sustainable delivery of inputs and services by market actors

RETAILERS



Commercial feed companies have responded by promoting quality feed mixes in Flores through breeding companies, a credit union and retailers. More than 50 small businesses now supply inputs and services to the pig-growing businesses of Flores. For example, Ibu Regina (far left) and her staff sell pig feed in their agricultural supply shop in Flores. She also provides leaflets explaining good pig husbandry practices to farmers.

Better usage of inputs and services leads to improved farm productivity

BREEDERS



PRISMA's pig sector intervention, which began in 2014, facilitated pig breeders and smallholder farmers to invest in improved breeds and husbandry practices, supported by local veterinary services. All eight large pig breeders in Flores have adopted improved breeding and husbandry practices as a result of the PRISMA intervention. For example, Bruder Luci's pigs (pictured) have their own water fountain along with regular cleaning and high quality feed. He sells piglets to more than 1,100 smallholder farmers.

(Photographs: Julie Delforce, September 2016)

Lessons Learned

After more than a decade of experience of implementing the MSD approach multiple lessons have emerged globally and from within DFAT's portfolio, including CAVAC (Cambodia), the Market Development Facility (MDF in Fiji, Pakistan and Timor Leste) and, most recently, from AIP-Rural (for a more detailed review see Annex 3). These lessons include:

1. **A market systems development approach works**, even in fragmented and isolated contexts such as eastern Indonesia or the Pacific, and can benefit poor people and disadvantaged groups, for example to highlight women's role as integral market actors. To do so requires rigorous, upfront analysis and measurement, identification of viable business cases that can attract investment, and the willingness and flexibility to use a mix of intervention types and tactics.
2. **The quality of analysis is integral** as this identifies the root causes of market constraints, viable opportunities for change and forms the basis for the design of successful interventions.
3. **Selection of potential partners** requires robust scrutiny of partner incentives and capacity to change. Partnership deals need to involve substantial co-investment and test and build partners' ownership over time.
4. **Flexibility is vital** to respond to new opportunities and deal with failures pragmatically. Interventions take place in complex, risky environments. Typically about 30% of interventions will fail, so programs must be set up to be adaptive, capable of rapidly reallocating resources from failing prospects to better prospects.
5. **Scale agents** who can broaden the uptake of new inputs, products and innovations need to be identified early as they can contribute to significant impact and act as role models for peers to copy.
6. **High calibre intervention teams are critical to success** requiring a sufficient mix of skills to undertake analysis, deal-making, due diligence and intervention management.

Engaging effectively with the private sector

There are four key lessons for engaging effectively with the private sector to achieve lasting development outcomes, which underpin all of AIP-Rural's interventions and will underpin those of PRISMA-2:

- **Clear strategic intent:** it is important to be explicit about what development support is aiming to achieve by working with a business.
- **Appropriate private sector partner and initiative:** effective private sector engagement entails identifying the right business. This requires having selection criteria to determine whether or not a prospective partner and initiative fits with the development partner's strategic intent, in terms of relevance, opportunity and additionality, and feasibility.
- **A variety of support options:** a range of constraints inhibit private sector performance, which cannot be overcome by financial support alone. Development assistance can help enterprises to recognise the large market potential in low-income markets and adapt their business models to take advantage of these opportunities. Support should aim to change the private sector's behaviour, strengthening its capability or appetite to engage in markets that are important for the poor.
- **A business-oriented culture and skillset:** programs that work closely with the private sector need an operating culture and skill set that are business oriented. Teams should balance sufficient commercial experience with development experience; people who understand businesses' language and needs, who are good at business planning and deal making, and who are entrepreneurial and comfortable that failure is an ordinary part of doing business.

It is often assumed that businesses involved in agriculture are innovative, entrepreneurial and risk takers; but experience indicates this is far from the truth. When exploring new or more marginal markets they tend to lack information and experience, and are therefore cautious and slow to invest. MSD initiatives address these constraints by introducing new market information, new business model calculations and modest co-investment to 'buy down' the risk. The result is expanded yet sustainable outreach to thousands of new customers with innovations that positively impact on farmer incomes.

AIP-Rural found that the complex, multi-faceted constraints in Indonesian agriculture require multi-faceted responses from a wide range of private sector actors (input suppliers, off-takers, investors in irrigation, bankers, etc.). This entails a combination of hard support (finance) and soft support (informing, technical assistance, brokering relationships). The type of support to be used should be determined by an analysis of constraints faced. Support should be delivered in such a way as to be catalytic and 'transformational' (resulting in lasting, widespread change in the way the private sector operates), rather than 'transactional' (temporarily subsidising a private enterprise's routine operations). This means only working with those private sector actors who are prepared to make substantial co-investments in transforming the way they do business.

3. Investment Description

Logic and Expected Outcomes

The **end-of-program outcome** for PRISMA-2 is:

- A minimum 30% increase in incomes for 700,000 smallholder farming households by December 2023.

This will be achieved by working in six provinces in Indonesia – the current AIP-Rural focus provinces of East Java, NTT, NTB, Papua, West Papua and adding Central Java for phase two. Of the additional 700,000 smallholder farming households targeted through PRISMA-2, at least 60% of these households will consist of people living below USD2.50 per day at PPP. While the majority of program beneficiaries will be classified as poor or near poor, given the wide-spread benefits of systemic change PRISMA-2 impact will also reach non-poor farmers and other parts of the economy. Smallholder farming households are commonly composed of both men and women who contribute to different components of their household farm enterprise. For example, AIP-Rural analysis shows that men often take the lead with land preparation and use of machinery, women often lead with post-harvest handling and financial management, and men and women make decisions collaboratively about what crops and varieties to grow each season. PRISMA-2 will ensure that gender analysis is embedded into every stage of intervention design and quality processes, and that women farmers are specifically targeted in interventions to ensure men and women both benefit from the Program.

Intermediate outcomes to be achieved during implementation of PRISMA-2 are:

- Targeted farming households achieve greater access to and improved use of new services, inputs and technologies supplied by private sector partners and their intermediate agents or service providers, such as retailers, traders and brokers.
- An expanded pool of private sector actors systematically targeting smallholder farming households in their business growth strategies and increasing their profit as a result.

- Selected decision makers (e.g. local and national government) and policy influencers (eg. businesses, industry groups, think tanks, consultants) are equipped with evidence to influence changes in the Indonesian business enabling environment at the national and local levels.



The detailed program logic is presented in Annex 4 and a summary schematic is provided to the left. The program logic is informed by several theories that explain the causal mechanisms by which PRISMA-2 is anticipated to bring about change, including how individuals change, how organisations change, how new ideas spread, how market systems work, how market systems change, and how complex change is delivered.

In summary, PRISMA-2 develops interventions in partnership with the private sector and their intermediate service providers (ISPs) such as a local retailer selling seeds or fertiliser to farmers or a local provider of transport or advisory services. The interventions catalyse the private sector to innovate and invest to better serve smallholder farming households on a commercially viable basis, offering new services, inputs and technologies relevant to targeted female and male smallholders. Facilitation³³ by PRISMA-2 will enable businesses and ISPs to engage with smallholder farmers and gain organisational knowledge, skills and motivation that enables change within the organisation, which if successful, leads to wider change in the market system.

Delivery Approach

PRISMA-2 will achieve impact by stimulating market systems development in the agriculture, horticulture, livestock and aquaculture sectors to increase farmers' access to and use of: a) agricultural inputs (seeds, fertilisers, information, technology, water/irrigation); and/or b) newer and high value off-take markets. Due to the heterogeneous and specific nature of Indonesia's agro-economic zones, 23 agricultural sub-sectors³⁴ emerged in AIP-Rural to form a diverse portfolio of interventions that aim to maximise opportunities for achieving outreach targets and contribute to systemic change. Commodities can be added or dropped depending on opportunity and performance – a normal portfolio management approach described further in Annex 5.

PRISMA-2 will preserve AIP-Rural's proven systems, whilst retaining a flexible and adaptive management approach that continues to develop and build on existing systems to manage new challenges in the future. It will identify new opportunities to reach scale and systemic change and continuously evolve and improve to retain the Program's position at the forefront of MSD innovation.

Interventions

Using the MSD approach, PRISMA-2 will achieve its impact through the implementation of a portfolio of interventions. In the case of AIP-Rural, this portfolio comprised almost 100 interventions. Each intervention aims to introduce thousands of smallholder farmers to an innovation designed to improve their performance and ultimately result in an income change of at least 30%. Continuing with this approach, PRISMA-2 innovations will not be delivered directly by the program but facilitated through partnerships with private sector businesses that see the delivery of the innovation as being in their long-term commercial interest. The process of identifying suitable interventions will begin by analysing market and

³³ Facilitation includes market systems analysis, communication of opportunities, joint development of interventions and co-learning, using a 4-step process: intervention concept note – intervention plan – partner contracting – intervention steering document.

³⁴ A sub-sector is defined as a crop or livestock in a specific geographic area. For example, maize in NTT is considered a separate sub-sector from maize in East Java due to climatic conditions, farmer levels of awareness and partner availability. These sub-sectors are significantly different, therefore warrant tailor made solutions.

farmer constraints in specific locations, identifying pragmatic solutions – ‘innovations’ (see Innovation section) – to these constraints (e.g. better seeds, new information, new processes, etc.), and then finding private sector businesses willing to co-invest in exploiting this new opportunity. A new intervention partnership will then be developed in four steps: 1) Intervention concept note, 2) Intervention plan, 3) Partner MOUs, 4) Intervention steering document. If the solution is effective, the Program will seek to scale it up through other businesses that recognise the market potential. Box 2 provides an example of how this facilitation process unfolds in practice.

PRISMA-2 will also ensure social inclusion in its interventions eg. increasing women’s economic empowerment (see Box 7, Annex 10). Sound analysis of the specific role that women play in the value chain and the constraints they face (which changes per commodity, per village) will inform every step of the intervention portfolio management cycle. Focusing on gender is not just a tick the box exercise; experience in AIP-Rural shows that female focused interventions can be the most successful in terms of outreach and income increase (see Box 1). As the Program does not directly work with farmers, the approach will often focus on providing evidence to convince business partners that women are market players, and helping partners to reorientate their business and marketing approaches to recognise this eg. through hiring women agents or targeting women in marketing and GAP training.

Thematic Areas and Portfolio Management

PRISMA-2 interventions will focus on agriculture, horticulture, livestock and aquaculture where they align with the program objectives, based on analysis of pro-poor relevance, market opportunity and technical feasibility of addressing performance constraints. Experience from AIP-Rural has shown that impact and value for money is greater where a program has the flexibility to devise fit-for-purpose solutions, rather than being constrained by a specific thematic focus.

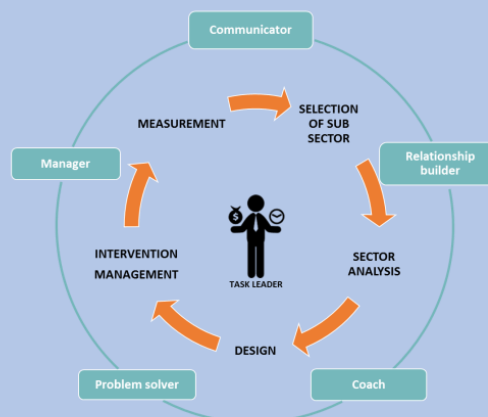
PRISMA-2 will work opportunistically across the thematic areas to identify and develop interventions. AIP-Rural partnerships and innovations in cropping, livestock, horticulture and aquaculture systems provide a sound starting point. New sub-sectors (e.g. agri-processing innovations or new commodities) or locations within target provinces are anticipated to be added to the portfolio. The types of solutions may include new inputs (e.g. finance, knowledge, seeds, fertiliser, agri-chemicals, irrigation) or different ways of engaging with farmers (e.g. for inputs, off-take, or on-farm adaptive research) (see Innovation section). PRISMA-2 will adopt a flexible and adaptive approach to devising solutions and in portfolio management (see Annex 5) in order to take successful innovations to scale and terminate those innovations that are less effective or do not provide value for money. Under AIP-Rural, sub-sector interventions are grouped logically – by geography, partner and/or commodity – to form a portfolio that is led by a Head of Portfolio and a team of business consultants (see Annex 8 for AIP-Rural’s Governance Structure). These staff managed a total portfolio of around 100 interventions in 27 subsectors with 85 partners and 878 intermediate service providers.

Portfolio management is an essential part of the PRISMA-2 approach. The pathway to large-scale change is not predictable. The Program cannot control all factors affecting interventions, partners and sector conditions. Innovations, by definition, are new; therefore some will fail – PRISMA-2 will have an anticipated intervention failure rate of about 30% across the portfolio to ensure an appropriate balance between innovation and risk taking, and value for money. Rigorous portfolio management has been found to be the best way to mitigate this uncertainty and ensure that aggregate performance delivers impact, by reducing dependency on a single sector, partner or intervention, i.e. by ‘spreading the bets’. Successful programs have tended to focus on a blend of sectors, with different levels of risk and probabilities of impact; they have worked with a diversity of partners; and they have intervened through a range of entry points. The PRISMA-2 portfolio will be managed rigorously through routine and transparent mechanisms (e.g. monthly

or quarterly team meetings using AIP-Rural's Quality Management Tool). Strategies will need to be re-examined regularly and the performance of interventions and partnerships monitored carefully. Underperforming or failing initiatives should be adapted, de-prioritised or dropped. Resources (people and finance) will need to be re-allocated to those initiatives that are demonstrating the best potential for progress towards impact (see Annex 3; Results Measurement, MIS and evaluation section).

Box 2. How We Work – Facilitation in Action

Dhita is a business consultant in AIP-Rural's pulses team. Her job is to set up, monitor, and grow a series of interventions that help the program achieve its goal of increasing incomes for smallholder farming households. She starts by **choosing a sub-sector** to focus on. The selected sub-sector needs to fulfil three criteria: relevant to high numbers of disadvantaged people (pro-poor potential); offer prospects for disadvantaged people to improve their position e.g. by increasing their productivity or playing a new, higher earning role (pro-poor growth potential); and there should be reasonable feasibility of bringing about change in the sub-sector. Using these criteria Dhita considers the mung bean sub-sector to be promising. Her next step is to conduct a deeper **sector analysis** to understand how the sub-sector works and why it isn't performing optimally. This is done in several ways: i) conducting a literature review and stakeholder interviews; ii) mapping the sector, its key actors and key functions; iii) analysing problems and their underlying causes (including the regulatory environment); iv) developing a vision of how the sub-sector could work better; and v) analysing gender and social inclusion aspects.



With this detailed sector analysis, Dhita can now **design an intervention**. Her analysis has uncovered several different 'innovations' that might address constraints in the sub-sector; introducing these innovations could generate more profits for smallholder farmers and other businesses in the sub-sector, especially for women who are the main decision makers about seeds in this commodity. For example, she discovers that farmers use retained mung bean seeds, leading to low yields. Introducing higher quality seeds, combined with good agricultural training, and value chain financing would significantly increase productivity. Dhita's intervention proposal, along with those of other business consultants, is then peer reviewed by the program management team. They consider how interventions can be strengthened, which interventions should be prioritised, which are achievable within PRISMA's timeframe, and which are too complex.

Dhita's mung bean intervention proposal is approved. She then develops a strategy to find suitable private sector partners to pitch the business idea to, perhaps in consultation with local government. This is known as the '**deal-making**' process. Dhita approaches several large input suppliers in the area (with the capacity to distribute the right seeds and knowledge) that might have an interest in increasing their profits. Dhita offers them new insights from her analysis, information about potential new (mostly female) customers, new business ideas for reaching them, and co-funding to help reduce the initial risk of working in new ways. In return, Dhita is looking for co-investment from businesses, as an indication of their commitment to working differently.

Many businesses say no to Dhita: they don't see the opportunity or believe the risk to be too high. But one says yes. Dhita draws up an MOU to detail the arrangements that have been mutually agreed by AIP-Rural and the business – who does what and who pays for what.

Dhita then starts working with the business to **implement the intervention**. The program's role is not as a direct implementer, but to 'facilitate' or 'hand hold' the partner, e.g. helping them to set up a demonstration plot to show farmers how a new product can increase productivity, setting up value chain financing mechanisms, or advising on the best way to conduct farmer training to build a loyal customer base. Throughout this process, Dhita **monitors progress** and provides adjustments to the intervention, with advice from her supervisor. At the end of the intervention (after harvest), Dhita works with AIP-Rural's measurement specialists to conduct an impact assessment to measure outreach: the number of farming households that have benefitted from an increase in income – a Net Attributable Income Increase Change (NAIC).

Dhita's intervention has been a success: farmers have experienced a 50% income increase from their mung bean harvest (a large portion of whom are women), and the business partner's profits have soared. The business is now interested in using this approach in the soy sector. Noticing this success, other businesses in the area have started to independently copy the approach. Dhita also starts to approach other businesses, offering MOUs with them as well. All of this creates a '**crowding in**' effect, which increases outreach and stimulates wider, systemic change across the sub-sector.

Scale and Outreach

PRISMA-2 will achieve its scale and outreach target of an additional 700,000 smallholder farming households with increased incomes of at least 30% through a focus on implementing interventions in high-potential commodity sub-sectors in specific geographic locations and an increased focus on systemic change and sustainability. AIP-Rural worked in five provinces (East Java, NTT, NTB, Papua and West Papua) with more than 23 commodity sub-sectors; and the high performing interventions will be continued and scaled up for PRISMA-2. PRISMA-2 will operate in six provinces, including the additional province of Central Java, which was identified through analysis conducted as part of the design process (see Annex 6). The core criteria used for provincial selection included: outreach potential, percentage of farmers that are living on incomes of less than USD2.50 per day, the potential for sub-sector growth in that area, the willingness of partners to engage in that area/sub-sector, gender and inclusiveness, adequate economic infrastructure, and support from local and national government.

Estimating the potential outreach for PRISMA-2 is based on the Agricultural Census of 2013, which records the number of farm households engaged in the different crops or livestock sub-sectors in each province. To calculate a notional outreach for the six provinces, four scenarios were constructed based on census data. These scenarios were:

- The potential outreach to households in the current sub-sectors and in the current 5 provinces
- The potential outreach to households in the current 5 provinces in new sub-sectors
- The potential outreach to households in the current subsectors in the new province, and
- The potential outreach to households in new sub-sectors in the new province.

This estimation is not a selection of sub-sectors for PRISMA-2 but was used to determine if the outreach target of 700,000 smallholder farming households (60% of which consist of people living below USD2.50 per day) is plausible. Total farming household figures in those sub-sectors and in those provinces were then reduced to 10% to represent realistic adoption targets based on rigorously measured AIP-Rural results. At the same time, estimates were made of the percentage of these households with farmers living on less than USD2.50 per day.

Based on these estimations, farming households total 25,772,000 across the six provinces, 10% of which is 2,577,200, and of this figure (depending on the individual poverty estimates of the provinces) 1,577,000 are estimated to be living on incomes below USD2.50 per day. On the assumption that some of these numbers may be over-reported in the Agricultural Census, the total potential outreach for all households could be reduced by a further 25% to 1,182,000.³⁵ If the target of PRISMA-2 is to reach an additional 700,000 smallholder farming households, 60% of which consist of people living below USD2.50 per day, then the outreach potential offered in these six provinces suggests the proposed target is plausible; especially as there is still considerable unmet potential in the existing five provinces.

Central Java was ultimately selected with support from BAPPENAS due to the high incidence of rural poverty, strong interest from business partners, and potential to impact more broadly on Indonesia's agricultural market systems. This also ensures a good diversity of focus provinces and enables the Program to test the MSD approach in contrasting locations, from Central Java to Papua. The addition of Central Java will likely only add a few more commodity sub-sectors to the PRISMA-2 intervention portfolio as many of the sectors in this province are common to the existing five provinces, even though their constraints may differ.

³⁵ The basis for outreach calculations was the Government's Agricultural Census of 2013. However, it became clear, during fieldwork connected with this design document, that some of the numbers of farming households are overstated in the census. This is especially the case in maize and cocoa.

Poverty focus

Poverty reduction will be a core focus of PRISMA-2. PRISMA's orientation to poverty will be achieved through four implementation principles:

- Selecting areas of operation where the incidence of poverty is high³⁶
- Choosing agricultural sectors that are important to the poor (men and women)
- Within these sectors, searching for pro-poor opportunities for income growth, and
- Designing interventions with partners that specifically address the constraints of the poor.

Through application of these implementation principles as a screening mechanism for new interventions, 60% of the 700,000 households that PRISMA-2 will reach will be households in which farmers are living on less than USD2.50 per day (see Annex 6). While the majority of PRISMA 2's beneficiaries may be classified as poor or near poor, PRISMA-2's impact will also reach other non-poor farmers and other parts of the economy to achieve wider systemic change. PRISMA-2 will also acknowledge the particular challenges encountered by poor women farmers who often lack access to services and opportunities, which affect their capacity to improve their lives and contribute to economic growth. The Program will address the specific vulnerabilities of poor women farmers and treat WEE as a core cross-cutting issue.

Human resource capacity

PRISMA-2 will add value through its analysis, its creativity and its negotiation with partners. Because PRISMA-2 does not directly deliver outputs, but rather introduces new ideas, insights and ways of working and brokers new relationships, it is highly reliant on a pool of staff with business analysis, entrepreneurial, and facilitation skills. The implementing team requires the capacity to: (a) analyse constraints and identify opportunities that have both pro-poor and commercial potential; (b) creatively develop business models that are mutually beneficial to all parties involved; and (c) negotiate co-investment deals with the private sector partners and new relationships between market actors that initiate sustainable change in the market system. The bulk of program resources will need to be devoted to intervention implementation, supported by building and maintaining a team of personnel with these analytical, creative and deal-making skills.

This resource allocation is a lesson from AIP-Rural and wider experience. Programs have had to invest significantly in developing effective teams early in the life of a program, and then strive to retain talented staff (see Implementation Arrangements section and Annex 3).

Stakeholder relationships

Consistent with the successful facilitation approach used in AIP-Rural, PRISMA-2 will seek to change the relationship that its private sector partners have with farmers to ensure that each party measurably benefits from new transactions. The attributable outcomes of facilitation will be the main Key Performance Indicators (KPIs) of PRISMA-2 (net attributable income change, number of farming households with more than 30% net income increase (outreach), changes in ISP business turnover, changes in partner investment, etc. – see Annex 5). All other PRISMA-2 stakeholder relationships will be oriented towards improving the efficiency of this 'core transaction' between farmers and businesses.

Core transaction stakeholders

Smallholder farming households willing to invest small amounts of capital in agriculture to boost their incomes by at least 30%. These smallholder farming households can be split into two categories – 'innovators and early adopters' (often non-poor farmers, who are able to manage the risk of adopting new ways of working), and 'majority adopters' (often farmers earning less than USD2.50 a day, who wait to see

³⁶ The combined urban and rural incidence of poverty in the more eastern provinces of Indonesia is greater than other parts of the country: it is for example in Papua, 74%; West Papua, 69%; NTT and NTB, 60%; East Java and Central Java at 51% and 57% respectively. Most of Indonesia's poor, however, live in rural areas where the incidence of poverty is 68% higher than in urban areas.

if the early adopters experience success). On average, 60% of these smallholder farmers live on less than USD2.50 per day. Their main incentive is to increase their disposable income for expenditure on health, education, debts and customary obligations. PRISMA-2 does not work directly with farming households but rather through the two sets of partners outlined below: businesses involved in agri-business and businesses that provide financial and other services.

Businesses involved in agri-business and other services willing to invest either in delivering goods and services to new markets (i.e. smallholder farmers) that they used to consider sub-optimal or in the increased off take of more or better agricultural produce. Their main incentives are: (a) to raise their profitability through increased sales, expanded market share, or reduced costs; and (b) to create a positive image of their brand. Other types of businesses that provide a service that can meet a demand/fill a gap are also relevant e.g. banks, value chain finance providers, fee-for-service research institutions. PRISMA-2 offers this type of partner reduced investment risk in new or unexplored markets that has *definite* impact on farming households and *probable* impact on partner bottom lines.

Co-facilitator stakeholders

PRISMA-2 will collaborate with other organisations to augment its own facilitation capacity. The bulk of PRISMA-2 interventions will be implemented directly with businesses. However, in some cases there is value in collaborating with other specialised organisations, such as non-government organisations (NGOs), not-for-profit or other types of organisations that have strong public missions (see Annex 12). Creating a pool of trained organisations and consultants may also lead to a new market for MSD services that can be utilised by business or Government.

Box 3. NGO Co-Facilitators in NTT

PRISMA collaborates with an NGO, HIVOS, in the pig sector with great success (see Box 1). During the early stages of implementation, HIVOS sub-contracted two local NGOs to utilise their local networks in Flores. This enabled strong contact with farmers, but resulted in a very hands-on approach more akin to direct implementation. For example, during a monitoring visit by PRISMA, the farmers were unable to tell the reviewer the name of the private sector partner and deferred all answers to the local NGO. Nevertheless, this hands-on approach did allow for a strong ground swell of support for the program by farmers, albeit with little input by the private sector partners. Subsequent mentoring by PRISMA and a very active and dedicated HIVOS program coordinator (who was willing to learn and take advice), made it possible for the intervention to strengthen its partnership with the private sector in its second year of implementation, and by doing so, expand its outreach and become more sustainable.

Enabling stakeholders

While the public sector are not directly engaged in delivering most interventions in an MSD program, they play an important role in creating the market conditions that incentivise both farmers and businesses to make investment choices that are resource efficient and sustainable. Supporting the government to transition from the traditional role of a supplier to one of a facilitator or enabler will be the key focus of DFAT and the Program's engagement with selected ministries. This set of stakeholders influence the business environment, not only for PRISMA-2, but also for its partners and co-facilitators. In addition, they impact the core transactions between the Program's partners and farmers. The most important enablers are:

Ministry for National Development Planning (BAPPENAS): Of central importance to the program is BAPPENAS. It co-implements the program with DFAT and co-chairs the Program Coordination Committee (PCC) which reviews progress and sets key priorities for future work. It is responsible for formulating policies and strategies for the forthcoming RPJMN (Indonesia's 5-year development plan) and coordinating between other ministries. Through collaboration with donors, it also pilots approaches that may be used as

an evidence base for advice to line ministries and local government. PRISMA-2's MSD approach, with its rigorously measured impact, high outreach to the poor and its replicable model for engaging with the private sector, is an approach to piloting that BAPPENAS wishes to use as a model for wider dissemination. Given the cross-sectoral nature of agriculture, rural development, and food, BAPPENAS is the most suitable counterpart for PRISMA-2.

The Ministry of Public Works and the Ministry of Research, Technology and Higher Education

(Kemenristekdikti): These two ministries were directly involved as counterparts in the implementation of AIP-Rural (the Ministry of Public Works chaired the PCC for TIRTA, while Kemenristekdikti chaired the PCC for ARISA). It is envisaged that these two ministries with their influence on the policies and budgets for agricultural infrastructure and applied agricultural research will maintain a relationship with PRISMA-2 through the PCC where relevant.

Ministry of Agriculture and provincial and district governments: The Ministry of Agriculture is a central player in the design and implementation of agricultural policy and subsidies (e.g. for seeds and fertiliser), which impact agricultural markets in Indonesia. It supports public agricultural extension and research. Local government agencies often manage delivery of parts of national agricultural subsidy programs. As they are closer to the target beneficiaries they are often pragmatic and open to new ways of delivering benefits to smallholder farming households. For example, PRISMA engaged with the district government in Sumenep in Madura to optimise resources allocated to maize seed subsidies by integrating their program aimed at productivity increases into a broader private sector initiative to increase adoption of hybrid seeds on the whole island of Madura.

Financial Services Authority (OJK) and Bank Indonesia: These institutions are relevant to some agricultural finance interventions. OJK regulates the financial sector, a task it has taken over from Bank Indonesia in the last two years. Its primary function is to monitor non-performing loans and keep them below 3% of bank portfolios. Bank Indonesia still sets many banking regulations, including for agri-finance. Together with the Ministry of Finance, OJK and Bank Indonesia oversee the implementation of the KUR project that guarantees loans to SMEs and smallholder farming households.

The President's Office (KSP), Coordinating Ministry for Economic Affairs (CMEA), and the Ministry of Finance: These organisations adjust macro-economic settings and, amongst other functions, influence agriculture policy. KSP are currently focused on issues of food security, subsidies, and stunting and are interested in new models that may provide solutions. CMEA supports reform of agricultural subsidies, specifically for seeds and fertilisers, and trade liberalisation. The Ministry of Finance is sympathetic to the fiscal benefits of reducing the overall burden of subsidies on the national budget.

Supporting stakeholders

These are the stakeholders that support the role of the private sector in agriculture and who stand to benefit from its expansion. They include:

Business membership organisations: represent the interests of the private sector and seek to influence policy makers. While there are many business associations, the most significant for PRISMA-2 is PISAgro and the Indonesian-Australian Business Council. Both these organisations have specific mandates in relation to agricultural growth, as well as their own strengths and challenges. DFAT is currently the only donor which is a member of PISAgro and PRISMA-2 will engage with them when their respective objectives align.

Think tanks and policy research organizations: This set of stakeholders is small, indicating the scarcity of demand for evidence-based agricultural policy in Indonesia. The most relevant organisations are: The

Centre for Innovation and Policy, which focuses on science and technology policy research; SMERU, well known for its poverty orientation, but with limited experience in agriculture; The Centre for Indonesian Policy Studies (CIPS), which focuses on food policy; and J-PAL, which conducts evaluations using randomised controlled trials or similar quantitative methods.

Service providers: There are a wide range of private enterprises that support the stakeholders in the core transactions of each intervention. These are usually specialists and include: businesses selling and maintaining agricultural equipment; consultants who provide banks with strategy advice; and public relations businesses, such as Edelman, which has conducted social marketing campaigns on early flowering technology in the mango sector in East Java for PRISMA.

Donors: Australia is the largest bilateral agriculture donor in Indonesia and the only donor taking an MSD approach. Other donors and UN organisations have programs that focus on agriculture value chains, the environment, irrigation loans, research and innovation support, and finance. DFID recently launched its Green Economic Growth Program in Papua (£10m and up to £200m in potential public and private finance, 2016-2022) focusing on developing low carbon business opportunities, including in agriculture and processing.³⁷ The United States Government's Millennium Challenge Corporation invested \$332.5m in the Green Prosperity Project (2013-18) to improve land use practices and access to renewable energy to increase agriculture productivity.³⁸ New Zealand Aid³⁹ and the Swiss Government⁴⁰ have small programs in value chains and agri-finance. International organisations are active in this space, including International Fund for Agriculture Development (IFAD),⁴¹ Food and Agriculture Organisation (FAO),⁴² World Food Programme (WFP),⁴³ the International Finance Corporation (IFC),⁴⁴ the Asian Development Bank (ADB)⁴⁵, and the World Bank.⁴⁶ PRISMA-2 will strengthen its focus on coordinating with other stakeholders to share lessons learned.

While PRISMA-2's central objective is to restructure the core transaction between farmers and private sector businesses, doing this sustainably means that it is critical to also communicate or work with a wide range of actors that have mid- and long-term influence on making these changes systemic. PRISMA-2's offer to engage with them begins with a clear understanding of their interests and then identifying where these interests converge with the Program's.

Sustainability and Scale

PRISMA-2 is designed to leave a durable legacy of innovative, inclusive and resilient market systems that better serve Indonesia's smallholder farming households in selected provinces, providing them with access to the resources and opportunities that they need to be more productive, sell more and earn more income.

³⁷ GEGP aims to improve livelihoods for 22,000 forest-dependent Papuans, create 4,500 jobs, and mobilise public and private finance, through a focus on SME development in up to 12 agriculture commodities.

³⁸ USAID also implements the Sustainable Agribusiness Alliance (2016-18, USD4m) to support sustainable production, post-harvest and marketing of high-value crops, and conserve natural resources, in eastern Indonesia with a focus on Papua.

³⁹ NZAID's Innovative Farm Systems and Capability for Agribusiness (IFSCA) program aims to create economic opportunities for sustainable farming in NTB (NZD4.5m, 2016-2020). The IDEA program focuses on dairy production in Central Java and West Sumatera. NZAID are designing a fruit and vegetable value chain and applied research project in East and West Java.

⁴⁰ SECO and SDC established an agribusiness financial facility under the Sustainable Cocoa Production Program (CHF 2.15m, 2014-2020) which aims to improve the bankability of cocoa producers. The Swiss Government also supports agriculture microfinance through funding to Mercy Corps (maize agri-insurance), IFC and the World Bank.

⁴¹ IFAD's Coastal Community Development Project (USD43m, 2012-17) and Smallholder Livelihood Development Project in Eastern Indonesia (USD65m, 2011-19) aims to improve incomes for 49,500 HH in Maluku and North Maluku. IFAD is currently designing two new programs: READSI in Sulawesi and YES!

⁴² The Decent Work for Food Security and Sustainable Rural Development program (USD21.7m, 2015-17) is a partnership between Ministry of Villages, FAO and ILO to create sustainable rural livelihoods for 10,000 farmers in NTT.

⁴³ WFP provides technical advice and assistance to GoI (USD 15m, 2016-2020), including through the development of the Food Security and Vulnerability Atlas (with support from DFAT).

⁴⁴ IFC's Indonesia Agri-finance project develops commercially replicable smallholder credit models, helps farmers adopt Good Agriculture Practices and establishes links with supply chains.

⁴⁵ ADB provides large irrigation loans to Indonesia, including through the Integrated Participatory Development and Management of Irrigation Program (USD600m, 2017-2021) which focuses on whole-system irrigation, river based irrigation, and a small component on tertiary irrigation in Sumatra, Java, Kalimantan, Sulawesi, and NTT.

⁴⁶ The World Bank is providing a Research and Innovation in Research and Technology Project loan (\$95m, 2013-2020) through the Ministry of Research and Technology. The World Bank also provides a loan on irrigation and has begun research on agricultural productivity (funded by DFAT).

Sustainability and increasing up-take by farmers of an intervention's innovation is an explicit goal of PRISMA-2's approach⁴⁷.

The Program's approach focuses on understanding how actors perform key functions in a market system – those necessary to support improved smallholder productivity, sales, profit and incomes – and how these actors and functions can be stimulated to work better, and continue working better once development assistance ends. It focuses on securing local ownership by actors of solutions and delivery mechanisms. The approach identifies barriers to growth in agricultural sectors of importance to smallholders, and then works with private and public partners with an interest in addressing those constraints, stimulating investment in new business models that support sustainable, inclusive growth and lead to wider systemic change. This commitment to sustainability will inform how the Program intervenes in sectors, how it will achieve scale and how it will influence stakeholders in Indonesia.⁴⁸ The PRISMA-2 approach to sustainability will operate at three levels:

- 1) **Level 1: Sustainability of innovations and investment stimulated by the Program.** PRISMA-2 will work with partners to identify opportunities for innovations that can benefit smallholder farmers and be profitable for the private sector. Program analysis will establish a viable business case for each innovation and then support the private sector to invest in and operationalise it commercially. Sustainability will be ensured if the innovation delivers a tangible benefit to farmers and generates a commercial return for the private sector partner(s). Commercial viability and co-investment by the private sector are essential to sustainability because they motivate a business to commit to continued delivery of the innovation. The acid tests of sustainability are: (a) a business continuing to invest in an innovation without any further program support, and (b) other businesses recognising the innovation's value and taking it up themselves. This 'crowding in' achieves further sustainability and scale, as the innovation expands to a critical mass of take up – the innovation becomes the new norm in a sector.
- 2) **Level 2: Building on initial innovations to strengthen sector adaptability and resilience** so that sector actors have the capability to anticipate, mitigate or respond to opportunities and threats in the future. Sustainability is not a static concept. Sectors change, so the actors within them must change as well if they are to survive and thrive. Having introduced a successful, sustainable innovation – a new way of doing things – PRISMA-2 will work with sector partners to ensure that the innovation is supported by other actors in the sector. This will mean strengthening other key functions or rules that support the innovation introduced by the private sector. For instance, building links between business, research organisations and other service providers to drive continuous innovation and capacity improvement, introducing banks to the sector to secure adequate capital and liquidity, or working with government to ensure appropriate regulations or public facilities are in place. These supporting functions and rules ensure adaptability and resilience, but also contribute to further scale up by promoting take up of an innovation or reducing barriers to entry in a sector (see Box 5).
- 3) **Level 3: Embedding the MSD approach more broadly within Indonesia through influencing policy and institutional behaviour; either directly or through 'influencing the influencers'.** MSD is about identifying innovative, sustainable and cost-effective ways of achieving public goals, such as expanding access, promoting inclusive competitive markets, and reducing poverty that can complement or reach beyond conventional government or aid-funded delivery mechanisms. It is therefore relevant to a variety of Indonesian stakeholders. PRISMA-2 has an opportunity to leave a legacy of new thinking and practices, based on its practical experiences and the evidence that it generates, beyond the sectors in which it works directly. Consequently, PRISMA-2 will have a stronger focus on using its experience and

⁴⁷ <https://beamexchange.org/guidance/m4pguide/>

⁴⁸ <http://www.springfieldcentre.com/wp-content/uploads/2014/09/2013-11-Who-wants-to-give-forever.pdf>

evidence to equip decision makers in Government and policy influencers with the evidence to advocate for wider change in the agri-business environment in Indonesia. Whilst the Program is not a governance initiative with an explicit mandate to change national-level policy, PRISMA-2 will be able to operate in an opportunistic, politically astute way to provide relevant evidence and analysis to the Indonesian government at national and sub-national levels to encourage competitive and open agricultural markets (see Box 5 and Annex 3 on lessons learned).

The first two levels of sustainability have already been demonstrated in AIP-Rural and will continue to be a focus of PRISMA-2 interventions; they are the main way in which the program will achieve large-scale impact on the incomes of smallholder farming households. They are illustrated in Box 1, Box 4 and Box 5. However, there will be more emphasis on level three sustainability in PRISMA-2, as would be expected of a ten-year program.

Box 4. Stimulating Systemic Change to the Mango Sector in East Java

Indonesia is the fourth largest mango producer globally, producing 2.4 million tons in 2014. Mango is the largest fruit crop in Indonesia, but production is highly seasonal. Since off-season prices can be up to four times higher, early flowering technology offers an off-season production opportunity to improve farmer and trader incomes.

East Java dominates mango production in Indonesia, accounting for approximately one-third of national production. PRISMA identified a market opportunity to stimulate mango production during the off-season when prices are particularly high. Starting in September 2014 in East Java and NTB, PRISMA worked with collectors and an input supplier (PT Syngenta Indonesia) to introduce early flowering technology and good practice mango management. After less than two years, the results attributable to PRISMA in East Java include: 4,438 households with measured increase in income (of which 20% poor); private sector co-investment of AUD210,000 (76% leverage of the DFAT investment); and measured net attributable income improvement of 24% (in total IDR8.5 billion in 18 months).

This mango intervention is a good example of market development taking change to scale:

- **Adopt** – Syngenta and PRISMA introduced mango collectors and lead farmers to early flowering technology and good practices through targeted farmer field days and expos. Field agronomists financed by Syngenta and PRISMA facilitated demonstration plots (“seeing is believing”) and targeted information materials. Over two seasons collectors, lead farmers and PRISMA/Syngenta field agronomists exposed 8,497 farmers to the innovation and 5,099 households adopted it and increased their enterprise income as a result. In 2016/17 the projected outreach is an additional 6,500 households and the net attributable increase is projected to be at least 50%.
- **Adapt** – Based on early adoption results, Syngenta started including mango production and the early flowing products Cultar[®] and Amistar Top[®] in their 2016 business plan. They increased imports of the active ingredient by 80% (to 1.8 tons) in 2015 and set targets for 2016 of 4.5 tons. Syngenta also employed two additional field agronomists to focus on mango production and early flowering technology in East Java.
- **Expand** – Other members of farmer groups adopted the innovation package. Syngenta also started to expand the offering to farmers growing other crops (e.g. dragon fruit and apples). Several competing suppliers of the inputs needed for early flowering technology are now targeting the East Java mango market, including PT Rainbow Agri-sciences Indonesia (RAID) (‘crowding in’). Part of their strategy is to offer the input in a smaller container (50mL) than that offered by Syngenta (250mL) so that smaller mango producers can afford the inputs. At the same time, farmers renting their mango trees to collectors have increased their annual fee by 30% to around IDR200,000 per tree.
- **Respond** – In 2016 other market actors supported adoption of the innovation by mango farmers. For example, one collector/trader in Pasuruan District now provides input-finance to farmers he trusts so they can adopt the innovation and then sell their off-season production to him.

In 2017 and 2018 PRISMA will work with Syngenta and RAID to target the 200,000 mango producers in East Java and their collectors and input retailers with a social-media campaign and series of targeted expos and field days to facilitate rapid scale-up. All participants have an incentive to sustain this change beyond the life of PRISMA.

Policy influence

PRISMA-2 will have a strengthened focus on influencing wider policy change in Indonesia's agriculture business enabling environment. It will do so through equipping decision makers (eg. national and provincial government) and influencers (eg. think tanks, businesses) with evidence from the Program to support the development of positive food and agriculture policies.

DFAT engages with national government and other national-level organisations on policy issues to support mutually beneficial outcomes in line with Australia's national interests as well as Indonesian priorities. Australia's portfolio of aid programs, including AIPEG/AI-ECO, KSI, KOMPAK, and MAHKOTA, are designed to support evidence-based policy changes in line with Indonesia's economic and poverty reduction agenda. PRISMA-2 will contribute to DFAT's policy agenda on specific issues wherever possible, through its expertise, evidence and networks. These contributions will be guided by clear influencing strategies and division of labour between DFAT staff, other DFAT-funded initiatives, and PRISMA-2.

At the national level, DFAT and BAPPENAS will take the lead in disseminating evidence to support policies that promote food security, including by reducing food price volatility, increasing agricultural productivity, and creating more open and competitive markets. Strategies could include commissioning research or policy papers, presenting PRISMA-2 evidence to line ministries, or forming 'coalitions' with other DFAT programs, think tanks or businesses on specific issues. For example, there may be opportunity to collaborate with KOMPAK to influence more strategic Dana Desa spending on agriculture, with MAMPU on women's rural economic development, or AIPEG and MAHKOTA on agriculture subsidy reform. PRISMA-2 will need to be responsive to DFAT and GoI requests and develop a strategic twin track approach to influencing a broader sustainable business enabling environment, both directly through its business partnerships and in a supporting function to DFAT.

PRISMA-2 will take the lead on identifying issues that specifically hinder interventions, and engaging with business partners and provincial and local government to build their awareness, understanding and support for MSD. The Program's distinctive value will be in its understanding of specific sectors, its relations with private sector actors in those sectors and the evidence it generates from its interventions that can inform decision makers. Its strategy will be to 'influence the influencers', i.e. it will identify stakeholders who are well-positioned to influence decision makers, and ensure that they have the right evidence and strategies to advocate for change, based on analysis and evidence from the Program's interventions in sectors. In practice, this means that PRISMA-2 will aim to influence:

- **The *business community*** to incorporate innovative approaches across their corporate structures and practices. There is an opportunity to encourage large businesses to shift away from regarding their relationship with lower income groups as a matter of philanthropy or corporate social responsibility – to one where they recognise the significant commercial opportunities in serving these market segments better. The Program will work with other organisations that inform corporate policies and practices, such as consultants and business schools. Corporates in turn can be a powerful influence on government, either individually or through representative bodies, such as PISAgro.
- **Other stakeholders** to adopt MSD practices in pursuit of their goals. For instance, some of the stakeholders that the Program will work with in a sector (i.e. those responsible for specific supporting functions and rules for a sector at a district, provincial or national level) usually have a wider mandate. Having experienced the advantages of working in different ways with the program, these organisations can be supported to promulgate these lessons more broadly, e.g. within government systems, the academic system or civil society organisations, such as not for profit organisations and farmers groups. This might include greater emphasis on policies,

regulations and actions that are more evidence-based, the adoption of innovative mechanisms for achieving public goals, such as public-private collaboration and stimulating private sector innovation and investment in underdeveloped markets.

PRISMA-2 will need to take a flexible, opportunistic, and 'right-sized' approach to this component of work. A more purposeful approach to influencing policy will require dedicated resources, in terms of personnel that are experienced in public advocacy, corporate engagement, and public relations, adequate resources for generating and disseminating evidence, including collaborative research and analysis, case studies, policy briefs and media events and campaigns, and specific M&E to track progress; however it should not distract the Program from achievement of its core goal. Influencing measures at this level are not anticipated to impact directly on smallholder incomes, and so the Program will need to ensure that activities are appropriate and based on clear theories of change, from program action to changes in stakeholder practices. The contractor will be responsible for developing a Policy Strategy to identify goals and methods to achieve them.

Box 5. Influencing Regulations in the Shallot Sector

AIP-Rural acts opportunistically to influence policy makers to support a more competitive and open business enabling environment in Indonesia's agriculture sector. When PRISMA staff see opportunities or allies, they use their technical knowledge and networks of contacts to influence change, often working in concert with market actors. It is anticipated that PRISMA-2 will follow a similar approach in order to stimulate wider systemic change. The following case study illustrates the approach in practice.

More than 120,000 farmers cultivate shallots, an important ingredient in Indonesian cuisine. There are many benefits for farmers if they grow shallots from seeds, but it is technically difficult, so most farmers purchase bulbs from traders or split the shallots that they harvest into smaller bulbs for planting their next crop. This results in low productivity and quality crops. AIP-Rural worked with several nurseries in Lombok and Sumbawa that specialize in growing improved shallot varieties up to the planting bulb stage, so that farmers have access to higher-yielding bulb varieties without suffering the high failure rates associated with growing bulbs from seed themselves. The private sector partner for this intervention was EWINDO, a major producer in Indonesia with more than 7,000 contract farmers.

At the same time, government officials in Grobogan, Central Java, tried to plant EWINDO's improved variety so that they could then distribute the bulbs free to farmers in their area. The harvest was a complete failure, so the government asked EWINDO to help conduct a second trial. EWINDO recommended that before this happen, selected farmers and public officials visit the nurseries supported by PRISMA in Lombok to learn how they had succeeded. After seeing PRISMA's interventions in action, the government selected farmers to set up three private nurseries, using the methods they had learnt from the PRISMA nurseries. Since these nurseries were privately owned and government wanted to distribute certified bulbs to their farmers, they asked the district seed certification body, BPSP, to certify the bulbs. BPSP was used to certifying seeds (rice, maize soya etc.) but had never certified a process of moving from seeds to bulbs so they developed a new method.

All thirty-three district branches of BPSP travelled to Grobogan to learn about the new certification process. PRISMA also supported thirty more private nurseries to be trained in the PRISMA nurseries so they could be certified. This led to increased demand for EWINDO shallot seeds, which caused a new problem. The Ministry of Trade had restricted the import of higher volumes of seeds to encourage domestic self-sufficiency; EWINDO was informed by government that restrictions would not be lifted because consumers preferred the taste of the existing varieties and demand for new varieties was low.

In coordination with local governments, PRISMA supported EWINDO to undertake evidence-based advocacy by setting up two demonstration sites targeting the Ministry of Agriculture with the core message that productivity could be enhanced by 50 % by using bulbs, while meeting the tastes of Indonesian consumers. A Ministry of Agriculture representative was so convinced by PRISMA's results that she issued a recommendation to the Ministry of Trade to lift the import restrictions, and EWINDO and another shallot seed importer were permitted to import as much seed as required. EWINDO's sales of shallot seeds have now grown from 300kg to 2,000kg, and there are more than eighty nurseries in Indonesia serving 10,000 farmers with improved planting bulbs.

Innovation

PRISMA-2's approach is inherently innovative, by harnessing the capacity and incentives of the private sector to deliver sustainable development solutions. Like AIP-Rural, PRISMA-2 will promote a combination of technical and institutional innovations.

Technical innovations

Through its analysis-led innovations, PRISMA-2 will identify and introduce new technical solutions to address agricultural constraints affecting smallholder competitiveness. These typically will relate to inputs, agricultural practices or the way outputs are handled. For example, AIP-Rural partnered with a commercial agricultural input supplier, PT Syngenta Indonesia, to improve smallholder farmer incomes by changing their practices in the mango sector (see Box 4). The innovation was subsequently copied by farmers that cultivate rambutans and lychees, opening up a whole new product range for Syngenta while increasing the incomes of thousands of smallholder farming households. Similarly, the introduction of tree forage (*Leucaena*) systems to supplement cattle feed in NTB has increased the income of smallholder farming households working with local agroforestry researchers and beef traders by increasing weight gains and improving animal management.

Institutional innovation

The Program will also stimulate institutional innovation within sectors, for example, new ways of delivering solutions through the private sector. This may entail changes in the roles of other market actors who perform other supporting functions or rules. For instance, it has generally been seen as the role of government to provide information to farmers through extension services; historically the effectiveness of public extension services has been constrained by limited resources, skilled staff and up-to-date know-how. AIP-Rural has found that large scale businesses, such as input suppliers, can be encouraged to incorporate agricultural advice for their customers into their routine marketing activities, because they have the resources, motivation and access to the latest agronomic information to do so on a sustainable basis. This innovation benefits farmers' productivity, is good for the business's relations with its customers, and reduces the likelihood of farmers misusing the business's inputs, which reduces the business's reputational risk.

Agricultural finance is another area requiring institutional innovation. It is difficult for smallholders to access bank finance because banks tend to regard farming as too risky and expensive; farmers often lack formal collateral, the transaction costs of reaching smallholders are high, and banks typically are not well informed about agriculture. An alternative model piloted by AIP-Rural is value chain finance, which uses value chain relationships to overcome these barriers. For example, a bank issues a loan to farmers secured against a contract with a large buyer or against a warehouse receipt from a recognised storage facility, both of which are already known to the bank. By involving an established actor from the sector – with in-depth understanding of its risks and rewards, and long-standing relations with farmers – value chain finance reduces lending risks by leveraging relationships as assets, and reduces the transaction costs of lending by using value chain actors as loan assessors, distributors or collectors for financial services.

As noted in the previous sub-section, PRISMA-2 will promote innovative approaches and the capacity for innovation more widely across the Indonesian institutional landscape. In doing so, it can contribute to a momentum for change towards more market-oriented, pluralistic approaches in Indonesia within policy discussions at the national level.

Value for Money

Value for Money (VFM) is an explicit focus and benefit of the MSD approach. Retaining the approach and tools developed under AIP-Rural, PRISMA-2 will retain a strong focus on the measurement, management, and improvement of VFM indicators over time.

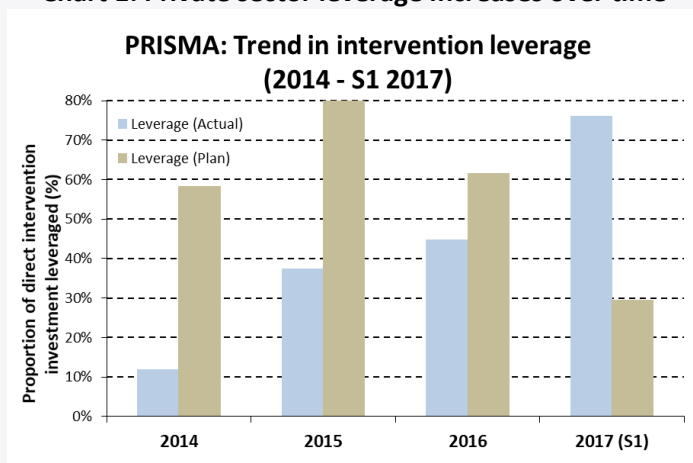
AIP-Rural's mid-term review found that VFM trends in AIP-Rural were progressively improving and represented a good return on donor investment.⁴⁹ Whilst the early years of implementation generally had low VFM (as expected), AIP-Rural has steadily improved its VFM indicators,⁵⁰ with AUD35.6 million already generated against the program's AUD55.5 million investment at June 2017.⁵¹ Operating in challenging contexts such as eastern Indonesia can adversely affect VFM, however evidence from AIP-Rural shows that the majority of interventions show positive, measurable VFM after 2-3 years of implementation (see Chart 1). PRISMA-2 is expected to continue these trends to deliver strong VFM and good return on the Australian Government's \$95 million investment.

The Program will operationalise measurement of VFM by using the existing management information system (MIS) to monitor three VFM indicators: investment leverage, social return on investment (SROI), and investment per farmer⁵² in conjunction with DFAT's VFM principles.⁵³ A central element of MSD is use of donor investment to leverage investment by private sector partners. If an intervention opens up a commercial opportunity for a private sector partner, they have an incentive to co-finance it during adoption and then take it over during adaption and expansion (see Annex 5), thereby ensuring sustainability. PRISMA-2 will measure and report leverage for each intervention, and benchmark progress in investment leverage against the experience in AIP-Rural and other global M4P programs. A lesson from AIP-Rural, consistent with lessons from other MSD programs, is that VFM improves over time, after early

implementation of interventions begin to bear fruit and 'crowding-in' occurs (see Box 1 and Box 4).

In PRISMA-2, the full costs of interventions will be used to assess VFM. This will be achieved by monitoring and including attributable technical personnel and other input costs for each intervention, and factoring these costs and management costs into portfolio reviews of interventions. This is because in an MSD program, technical or intervention teams are the principal way in which value is added. This will be reported to DFAT as an integral cost of each intervention.

Chart 1: Private sector leverage increases over time



Source: AIP-Rural MIS June 2017 and PoC analysis

⁴⁹ AIP-Rural Mid-Term Review 2016 (<http://dfat.gov.au/geo/indonesia/development-assistance/Pages/effective-economic-institutions-infrastructure-in-indonesia.aspx>). For example, when the full program cost of PRISMA is counted (AUD605 per beneficiary household at June 2017), the measured net income benefit (AUD271/ household) suggests a multiplier of less than 2.3, which is an attractive investment for a donor.

⁵⁰ The VFM results for PRISMA were: 40% private sector leverage (i.e. for every intervention dollar from PRISMA the private sector invested 40 cents); 1:3.25 SROI (i.e. for every intervention dollar from Australia and the private sector, farming households had measured net income change of \$3.25); and \$83 investment per farmer (down from \$357 in 2014). These results compare very favourably with programs such as CAVAC and MDF.

⁵¹ AIP-Rural has invested AUD55.5 million at June 2017, of which almost AUD9 million was direct intervention costs that attracted AUD3.7 million private sector investment from 98 partners and 1163 ISPs. Together, these investments and the facilitation from the program team resulted in AUD25.6 million of net attributable income increase for 80,171 farming households and almost AUD10 million increased ISP turnover.

⁵² Investment leverage is the proportion of private sector investment relative to program investment. Social return on investment is the amount of economic benefit (net income) stimulated by program intervention relative to program investment. Investment per farmer is the amount of program investment per farmer impacted. These calculations are made for each intervention and at the aggregate program level.

⁵³ See: <http://dfat.gov.au/aid/who-we-work-with/value-for-money-principles/Pages/value-for-money-principles.aspx>

Implementation Mechanisms

PRISMA-2 will be implemented as a single program managed by one Contractor. PRISMA-2 will bring together elements and evidence from the four AIP-Rural sub-programs (PRISMA, SAFIRA, TIRTA and ARISA) where relevant to achieving PRISMA-2's objectives. Management of three out of the four current AIP-Rural projects (PRISMA, SAFIRA and TIRTA) have already been mostly integrated, providing a solid foundation for a consolidated second phase of investment through PRISMA-2. A single, integrated program approach will enable adaptive management and flexibility to respond to emerging opportunities and resourcing requirements. The Contractor will be responsible for the management of all PRISMA-2 funds, disbursed through program interventions and delivered through Partnership Agreements with partners including key private sector partners, industry groups and research/academic institutions (see Stakeholder Relationships section).

Budget and Timeframe

The proposed total budget for PRISMA-2 is AUD95m over five years (January 2019 – December 2023), with AUD88m to be tendered for implementation. Based on preliminary budgets the indicative allocation across the PRISMA-2 program is outlined below. A more detailed budget can be found at Annex 7.

Component	Five Year Budget (AUD)	Proportion (%)
Management Overheads	9,680,000	10%
Operational Costs	30,808,100	33%
Intervention Costs (implementation personnel, partnerships, intervention costs, capacity development, GoI costs)	47,511,900	50%
DFAT resources (performance management, contract administration, SRP)	7,000,000	7%

Decisions on the focal areas for spending will be reviewed annually through the Annual Work Plan. It is anticipated that the Contractor will propose budgets for endorsement based on opportunity, need, performance and the impact of the program across outcomes, sectors and sub-sectors. The MSD approach requires budget flexibility and a non-prescriptive approach to the funding of activities to ensure responsiveness to new opportunities, priorities and sectors and the ability to manage for portfolio performance by dropping or realigning interventions that prove unsuccessful or unsustainable (see Annex 3). In addition, adviser and other input costs attributable to interventions will be monitored and included in budgeting and reporting on implementation costs.

4. Implementation Arrangements

This section outlines the governance, management, transition and staffing resources required to deliver PRISMA-2.

Key differences between AIP-Rural and PRISMA-2

Although DFAT wants to ensure continuity and minimise disruption to the human resources, information systems, and partner relationships delivering AIP-Rural, there are nevertheless key changes between AIP-Rural and PRISMA-2 that need to be considered, including:

- **Moving from a four-project model with the same goal and approach but with separate orientations (agribusiness, irrigation, finance and innovation) and contracts; to a single, integrated program with one Contractor:** PRISMA-2 will have the full flexibility to deliver a wide range of solutions using the 'PRISMA model' as its core program approach and drawing on solutions and evidence from the other three projects where relevant to achieving objectives. Experience from AIP-Rural has shown that impact and value for money is greater where a program has the flexibility to devise fit-for-purpose solutions, rather than being constrained by a specific thematic focus.
- **Scaling up to achieve new ambitious targets:** moving from an outreach of 300,000 smallholder farming households (2013-2018) to an additional 700,000 households (2019-2023), a large portion of which will consist of people living below USD2.50 per day at PPP. This will require a new portfolio of interventions and scaling up of existing successful interventions.
- **Increasing the geographic coverage of the Program to six provinces:** adding the new, and importantly large province of Central Java to the existing five provinces of East Java, NTT, NTB, Papua and West Papua, thereby expanding intervention locations and interfaces with local government.
- **Strengthening the focus on policy influence, the wider agri-business enabling environment, and systemic change:** through equipping decision makers with evidence and the development of strategic partnerships with key policy and agri-business influencers.

Governance Arrangements and Structure

PRISMA-2 will be implemented in accordance with the Australia-Indonesia bilateral General Agreement on Development Cooperation. BAPPENAS will be the key Indonesian Counterpart. As PRISMA-2 is a multi-sectoral innovative agricultural market program working across a range of sectors, sub-sectors and geographies, BAPPENAS is the most suitable Government of Indonesia counterpart. The program will align with BAPPENAS priorities, outlined in the RPJMN⁵⁴, to ensure PRISMA-2 supports development plans at the national and sub-national levels and to enable coordination with relevant key line agencies in each of the program provinces at the sub-national level.

This represents a shift in governance arrangements from AIP-Rural, which involved separate Subsidiary Arrangements with three GoI agencies (BAPPENAS, Ministry of Public Works and a MoA with the Ministry of Research, Technology and Higher Education). With support from the Contractor, BAPPENAS will coordinate the strategic involvement of relevant line Ministries and partners through the PCC, on an ad hoc basis as required e.g. the Ministry of Public Works, Ministry of Research, Technology and Higher Education, Ministry of Agriculture, Ministry of Trade, OJK and private sector businesses.

DFAT will have overall responsibility for managing relationships, priority setting and communications with the GoI at the national and sub-national levels, however, the Contractor team will liaise with relevant government agencies at the sub-national level as part of the development and implementation of program partnerships, interventions and activities, and support DFAT's engagement at the national level. DFAT will work closely with BAPPENAS and other relevant government agencies to identify information needs and evidence requirements, such as case studies and policy briefs, to support broader reforms to market systems and the enabling environment.

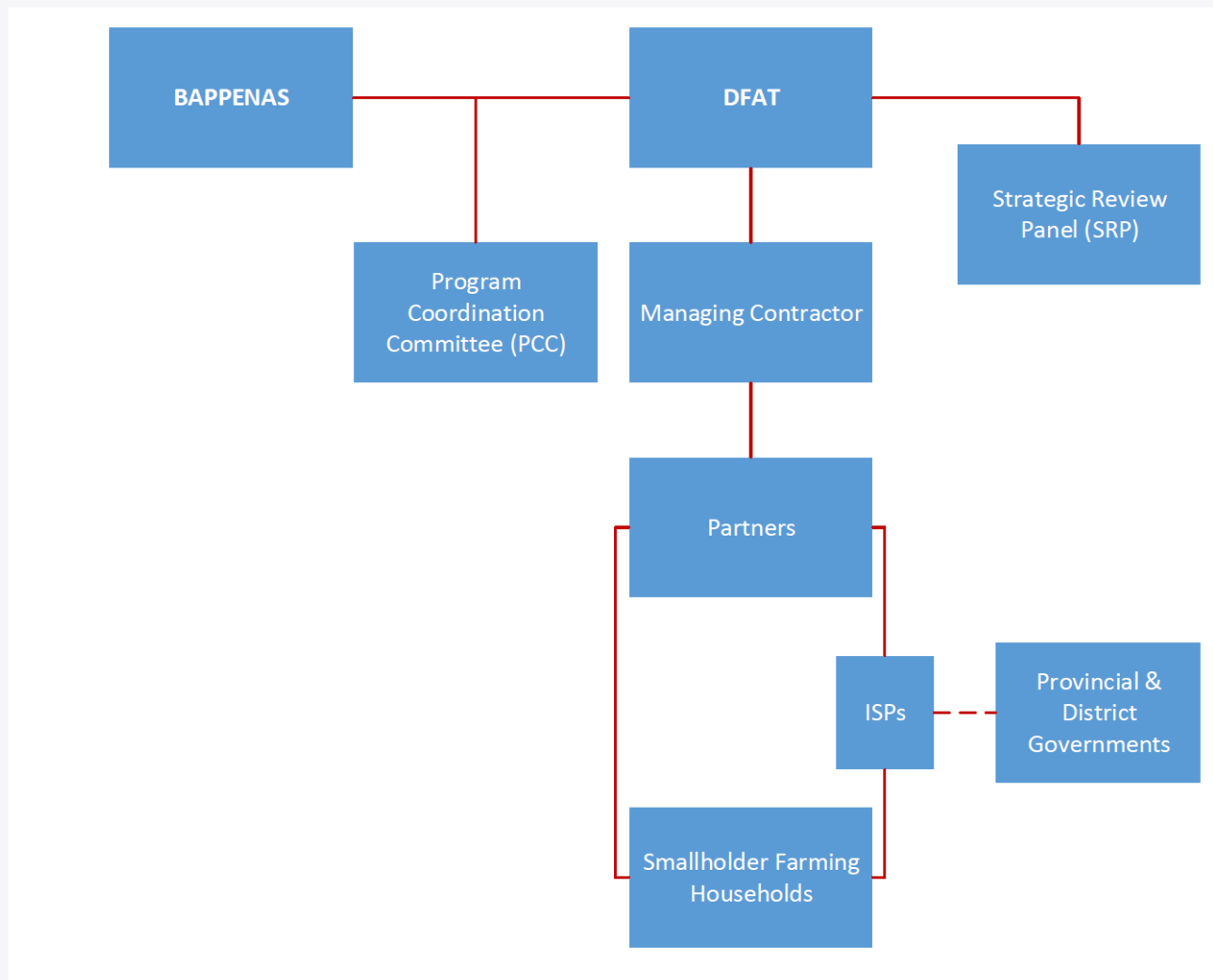
As shown in the summary governance and management structure (Chart 2), a Strategic Review Panel (SRP) will continue to be directly engaged by DFAT to support management of the strategic direction of the Program and provide regular course correction. The SRP will consist of between 2-5 consultants with

⁵⁴ The current RPJMN will expire in 2018. The PRISMA-2 program will be reviewed against the next RPJMN to ensure focus areas remain relevant.

technical expertise across a range of functions relevant to the Program and will continue to conduct 6-monthly reviews for the first 1.5-2 years of implementation and may move to annual reviews thereafter. The SRP are also able to function as an ad hoc 'help desk' for DFAT enquiries related to issues such as program management, operations, assessment of performance payments, or strategic decisions.

The current governance and management structure for AIP-Rural is included at Annex 8. This is included to ensure prospective tenderers have the necessary information on the current structure, however, tenderers will be expected to propose a PRISMA-2 management structure as part of their proposal.

Chart 2: PRISMA-2 Governance and Management Structure



Appointment of a Contractor

A Contractor will be engaged through a competitive tender process to coordinate and support national and subnational activities and facilitate and manage partnerships and interventions under the Program. The Contractor will deliver the Program from a central program office in Surabaya. The program team will be required to liaise with local government and private sector partners in the six program provinces.

The Contractor's main roles will include:

1. Effective operational management of finances, human resources, and facilitation of the development of interventions and managing partner agreements, consistent with DFAT policies and Australian Government legislation
2. Adaptive research and evaluative studies, quality analysis and strategy development
3. Monitoring and results measurement to the DCED and DFAT M&E Standards, MIS management and performance reporting for internal management, and external progress reporting to DFAT
4. Commissioning and conducting intervention impact assessments to the DCED standard and other evaluative analyses for learning and performance assessment, e.g. case studies
5. Technical assistance
6. Communications and reporting
7. Risk management, including in relation to safeguards, fraud, security, workplace health and safety, and program risks.
8. Liaison with DFAT and key partners including supporting DFAT information and reporting needs such as briefs on sector issues, policy and program achievements
9. Supporting linkages and collaboration with other relevant DFAT programs including KOMPAK, MAMPU, KSI, MAHKOTA and AIPEG/AI-ECO as well as other donor programs and partners, such as PISAgro.

Resourcing and Recruitment

The Contractor will provide high quality program direction, strategy and operational support to manage and implement the PRISMA-2 program. The Contractor will be expected to put forward an organisational structure to support the high quality and efficient implementation of PRISMA-2 activities in six provinces (the current organisational structure can be viewed at Annex 8). The Contractor will propose personnel for the positions of Contractor Representative and Head of Operations and Finance (see Terms of Reference at Annex 9), as well as any additional proposed core management personnel and technical advisers needed to deliver the program. The Team Leader will be contracted through a joint recruitment process with DFAT during the program transition phase (proposed Terms of Reference at Annex 9). The core management team will liaise closely with DFAT throughout implementation to ensure the Program remains responsive to Indonesian and Australian priorities and meets their information needs.

All existing high-performing AIP-Rural implementation personnel (Heads of Portfolio, Head of Monitoring and Evaluation, and below) and operations and finance personnel will be retained by the Contractor for an initial period of six months (aprox. 135 staff). Contracting will occur during the transition period (Oct – Dec 2018), subject to interest from personnel. The extension of personnel contracts beyond this six month period will be at the discretion of the Contractor and subject to performance review and program needs. This approach recognises the importance of retaining existing skilled personnel, in particular their program knowledge and business relationships, integral to the transition from AIP-Rural to PRISMA-2 (see Annex 3).

Employment conditions for international staff contracted as part of the core management team will align with the DFAT Adviser Remuneration Framework. Remuneration rates and employment conditions for national staff will be expected to be commensurate with existing norms, and align with other donor-funded programs in Indonesia and local employment and manpower legislation.

Program Transition

It is important that momentum is maintained during the transition from AIP-Rural to PRISMA-2. The following Transition Principles will mitigate the risks associated with the transition:

- A sound understanding of the MSD approach and an awareness of the elements needed to maintain momentum in the Program, whilst also identifying opportunities for innovation and improvement in interventions, systems, and approaches in order to scale up and achieve systemic change. For example, AIP-Rural's implementation systems (eg. intervention identification and development, quality control, results measurement) and approach to social inclusion (eg. gender, disability) provide a sound starting point, however there is opportunity to improve and build on these systems and approaches.
- Retaining high performing implementation personnel and operations and finance personnel that have been recruited and trained in AIP-Rural, and who have acquired partner relationships and considerable experience in the practical application of MSD in the Indonesian context.
- Adopting a dual intervention portfolio approach: retaining existing successful interventions and partnerships to avoid a possible erosion of private sector and governmental partner relationships, whilst also having a strategy to quickly develop a portfolio of new interventions and scale up of existing interventions. This combined approach will be essential to fulfilling the outreach, impact and sustainability targets of the Program.

Transition Period (Oct – Dec 2018)

The PRISMA-2 Contract will begin before the Program start date of 1 January 2019 to enable a smooth transition between phases and reduce the risk of loss of momentum. During this three month transition period, the Contractor will be expected to:

- Jointly recruit a Team Leader with DFAT
- Offer contracts to highly performing AIP-Rural personnel for PRISMA-2. They include Heads of Portfolio, Head of Monitoring and Results Measurement, their portfolio teams, and operations and finance personnel (totalling approx. 135 staff).
- Develop contracts with existing business partners and co-facilitators for successful interventions under AIP-Rural, ready for seamless implementation in January 2019.
- Work with the outgoing contractor to transfer and adopt the measurement systems designed for AIP-Rural .
- Establish operational and finance systems to support the delivery of the above contracting and PRISMA-2 implementation.

The Contractor will be expected to develop a transition plan to achieve these outcomes. The in-country presence of the Contractor Representative for a period of at least six months to oversee this transition and initial implementation will be strongly encouraged.

Communications and Reporting

The Contractor will work with DFAT to develop a PRISMA-2 Communications Plan that supports the dissemination of information and learning from the Program to key stakeholders. The Communications Strategy will identify information needs for all key stakeholders, including BAPPENAS, DFAT, government and non-government stakeholders, and the Australian and Indonesian public, and outline a range of mechanisms for sharing learning and other relevant information on MSD. Qualitative data will be tailored to different audiences and purposes, such as policy briefs, case studies, and stories of change to ensure evidence from PRISMA-2 supports broader analysis of the enabling environment and is relevant and

meaningful to a range of different stakeholders. Quantitative data sourced from the MIS (see Annex 5) will be collated into reports that provide DFAT and key program partners with a synopsis of headline results from the program. Selected stakeholders, including DFAT and BAPPENAS will have on-line access to the MIS so there is a common body of evidence to support management and policy dialogue.

The reporting cycle for the Program (see Annex 5) will include a semi-annual progress report and implementation plans, with the content and structure to be determined by DFAT in consultation with the Contractor, and set out in the program operations manual and annual work plan. The inception phase of the Program will see the development or updating of existing strategies and plans for phase 2.

Results Measurement, MIS and Evaluation

PRISMA-2 will continue the culture of evidence-based management initiated in AIP-Rural (see Annex 5), using DFAT standards and the DCED results measurement standard⁵⁵. This enables consistent use of a common set of key performance and management indicators and supports continuity from the current program to PRISMA-2 (see Box 6). PRISMA-2's results measurement will be used by DFAT in its oversight of the Program, by PRISMA-2 in its management of interventions, outreach, and policy support, and by the Government of Indonesia to monitor and collect lessons learned from the Program.

PRISMA-2's Key Performance Indicators inform performance assessment indicators used by DFAT for the Indonesia program,⁵⁶ for example, DFAT Objective 1.3 (more jobs and higher incomes, especially for poor households) and several Performance Benchmarks, including Indicator 1 (additional financing leveraged for Indonesian development), Indicator 4 (number of smallholder farmers, in particular women, with increased incomes), Indicator 5 (partnerships with businesses), Indicator 11 (ICT that support development), and in the future, potentially Indicator 3 (improvements to market efficiency, regulation and financial systems), and Indicator 6 (improvements to human development policies and programs).

Box 6. Key Performance Indicators

Key performance indicators used by AIP-Rural and to be used in PRISMA-2:

- KPI 1 – Number of farming households that increase their income due to Program interventions (Outreach)
- KPI 1a – Number of farming households under USD2.50 PPP poverty line with increased net-incomes
- KPI 2 – Net attributable additional income change for targeted farming households (NAIC)
- KPI 2a – Net attributable additional incomes of farming households under USD2.50 PPP poverty line
- KPI 3 – Number of Intermediary Service Providers with increased turnover
- KPI 4 – Value of additional turnover of Intermediary Service Providers
- KPI 5 – Number of innovations introduced by private sector
- KPI 6 – Number of initiatives taken by government to improve business enabling environment
- KPI 7 – Number of intervention partners (private sector and public sector)
- KPI 8 – Value of investment by private sector partners in IDR.

Management indicators such as disaggregated disbursement (direct intervention, personnel and management costs); variance from planned disbursement, outputs and human resource deployment; and time to recruitment and implementation of interventions are also consistently monitored across the Program. KPI's are sex-disaggregated.

PRISMA-2 will use the monitoring and results measurement (MRM) system (see AIP-Rural Operations Manual) developed under AIP-Rural to monitor adequacy of progress and measure impact, as well as the related Management Information System (MIS) to consolidate intervention MRM data for reporting and benchmarking. The MIS aggregates monitoring data from all interventions and analyses them against the 8

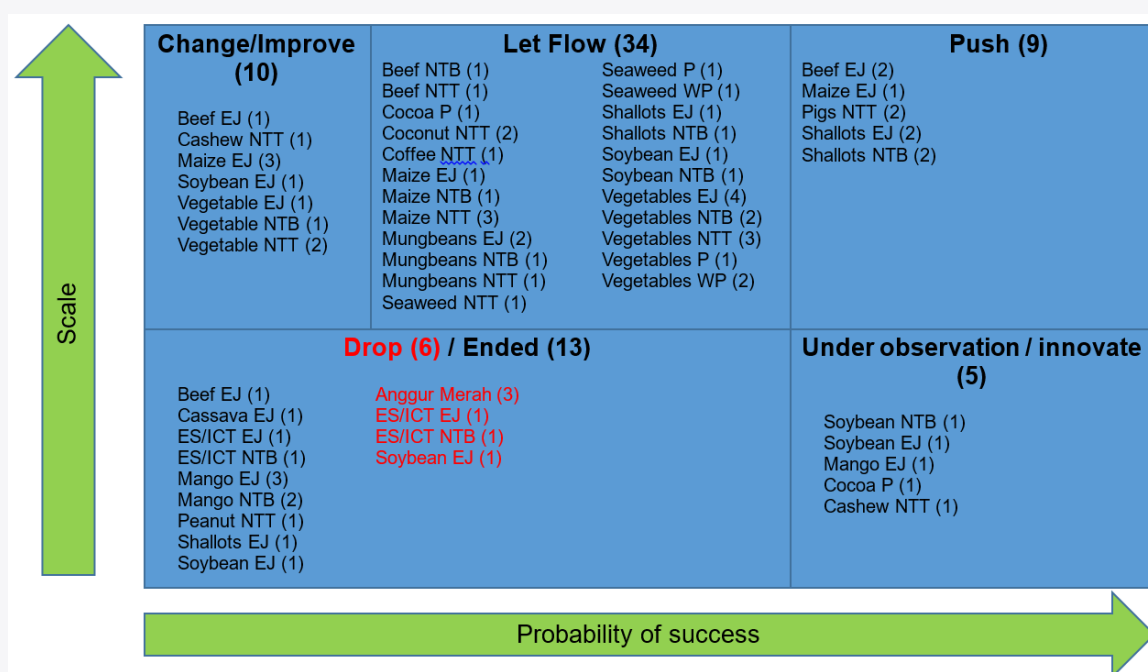
⁵⁵ Donor Committee for Enterprise Development – see: www.enterprise-development.org/measuring-results-the-dced-standard/. Over 120 projects in more than 50 countries currently apply the DCED Standard for results measurement.

⁵⁶ For details, see the 2016-17 Indonesia Annual Program Performance Report and PAF at: <http://dfat.gov.au/about-us/publications/Pages/indonesia-aid-program-performance-report-2016-17.aspx>

KPIs and other performance benchmarks as well as linking them with management indicators (e.g. finance, human resources, logistics) to support resource allocation and management decisions. The MIS is available on-line, and provides raw data used in the quality management tool for intervention selection and semi-annual portfolio reviews.

This information informs the Program's decision making through regular intervention portfolio reviews. Portfolio reviews for PRISMA-2 will use a practical range of quantitative and qualitative indicators to rank intervention quality and performance: outreach, benefit, rationale, value for money, quality of deal, quality of collaboration, systemic change potential, poverty, gender, and environment. An example of the realignment of portfolio priorities after using the AIP-Rural quality management tool for a portfolio review is presented in Chart 3. The Contractor is encouraged to refine this approach as needed.

Chart 3: An example of the continuous management of portfolio priorities using the AIP-Rural quality management tool for portfolio review.



Source: PRISMA (2017) PRIP Semester 1, 2017; Annex 5.

PRISMA-2 uses a variety of tools to collect data and measure impact, including statistically-designed, periodic intervention baseline studies and impact assessments to determine the number of households with net attributable additional income. This gives robust and verifiable outreach data. Agricultural seasons mean measured outreach and income change is higher in the second semester of the year. In addition, longitudinal income studies and case studies will continue to be used to track income allocation by smallholder households in selected sub-sectors.

To monitor social inclusion, the MRM system will continue to disaggregate outreach and income change data by geography (province), sex (women and men) and household income level (above and below USD2.50 PPP). The Program also uses Focus Group Discussions to generate qualitative data.

The Contractor is encouraged to explore opportunities to adopt other measurement and data disaggregation to better inform management, refine facilitation with partners and ISP, align with indicators used for the DFAT Indonesia PAF and DFAT Aggregated Development Results, and better influence policy. For example, developing new indicators to better track policy support work or including more qualitative

indicators in the MRM system such as time savings for farmers (which is an unexpected benefit for women from pig and beef interventions). If this is measured consistently across interventions it could be monetised where appropriate for inclusion in assessment of net attributable income change, identify other uses of time by specific members of a household, and highlight where an intervention imposes additional time burdens on specific members of a household. There may also be opportunity to monitor the indirect impact from the income increases generated by PRISMA-2 on other outcomes, such as nutrition, education, or health. Such monitoring information is useful for gender analysis and informs portfolio reviews. More reporting of leading indicators already measured (e.g. access and use) and sex-disaggregated data (e.g. use and income change) would also add value.

DCED auditors will continue to be periodically engaged to conduct independent audits of the PRISMA-2 results measurement system. The audits will be used to verify that results measurement documentation and processes are generating credible information using mandatory and recommended control points set out in the DCED Standard. This also allows PRISMA-2 to be benchmarked against international peers.

Evaluative studies will be used by PRISMA-2 to explore why change is happening, and if change is not happening as expected, to explore why not. Each study will be designed to learn lessons and support specific management decisions or understand why particular results are emerging. Key evaluation questions to guide annual performance analysis and reporting will include:

- To what extent do the political and policy contexts in Australia and Indonesia support the strategic intent and approach of PRISMA 2?
- Is adequate progress being made towards end-of-program targets? If so, why? If not, why not?
- What is the trend in value for money indicators across the population of interventions making up the PRISMA 2 portfolio?
- What is the trend in key performance indicators across the population of interventions making up the PRISMA 2 portfolio?
- Are human and financial resources cost-effectively allocated across the population of interventions making up the PRISMA 2 portfolio?
- What key drivers in the evolving context of eastern Indonesian agribusiness enable the program's approach to work, or constrain its effectiveness?
- What is PRISMA-2's impact on women's economic empowerment?

In accordance with DFAT standards, a mid-term review is expected to be commissioned for PRISMA-2 in 2021. This provides an opportunity for independent review of the above questions, and examination of any management, operational or implementation issues to ensure the Program remains on track. Should outreach be insufficient, the mid-term review can also analyse opportunities for additional outreach, such as geographic expansion.

Gender Equality & Women's Economic Empowerment

In February 2016, the Australian government published a new gender equality and women's empowerment strategy that identifies women's economic empowerment as one of its three top priorities. The strategy states that Australian aid programs will "integrate gender equality in our aid for trade, economic diplomacy and trade efforts, recognising that women's economic empowerment is a driver of economic growth and prosperity."⁵⁷ The strategy is also informed by DFAT's operational guidance note on women's economic

empowerment in agriculture.⁵⁸ The five dimensions of women's economic empowerment (WEE)⁵⁹ have been applied and advanced globally by many private sector development projects including: AIP-Rural in Indonesia, the Market Development Facility in Fiji, Timor-Leste, Pakistan, Sri Lanka and Papua New Guinea (DFAT), Katalyst and M4C in Bangladesh (DFID and SDC), ALCP in Georgia (SDC), Arab Women's Enterprise Fund in Egypt, Jordan and Palestine (DFID), Kenya Market Trust and Financial Sector Deepening Zambia (DFID/Gatsby Trust).

PRISMA-2's gender equality and women's economic empowerment efforts will build on and expand the gender strategies developed and implemented in AIP-Rural. PRISMA-2 will continue to articulate WEE in results chains, attribution, systemic change throughout the design and implementation of each intervention. The Program will encourage flexible application of the WEE framework, including the dimension of women's role as market actors, service providers, business leaders, or their unique role in the community. Portfolio development will ensure an effective and practical integration of women by adopting a Twin-Track approach, where gender equality and WEE will be mainstreamed across the board, and at the same time develop targeted interventions to address the specific needs of women in a particular agricultural commodity.

Impact measurement will be expanded to reflect a greater emphasis on WEE. PRISMA-2 will embed several explicit WEE indicators, namely the increase in female beneficiary income, time-saving and participation in decision-making. Proposed methods will include: the use of gender analysis tools for developing interventions; capturing and reporting on the number of female beneficiaries and female-headed households impacted by the program (income, time-saving and decision-making); purposeful selection of female-orientated commodities/sectors for investment (e.g. pigs, coffee, peanuts); linking the private sector to female farmers; supporting the private sector to consider gender as part of market analysis; and the inclusion of gender and social inclusion expertise and gender focal points within the core program team. Impact assessments will include both quantitative and qualitative data.

In addition, PRISMA-2 will upgrade documentation and toolkits to ensure WEE is mainstreamed across all programming and measured through the inclusion of a set of WEE indicators for the program (see Annex 10). An example of how gender and women's economic empowerment has been integrated is illustrated in Box 7.

Inclusiveness

For PRISMA-2 to achieve its outcomes, benefits within rural communities need to also reach those who are marginalised including the poorest of the poor, people with disabilities and indigenous peoples. PRISMA-2 will impact the net income of 700,000 smallholder farming households, 60% of which are poor or near poor. This will include smallholder farm owners and landless farming households in the target program provinces. To monitor progress towards inclusion, the MRM system will continue to disaggregate outreach and income change data by geography (province), sex (women and men) and household income level (above and below USD2.50 PPP). Other data disaggregation may be adopted by the team to inform management, refine facilitation with partners and ISP, and better influence influencers.

⁵⁷ Department of Foreign Affairs and Trade (2016) *Gender Equality and Women's Empowerment Strategy*. Government of Australia <http://dfat.gov.au/about-us/publications/Pages/gender-equality-and-womens-empowerment-strategy.aspx>

⁵⁸ DFAT (2015) Gender equality and women's economic empowerment in agriculture Operational Guidance Note <https://dfat.gov.au/about-us/publications/Documents/operational-guidance-note-gender-equality-and-womens-economic-empowerment-in-agriculture.pdf>

⁵⁹ For the seminal M4P WEE Framework see Jones, L. (2012) Jones, L. (2012) *Conceptual Framework for Women's Economic Empowerment* M4P Hub paper for DFID, Sida and SDC. http://www.springfieldcentre.com/wp-content/uploads/2012/11/M4P_WEE_Framework_Final.pdf

Box 7. Integrating Gender and Women's Economic Empowerment in AIP-Rural

Since its inception, AIP-Rural has placed a strong emphasis on positively impacting women in agriculture. All four of its projects use tailor made gender strategies and operational guidelines that are consistent with Australian Government policies and a market development approach. Women are recognised not only as being agents of innovation and change at the beneficiary level but they also make up an increasing proportion of intermediate service providers (retailers, collectors). Women's empowerment objectives are a strategic means to greater impact and outreach in rural agriculture. For this reason, every intervention is screened for opportunities to enhance the role of women. This analysis is done through a disaggregation of the roles that men and women play in specific sectors as well as undertaking focus group discussions that add qualitative insights used in intervention design and implementation.

A gender approach to MSD had been progressively built into PRISMA's way of working, from: a) basic and passive gender awareness in all interventions, to b) increasing staff behaviour change towards pro-active approaches in designing and implementing interventions, and then eventually to c) an attitude shift of staff towards fully integrating women's economic empowerment into programming.

In 2013, the main emphasis for gender inclusion in the project was 'do no harm'; a concept not well understood by staff and its partners. In fact, there was, at times, resistance to the focus on women, as PRISMA identified its goal as being more 'private sector' than 'socially' driven. Since then, experience and knowledge has grown among all staff who now understand women's empowerment to be an economic imperative as well as a human right for women in Indonesia. For example, the pig sector which focuses on female farmers, is the best performing intervention in AIP-Rural. PRISMA 2 will strive to build on these achievements while looking for new ways in which increased rural incomes will have an impact on positive social change at the household level.

To drive staff behaviour change, AIP-Rural instituted a **Gender Intervention Concept Note Competition**. Open to all staff, sector teams prepared presentations which displayed expertise in understanding gender, research analysis, intervention design and results measurement. Judged by external specialists, six prize winners were selected and nine interventions were approved for implementation. The mung bean concept note was one of the winning interventions -

The analysis prepared for the intervention showed that women's level of effort in the sector was 67% and their control over income was at 58% (compared to men's 33% and 42% respectively). In specific areas, women's level of effort averaged about 97%: seeds purchase, harvesting, and post-harvest processing. Because of the significant involvement of women, the sector team concluded that women needed to be aware of new opportunities (e.g. better inputs) and techniques to contribute to increased yields, higher incomes and improved household well-being.

Based on this analysis, the intervention design proposed utilising female retailers, the heads of female farmer groups (KWT) and female cooperatives to encourage the sale, by women, of seeds and the promotion of innovations in the adoption of mung bean GAP, to women farmers. By introducing better seeds and GAP through female groups/cooperatives (much of this on credit) the sector team expects to empower women through the following measured dimensions:

- **Increased Income** from mung bean productivity gains will increase female farmers' access to additional income with no additional cultivation workload.
- **Access to Resources** - where female farmer groups and cooperatives can access the seeds on credit.
- **Decision-Making** - utilising these groups as distribution channels will increase female farmers' knowledge and autonomy in production-related decisions;
- **Workload** - female farmers manually sort the retained quality seeds from the previous season before planting; providing female farmers with new and certified seeds will reduce their pre-cultivation workload.
- **Leadership** - having new female ISPs in the market will result in new role models for female farmers, thus increasing female leadership and inclusiveness in the long term.

In addition to women's empowerment, the following indicators on production were also proposed: an 88% increase in productivity and 146% in net attributable income change.

This shows a growing sophistication on the part of PRISMA staff to understand women's roles, challenges and opportunities and to design and implement interventions that will lead to systemic change for women in agriculture and for the agricultural sectors themselves.

Taking into account that indigenous peoples often face social and economic disadvantage, the PRISMA-2 program will also seek to improve economic opportunities for indigenous people in Papua and West Papua (two of the target provinces), through program interventions and collaboration with local NGOs. This will be guided by the DFAT Indigenous Peoples Strategy 2015-19: A Framework for Action.

Guided by the Australian Government's Development for All 2015-2020: Strategy for strengthening disability-inclusive development in Australia's aid program, PRISMA-2 will maintain and improve the disability strategy developed in AIP Rural. Approximately 15-20% of the population of Indonesia are

estimated to have some form of disability. People with disabilities in Indonesia are often largely invisible, facing multiple barriers to accessing economic opportunities in Indonesia.

AIP-Rural has developed a disability guideline which aims to ensure that interventions are inclusive of people with disability and that impact is captured. For example, program personnel have been trained on disability and other inclusion issues and appointed disability focal points. Impact is captured in the MRM and MIS measurement system through inclusion of disability in intervention baselines, impact assessments, and focus group discussions.

Child Protection

Child protection will be integrated in PRISMA-2 and its partnerships to ensure appropriate safeguards are in place to protect children, prevent child exploitation in agriculture, and comply with applicable laws on child labour. All program personnel will undertake training in child protection and the Contractor will maintain existing or develop new program specific child protection guidelines based on risk assessments undertaken through AIP-Rural. In particular, PRISMA-2 will work with partner businesses to ensure avoidance of “the infringement of children’s protection rights: in the delivery of activities and services by the business itself; by any operations in the supply and value chain; or indirectly through suppliers, customers and other business partners”⁶⁰. All PRISMA-2 co-facilitator partners will be expected to have a child protection policy and framework that complies with DFAT’s Child Protection Policy and relevant DFAT guidance notes on child protection in agriculture and private enterprises.

Nutrition

PRISMA-2 will align with the 2015 DFAT Operational Guidance Note on Nutrition Sensitive Agriculture. While improved nutrition will not be a direct program outcome of PRISMA-2, the Program will promote increased food security and nutrition-sensitive agriculture. Firstly, it is expected that increasing agricultural productivity and smallholder farming household incomes will improve nutritional outcomes for the targeted 700,000 households. Secondly, investment in interventions across a range of commodities will promote crop diversification, including in high-nutrition commodities, which should in turn support improved nutrition and food security, as well as the sustainable delivery of program outcomes. PRISMA-2 will explore practical methods of tracking indirect nutrition outcomes, such as through collaborating with other DFAT supported programs that specifically work on this issue, incorporating indicators on how farming households use additional income, conducting longitudinal studies, or triangulating impact assessments with data on children’s nutrition available from Posyandu or other local level agencies.

Safeguards

Environmental safeguards will continue to be guided by DFAT’s Environmental Policy⁶¹, Australian Government legislation,⁶² and Government of Indonesia environment law⁶³ and regulations related to water and agriculture. PRISMA-2 will continue current practices in environmental impact management and is expected to continuously review and evaluate existing environment assessments and practices for further improvement and management of risk.

Building on AIP-Rural, PRISMA-2 will take a multi-tier approach to environmental safeguards, including:

- An overarching Environment Strategy and Assessment (focusing on a Do No Harm approach and Good Agricultural Practices)

⁶⁰ DFAT Child Protection Guidance Note: Child Protection in Private Enterprise

⁶¹ For example, see: <http://dfat.gov.au/about-us/publications/Pages/environmental-policy.aspx>

⁶² The Environment Protection and Biodiversity Conservation Act, 1999 (<https://www.legislation.gov.au/Details/C2005C00338>)

⁶³ http://cdn.setneg.go.id/_multimedia/document/20091019/UU%2032%20Tahun%202009.pdf

- Full integration of safeguards into the intervention portfolio management process (intervention concept notes, quality management, and risk management systems) eg. every intervention sector analysis includes an environmental impact assessment which results in risk ratings of low, moderate, or high. Interventions with an environmental risk rating of moderate and above will be dropped. Regular monitoring includes a report on environmental risk mitigation progress, which is semi-annually evaluated.
- Conducting Environmental Impact Assessments for sectors or geographic areas that have specific risks (e.g. extraction of water from river systems, those introducing good agricultural practice use of inputs).

The Program engages environment experts to assess environmental risks and protection measures, and can commission specific technical advice on emerging issues such as the impact of changes in weather patterns, natural disasters, and climate change.

PRISMA-2 will manage the risks associated with pesticides and other chemicals in food and agriculture with intervention plans that include integrated pest management, good practice management and standard operating procedures that align with international good practice. Partners and intermediate service providers will train farmers in these good practices and procedures and monitor their use with support from PRISMA-2. Interventions introducing pesticides and other chemicals to food and agricultural producers will meet Indonesian standards and only use inputs licensed for use in Indonesia (e.g. as per label permits) as well as comply with relevant standards.

Animal welfare will continue to be actively promoted in the design and implementation of PRISMA-2 interventions. Under AIP-Rural, the welfare of cattle and pigs was improved by promoting Good Rearing Practices, including veterinary services, clean and well-ventilated shelter, *ad libitum* access to fresh water, and rubber-stand mats for cattle on concrete pads (e.g. dairy cattle and some small-scale beef cattle feeding interventions). These practices will be continued and further strengthened in PRISMA-2 to ensure that interventions in commodities involving animals continue to apply animal welfare safeguards aligned with GAP standards codified in Indonesia and ASEAN. Program interventions with a focus on animals will continue to comply with DFAT Safeguard Manuals⁶⁴ and Impact Assessments will be completed for those interventions that include specific risks related to the management of farm animals to identify specific animal welfare considerations and safeguards. Interventions involving animal production will meet Indonesian animal welfare standards where they exist.⁶⁵

Risk Management

Building on the practices adopted by AIP-Rural, risk management will be integral to implementation of PRISMA-2 and informed by the Monitoring and Results Measurement system. This section outlines the key identified risks and a Risk Matrix (Annex 11) provides a preliminary assessment of high level risks and corresponding potential mitigation strategies, based on the current AIP-Rural program. During the inception phase the Contractor will use the matrix as the basis for developing a more comprehensive risk management plan. The risk management plan will be reviewed regularly by the senior management team and will guide implementation, ensuring early identification and management of potential risks. Risks will be included in progress reports and communicated early to ensure all stakeholders can contribute to risk management throughout implementation.

⁶⁴ For example, see: <http://dfat.gov.au/about-us/publications/corporate/conduct-ethics-manual/Pages/conduct-and-ethics-manual.aspx>

⁶⁵ For example, see: http://asean.org/storage/2012/05/ASEAN-GAHP-for-Animal-Welfare-and-Environmental-Sustainability-Module_final.pdf Accessed February 19, 2017.

High-level risks to the program include:

1. Personnel retention and maintaining momentum of delivery during transition from AIP-Rural to PRISMA-2.
2. Constraining government policies and other agribusiness enabling factors, including vested interests and subsidies that distort market systems and prevent competitive private sector actors from achieving systemic change in market systems.
3. Crop failure or productivity constraints due to adverse weather events.
4. Changes in market systems through program interventions do not lead to broader systemic and/or institutional change within market systems and private sector companies.
5. Interventions lead to environmental damage or have negative impacts on human health and animal welfare, leading to reputational risks for the program and DFAT.

The use of analysis, measurement and portfolio management tools will be integral to overall risk management and mitigation throughout implementation of PRISMA-2.

5. Annexes

Annex 1: Approach to Poverty in PRISMA-2

Defining the Poor and Near Poor:

Currently there are around 28 million people living below Indonesia's national poverty line (10.6% of the population), and another 62 million considered vulnerable to shocks (23.9% of the population).⁶⁶ If the World Bank international poverty benchmark of USD1.90 per day is applied,⁶⁷ then around 16% of the Indonesian population⁶⁸ (39 million people) remain poor and approximately 40% of the entire population (103 million people) are considered near poor⁶⁹, with incomes hovering marginally above the national poverty line⁷⁰. But this is only part of the problem as surveys show that 55% of households that were classified as poor in 2014 were not poor one year earlier, meaning that many people regularly move in and out of poverty.⁷¹ Therefore, the definition of 'near poor', or people who move in and out of poverty, must also include those with incomes greater than USD1.90 per day. For this reason, a USD2.50 per day level (at purchasing power parity) is a better benchmark for defining the poor and near poor.⁷²

PRISMA-2's Orientation to the Poor and Near-Poor:

Poverty reduction will be a core focus of PRISMA-2. PRISMA's orientation to poverty will be achieved through four conscious implementation principles:

- Selecting areas of operation where the incidence of poverty is high⁷³
- Choosing agricultural sectors that are important to the poor (men and women)
- Within these sectors, searching for pro-poor opportunities for income growth, and
- Designing interventions with partners that specifically address the constraints of the poor.

Because of this orientation 60% of the 700,000 households that PRISMA 2 will reach between January 2018 and December 2023 will be households in which farmers are living on less than USD2.50 per day. While the majority of PRISMA 2's beneficiaries may be classified as poor or near poor, PRISMA-2's impact will also reach other non-poor farmers and other parts of the economy (systemic change).

How Will Impact on the Poor be Measured?

AIP-Rural's current impact assessments for each intervention involve comparing treatment and control groups, and follow an internationally acknowledged approach to results measurement (the DCED Standard) that is independently audited by accredited third parties. PRISMA's commodity-based interventions were audited in June 2016. Up to the end of 2016, 24 impact assessments were completed in AIP-Rural. Of the 21 PRISMA interventions assessed (with a cumulative outreach of 44,080 beneficiary households) the weighted average⁷⁴ NAIC was 139% for targeted commodities, far above the 30% target for overall household income. Some of the greatest income improvement is from interventions in market systems for pigs, maize, soya and peanuts.

⁶⁶ The Indonesian National Statistics Agency figures, based on March 2017 Susenas data, which sets the national poverty line at approximately IDR12,500 per person per day (or AUD1.25).

⁶⁷ While the International Poverty Line is useful to compare poverty rates between countries, it is not a completely reliable measure to track poverty within Indonesia as it doesn't differentiate between living costs in different provinces.

⁶⁸ World Bank (2016) World Development Indicators [SI.POV.DDAY] accessed from <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, Accessed May 9, 2017.

⁶⁹ Near poor refers to those living on less than USD2.50 per day, taking into account the dynamics of poverty.

⁷⁰ World Bank (2017) Country Overview Indonesia, <http://www.worldbank.org/en/country/indonesia/overview>, Accessed 8 May 2017.

⁷¹ <https://www.adb.org/sites/default/files/publication/177017/ino-paper-04-2015.pdf>

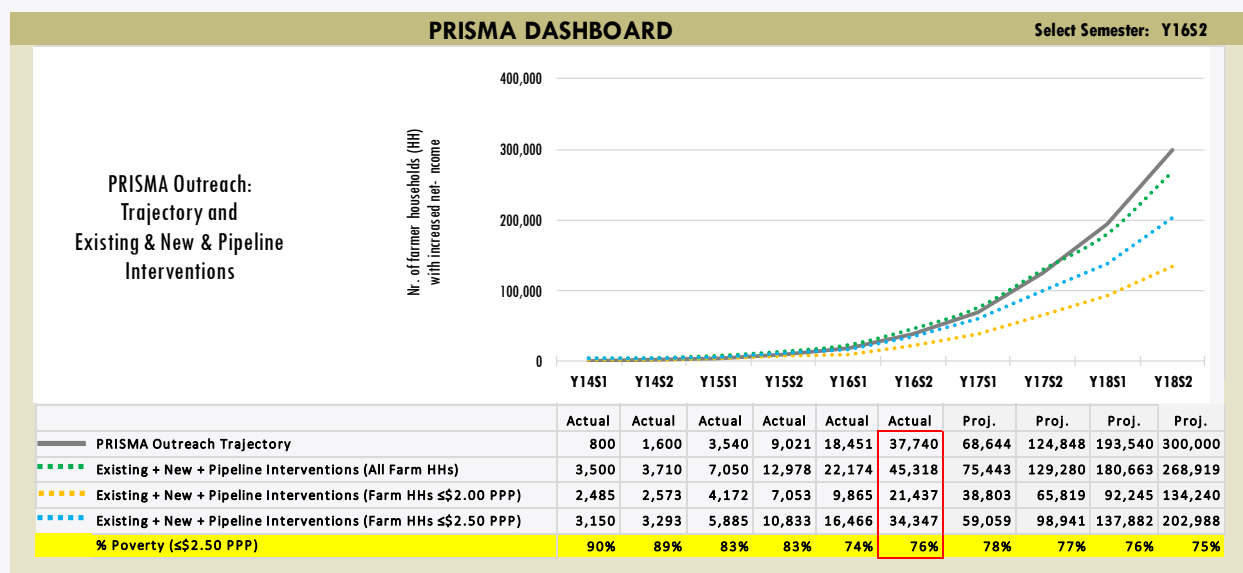
⁷² In 2015 the World Bank announced a revised or updated figure of \$3.10 as their current measure for international poverty. <https://www.ineteconomics.org/uploads/general/WBPovBlogOct6PostinFinal.pdf>

⁷³ The combined urban and rural incidence of poverty in the more eastern provinces of Indonesia is greater than other parts of the country: it is for example in Papua, 74%; West Papua, 69%; NTT and NTB, 60%; East Java and Central Java at 51% and 57% respectively. Most of Indonesia's poor, however, live in rural areas where the incidence of poverty is 68% higher than in urban areas.

⁷⁴ The weighted average for the NAIC percentage is determined by multiplying the % of the NAIC for that intervention by the % that that intervention represents of PRISMA's total portfolio and then averaging these increases.



The graphic below is compiled from the AIP-Rural MIS every 6 months. It tracks progress towards reaching its targeted number of smallholder farming households with income increases of at least 30%. The curves in the top right quadrant of the graphic below record cumulative actual outreach up to the second semester of 2016. The trajectories after this are based on projections until December 2018. The bottom two quadrants provide the numbers to support these curves. These figures are updated every semester using data from impact assessments, monitoring and partner records.

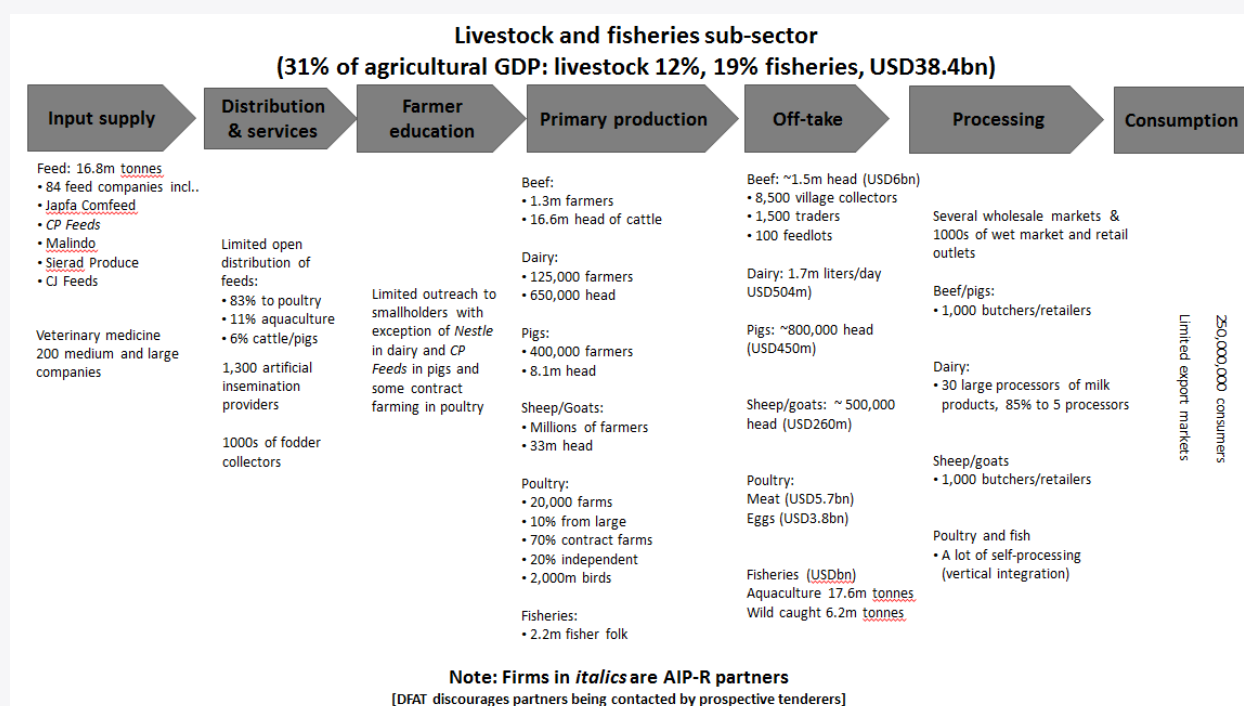
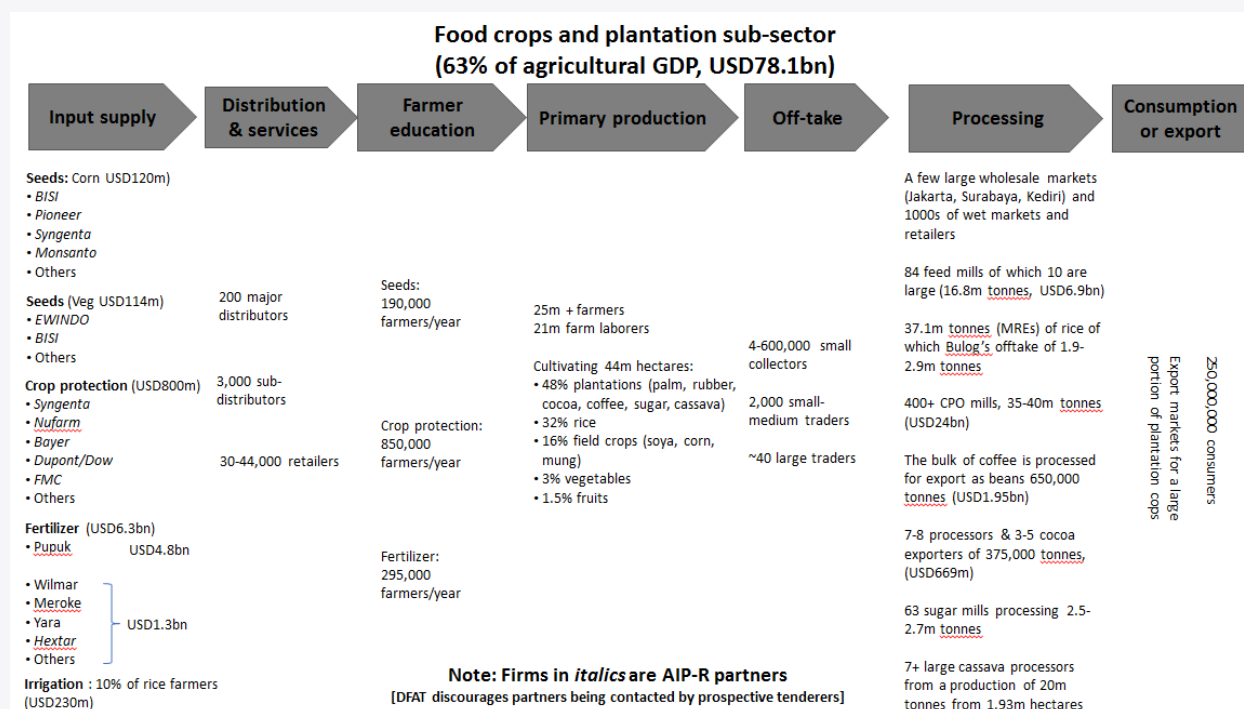


The last line of the graphic above (highlighted in yellow) records the percent of the target group that live below the USD2.50 per day poverty benchmark. These data were compiled from the impact assessment studies conducted by PRISMA. At the same time as these impact assessments are completed, an internationally accepted, survey instrument called the Pathway out of Poverty Index (PPI) is conducted on PRISMA's target groups for each intervention. This provides an estimate of their poverty level and the percentage of the target group that are living on both USD2.00 and USD2.50 PPP per day. The average percentage recorded on the bottom line varies according to the mix of interventions at any given time. The percentage of the target group falling below the USD2.50 PPP level is sensitive to: the location of the intervention; the sector in which the intervention is occurring; and, the transaction costs that the farmer incurs to adopt the change.

Moving further to the right in the bottom two quadrants (in the graphic above), as the portfolio has matured and outreach has been added in East Java, where the poverty incidence is lower but the number of poor households is very large, the percentage of PRISMA's target group below USD2.50 PPP has settled into the low 70% level. As more interventions are added to the portfolio, it is anticipated that this rate will level off at about 60%. Out of the 36 impact assessments completed for PRISMA by late 2016, 22 of these or 61% recorded that more than 70% of the target groups were living below USD2.50 PPP per day. 31 of these 36, or 86% of PRISMA's interventions, recorded that at least 60% of their target groups were living on less than USD2.50 PPP a day. This pattern is similar in the case of tertiary irrigation where their first impact assessment has recorded that 73% of their target group is also below USD2.50 PPP per day. PRISMA-2 will maintain its orientation to the poor and near poor, regularly tracking its performance in achieving outreach to the poor and its impact on their net incomes.

Annex 2: Matrix of Investment in Indonesia's Agriculture Sector

In August 2017, DFAT commissioned a Private Sector Analysis of Indonesia's agriculture sector to provide a snapshot of activity and investment in different sectors and value chains. Below is a matrix of these findings.



Annex 3: Lessons Learned from Market Systems Development

After more than a decade of experience of implementing the market systems development approach key lessons have emerged globally and from within DFAT's portfolio, including CAVAC, MDF and, most recently, from AIP-Rural. The AIP-Rural MTR outlines a range of lessons learned from implementation of AIP-Rural that have informed the design of PRISMA-2. Key lessons from DFAT's portfolio of market systems development programs include:

Market systems development works, including in fragmented and isolated contexts such as eastern Indonesia or the Pacific, and can benefit poor people and disadvantaged groups, such as women. To do so requires rigorous analysis and measurement, identification of viable business cases that can attract investment, and willingness to use a mix of intervention types and tactics. It has also been recognised that operating in these challenging contexts can adversely affect value for money, although the benefit-cost ratio of intervention typically remains positive.

Key factors that determine successful intervention include: analysis that identifies the root causes of market constraints and viable opportunities for change; robust scrutiny of potential partners' incentives and capacity to change; negotiation of partnership deals that involve substantial co-investment and test and build partners' ownership over time; early identification of 'scale agents' that can contribute significant impact and act as role models for peers to copy; and intervention teams of sufficient calibre and skills mix do the analysis, deal making, due diligence and intervention management.

Talent is the vital ingredient: market systems development is a distinctive capacity requirement. Sectoral specialisation has been found to be less critical than staff with attributes suited to market systems development: analytical, entrepreneurial, creativity, negotiation and change management. Staff are the most important way in which a program adds value: it is their intelligence, insights, ideas and influence that stimulate change. Programs have had to invest significantly in developing effective teams early in the life of a program, and then strive to retain talented staff. Since staff usually constitute the largest element of intervention costs, management systems must be capable of tracking staff time utilisation and allocating costs to interventions costs accurately, and not just record staff costs as part of overhead.

Time and patience is required: market systems development programs tend to be constrained by time rather than funds. Building effective understanding, teams and partnerships takes patience. Programs can only move as fast as co-investors are willing to move if their ownership is to be strengthened rather than diluted. Piloting innovations, measuring them, adapting them and then scaling them up can take several years, especially in seasonal agriculture. Early identification of scale agents can speed up this process, but all market systems development programs have followed an 'S-curve' trajectory towards sustainability and scale – starting small and slowly, then escalating significantly – that is markedly different from the linear pathway of direct delivery⁷⁵. This trajectory should be understood from the outset. Programs need to measure and report 'leading' indicators that can capture short term progress (e.g. partner co-investment and target group rates of access) and not rely solely on reporting 'lagging' indicators (such as change in income) that take a long time to materialise.

Use rigorous portfolio management: the pathway to large-scale change is not predictable. Programs cannot control all factors affecting interventions, partners and sector conditions. Innovations, by definition, are new; therefore, some will fail. A rigorous portfolio management approach has been found the best way to mitigate this uncertainty and ensure that aggregate performance delivers impact, by reducing dependency on a single sector, partner or intervention, i.e. by spreading the 'bets'. Successful programs

⁷⁵ Rogers, E. (1995) Diffusion of Innovations, 4th edition

have tended to focus on a blend of sectors, with different levels of risk and probabilities of impact; they have worked with a diversity of partners; and they have intervened through a range of entry points. The portfolio must be managed rigorously through routine and transparent mechanisms (e.g. monthly or quarterly team meetings). Strategies need to be re-examined regularly and the performance of interventions and partnerships monitored carefully. Underperforming or failing initiatives should be adapted, de-prioritised or dropped. Resources (people and finance) need to be re-allocated to those initiatives that are demonstrating the best potential for progress towards impact.

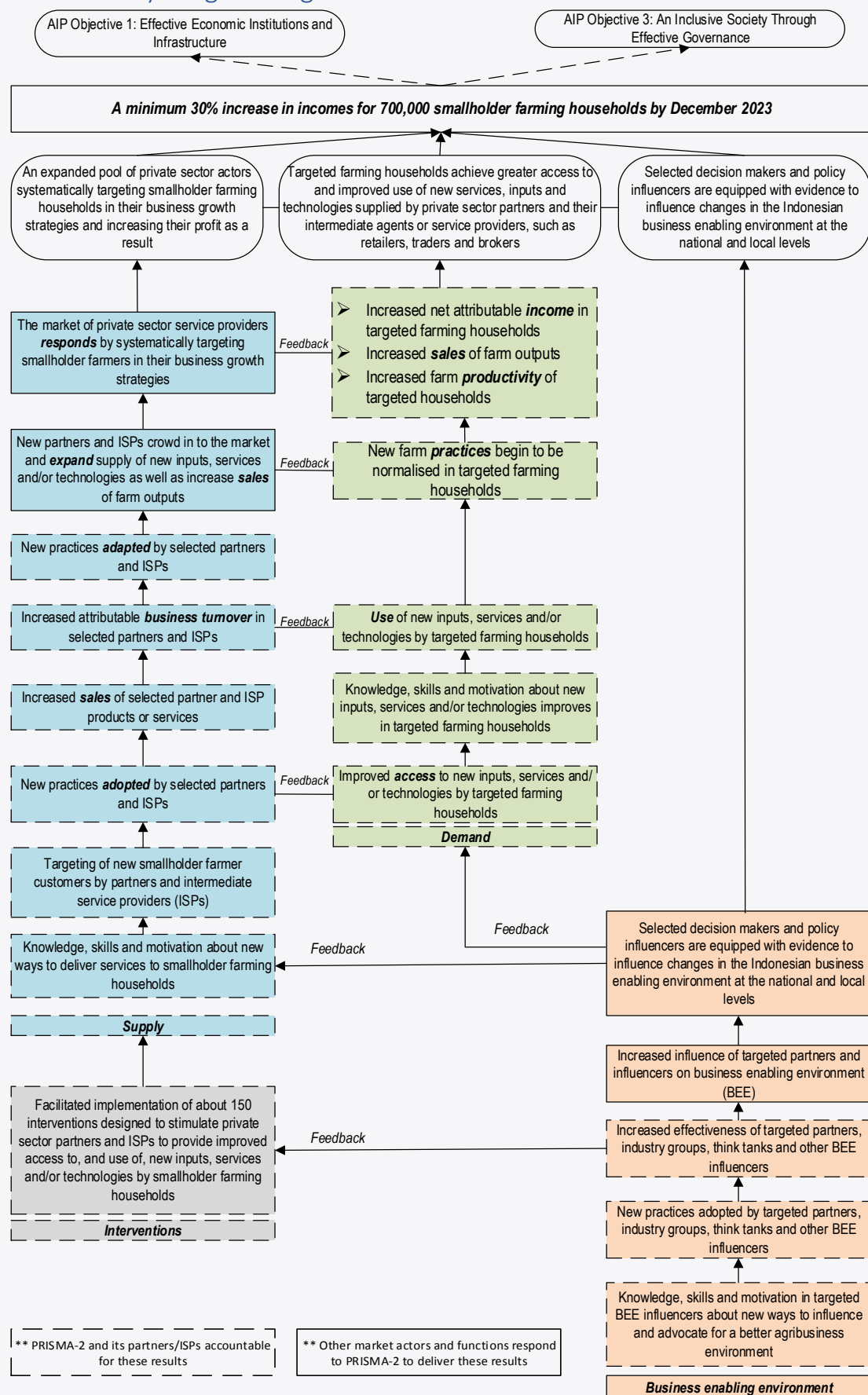
Retain as much flexibility as possible: market systems development programs work in dynamic environments, through independent market partners and do not deliver prescribed solutions. Innovation requires flexible and pragmatic contractual arrangements. Rigid, overly- detailed planning, budgeting and reporting frameworks have been found to restrict successful performance; they inhibit programs from responding to emerging opportunities and reacting to changing conditions. Programs require adaptive management systems, which provide accountability to funders but also cope with change. Typically, funders set the broad strategic parameters of program: a well-understood theory of change, high-level objectives and principles and associated targets (e.g. for goal and outcome level impact and outreach, sustainability, co-investment). Programs are then afforded considerable operational flexibility. This flexibility is managed using rigorous results measurement, incorporating short-term intervention planning and feedback loops, and regular oversight processes involving the funder, usually on a quarterly and annual basis, to set work plans and budgets and assess progress to date.

Understand stakeholder requirements and tailor communications: market systems development programs are unconventional for many stakeholders (e.g. funders, government, politicians, media). The theory of change is complicated, the approach is sophisticated and the impact trajectory takes longer than direct delivery programs. Smart stakeholder communications is therefore a key role of program management: understanding stakeholders' interests, distilling key program information so that it is accessible and responds to these interests, and managing expectations. It requires a purposive communications strategy, tailored to different audiences, that goes beyond routine reporting.

Influence public policy opportunistically: most market development system programs have had limited success in achieving specific policy or regulatory goals established at the outset of the program, even when they have had dedicated policy components. The political economy is too unpredictable and efforts have often been disconnected from mainstream interventions in sectors. More success has been achieved by being opportunistic, responding to openings as they emerge, usually as a result of sector-focused activities. It has been found that the most effective way market systems development programmes influence policy is through the evidence they generate through their analysis, the demonstration of alternative models as a result of successful interventions ('what works'), and through relationships with key market partners, who in turn have influential connections to regulators and policy makers (i.e. 'influencing the influencers').

Supportive leadership and program culture: the lessons documented above demand high-calibre program leadership and conducive program culture. Successful team leaders tend to be those experienced in change management processes, not just the technical delivery of prescribed tasks. They also tend to be skilled in human resource management, capable of building and leading a team of diverse talents. They need to be experienced in establishing and overseeing adaptive management processes that balance accountability to funders with the flexibility necessary to operate in dynamic market systems. They also need to be capable of shaping a program culture that is sufficiently open to encourage creativity and entrepreneurship, sufficiently rigorous to scrutinise information, partners and interventions, and sufficiently supportive to foster learning and development.

Annex 4: Summary Program Logic



Annex 5: Monitoring, Results Measurement and Evaluation

The results measurement standard of the Donor Committee for Enterprise Development (DCED)⁷⁶ is the foundation for monitoring and results measurement (MRM) of AIP-Rural. This is consistent with DFAT M&E Standards 1, 2 and 3, and enables consistent use of a common set of performance and management indicators across all interventions. PRISMA-2 will maintain this approach and continue to use the key performance and management indicators.

Key Performance Indicators inform performance assessment indicators used by DFAT for the Indonesia program,⁷⁷ for example, DFAT Objective 1.3 (more jobs and higher incomes, especially for poor households) and several Performance Benchmarks, including Indicator 1 (additional financing leveraged for Indonesian development), Indicator 4 (number of smallholder farmers, in particular women, with increased incomes), Indicator 5 (partnerships with businesses), Indicator 11 (ICT that support development), and in the future, potentially Indicator 3 (improvements to market efficiency, regulation and financial systems), and Indicator 6 (improvements to human development policies and programs).

Box 1: Key performance indicators

Key performance indicators used by AIP Rural (using sex-disaggregated data wherever possible) are:

- KPI 1 – Number of farming households that increase their income due to AIP RURAL Interventions (Outreach)
- KPI 1a – Number of farming households under USD2.50 PPP poverty line with increased net-incomes
- KPI 2 – Net attributable additional income change for targeted farming households (NAIC)
- KPI 2a – Net attributable additional incomes of farming households under USD2.50 PPP poverty line
- KPI 3 – Number of Intermediary Service Provider with increased turnover
- KPI 4 – Value of additional turnover of Intermediary Service Providers
- KPI 5 – Number of innovations introduced by private sector
- KPI 6 – Number of initiatives taken by government to improve business enabling environment
- KPI 7 – Number of intervention partners (private sector and public sector)
- KPI 8 – Value of investment by private sector partners in IDR

Management indicators such as disaggregated disbursement (direct intervention, personnel and management costs); variance from planned disbursement, outputs and human resource deployment; and time to recruitment and implementation of interventions are also consistently monitored across the program. KPI's are sex-disaggregated.

PRISMA-2 will use the AIP-Rural MRM system (see related operations manual) to monitor adequacy of progress and measure impact as well as the AIP-Rural management information system (MIS) to consolidate intervention MRM data for reporting and benchmarking. In addition to the senior management team who use MRM data and information to support management decisions, the primary audience for results information is DFAT Post and their BAPPENAS partners. The information is designed to support strategic and tactical decisions for continuous improvement in PRISMA-2 implementation.

At the time of transition to PRISMA-2 the MRM team will comprise at least one Head of Results Management and 11 staff. This team will design, conduct and report monitoring and survey activities as well as inform the reporting and portfolio review processes. The PRISMA-2 team will be managed to have an evidence-based management culture, with results used to actively manage interventions, periodically review the portfolio and inform resource allocation decisions.

The PRISMA-2 MRM system will continue to meet the DFAT M&E Standards and support DFAT AQCR reporting by retaining 8 critical components from AIP-Rural:

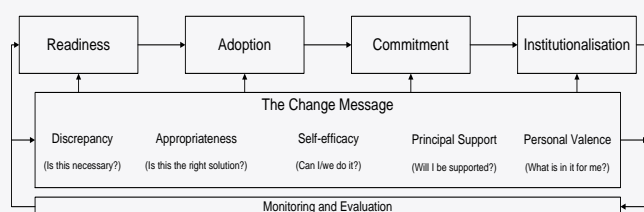
⁷⁶ Donor Committee for Enterprise Development – see: www.enterprise-development.org/measuring-results-the-dced-standard/ Over 120 projects in more than 50 countries currently apply the DCED Standard for results measurement.

⁷⁷ For details, see the 2016-17 Indonesia Annual Program Performance Report and PAF at: <http://dfat.gov.au/about-us/publications/Pages/indonesia-aid-program-performance-report-2016-17.aspx>



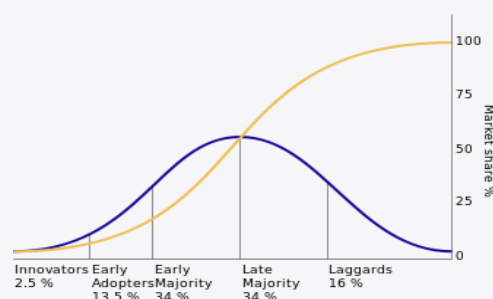
1. **Program theory and logic model** – the foundation of the MRM system is the theories explaining why change is anticipated to occur and the related logic model that demonstrates the causal relationships between interventions, outputs (what is produced or delivered) and outcomes (what businesses and people do differently as a result of PRISMA-2). The summary program logic model is presented in Annex 4 and is informed by theories that explain the causal mechanisms including: how individuals change (Chart 1); how organisations change; how new ideas spread (Chart 2); how market systems work; and how market systems change (Chart 3).
2. **Intervention results chains** – each intervention has a results chain that explains the expected changes and how those will create other changes that will ultimately lead to increased incomes for smallholder households. PRISMA-2 will measure changes for up to two years for each intervention. Measurement will be made with rigorous baseline, impact and longitudinal studies. Consistent with AIP-Rural, 6-10 studies will be implemented each semester. Key lagging indicators (Box 1) will be complemented by leading indicators including access to innovations and use of new inputs, services and/or technologies.
3. **Systemic change in markets** – PRISMA-2 is designed to create systemic change in each targeted market, which is monitored for each intervention using the Adopt-Adapt-Expand-Response framework (Chart 3).

Chart 1: How individuals change



Source: Armenakis, A., Harris, S. and Feild, H. (1999) *Making change permanent: a model for institutionalising change interventions*. Research in Institutional Change and Development, Issue 12, pp97 – 128. Stamford, CT: JAI Press Inc. USA.

Chart 2: How new ideas spread



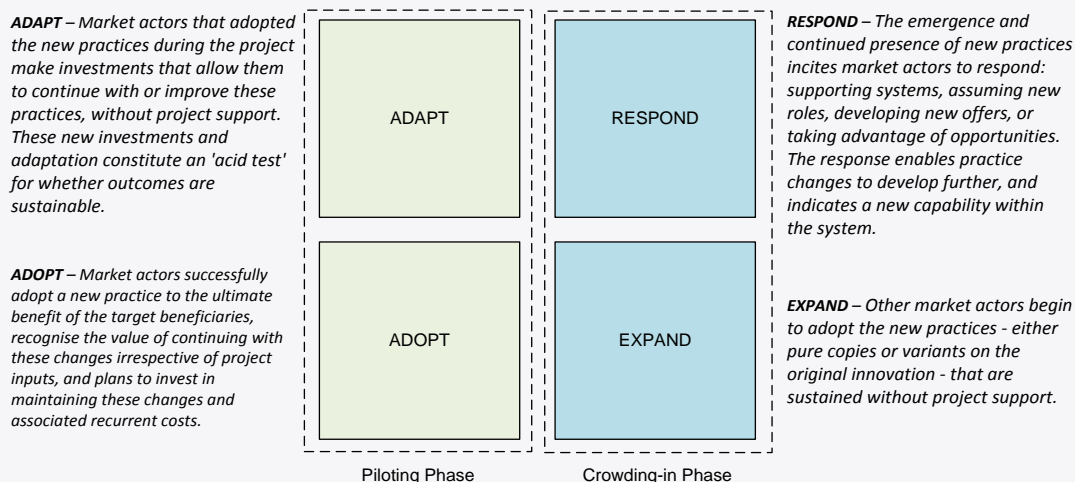
Source: Rogers, E. M. (1962) *Diffusion of Innovations*. Glencoe: Free Press, USA.

4. **Qualitative, contextual and unexpected change** – evaluative studies, contextual analyses and case studies are systematically and purposefully prepared to inform strategic reviews and support economic diplomacy and policy dialogue. *Stories from the field* are one such product⁷⁸ as are videos illustrating progress and impact⁷⁹. In PRISMA-2 there is an opportunity to include more qualitative indicators in the MRM system. For example, time savings for farmers (identified as an unexpected benefit from pig and beef interventions) is an additional benefit, especially for women. More reporting of leading indicators already measured (e.g. access and use) and sex-disaggregated data (e.g. use and income change) would also add value. There is a trade-off between the costs and benefits of additional indicators – a judgement for tenderers to make.
5. **Portfolio management using a quality management tool (QMT)** – monitoring information from each intervention will be collated with the AIP-Rural MIS to enable aggregated reporting. These collated data will be actively used to inform management and portfolio review. Systematic portfolio reviews using a quality management tool (Chart 4) will enable regular portfolio refinement and adjustment of resource allocation to efficiently achieve agreed targets. For example, AIP-Rural's portfolio reviews are conducted twice a year (typically in June and December) and use a practical range of quantitative and qualitative indicators to rank intervention quality and performance: outreach, benefit, rationale, value for money, quality of deal, quality of collaboration, systemic change potential, poverty, gender, and environment.

⁷⁸ http://aip-rural.or.id/uploads/publication_files/PRISMA_Stft_Coffee_Government_the_Private_Sector_eng.pdf

⁷⁹ <http://aip-rural.or.id/index.php/media/detail/10>

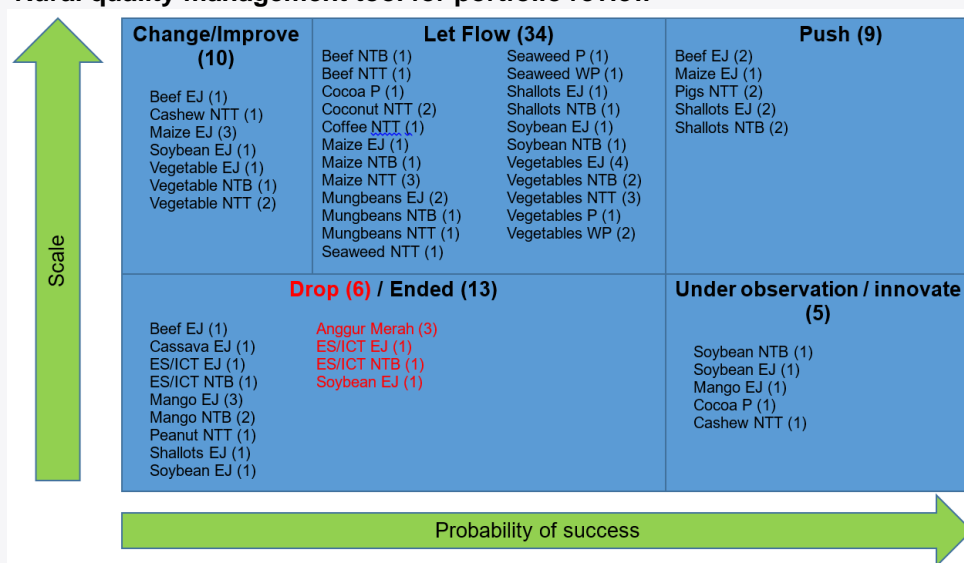
Chart 3: Adopt-Adapt-Expand-Response framework



Source: Nippard, D., Hitchins, R., and Elliott, D. (2014) *Adopt-Adapt-Expand-Respond: a framework for managing and measuring systemic change processes*. Briefing Paper, The Springfield Centre for Business in Development, Durham, UK. [pp6-8]

- Value for money assessment** - The PRISMA-2 MIS will continue to monitor three value for money indicators: investment leverage, social return on investment, and investment per farmer. These align directly with effectiveness, efficiency and economy measures identified in the DFAT value for money guidelines. The ethics measures identified in the DFAT guideline are addressed with existing key performance indicators, especially KPI1a.

Chart 4: AIP-Rural quality management tool for portfolio review



Source: PRISMA (2017) PRIP Semester 1, 2017.

- Reviewing, learning and decision-making** – The MRM system will continue to provide a feedback mechanism for managers to facilitate learning and improvement of program implementation and portfolio management. Because PRISMA-2 will operate in a dynamic, complex system it will use a continuous learning mechanism (Chart 5). Consistent with AIP-Rural, PRISMA-2 will try out interventions and continuously refine and improve their implementation. In addition, PRISMA-2 will also periodically review the performance of its sub-sectors and portfolio, decide whether they are likely to achieve PRISMA-2 program targets and adjust resource allocation accordingly.

Intervention reviews will be conducted as needed. Sub-sector reviews are anticipated to be conducted once a year, typically in May.

8. **DCED audit of MRM system** – DCED auditors will be periodically engaged to conduct third-party, independent, performance audits of the PRISMA-2 MRM system. The audits will independently verify that results measurement documentation and processes generate credible information using mandatory and recommended control points set out in the DCED Standard. This will also allow PRISMA-2 to be benchmarked against international peers. The target is for the PRISMA-2 MRM System to be maintained to be at least 90% compliant with the DCED Standard for measurement and results management.

Most monitoring tools, study methods and processes for using MRM information were fully established in AIP-Rural. They align with DFAT M&E Standards 2 and 3, and are described in the publicly available MRM Manual and related guidelines⁸⁰. The MRM system will ensure that management of PRISMA-2 is supported by clear and concise information about what is happening in reality. The identification of the key information will be guided by the development of a results chain for each intervention. Development of results chains implies that the appropriate indicators for each results chain are developed and projected; the identification of the appropriate indicators implies that those indicators must be measured using good survey methods, with clear attribution strategies. The selection of methods of measuring attributable results requires that the program considers external influencing factors (the context) and is able to establish a counterfactual of what would have happened without the intervention. This careful measurement must also apply to measurement of systemic change in target markets. The results that have been verified using audited measurement methods and systems are then recorded, consolidated and used to review performance.

To monitor progress towards inclusion, the MRM system will continue to disaggregate outreach and income change data by geography (province), sex (women and men) and household income level (above and below USD2.50 PPP). Other data disaggregation may be adopted to inform management, refine facilitation with partners and ISP, align with indicators used for the DFAT Indonesia PAF and DFAT Aggregated Development Results, and better influence influencers. Methods for impact evaluation are described in Annex 1, because they have a strong focus on poverty as well as gender equality and social inclusion.

The PRISMA-2 MRM system will aggregate results across different interventions and sectors, both to guide decisions on program portfolio and to report aggregate program progress. Results from AIP-Rural interventions (both those continuing during the transition period and those results arising within two years after completion – as prescribed by the DCED Standard) will be measured, identified separately and reported, and will be used to contribute to PRISMA Plus targets. Aggregation methods will account for any overlap between interventions to avoid double-counting. The MRM system will also ensure that cross-cutting issues (such as gender, social inclusion, nutrition, environmental protection and food security) are integrated into interventions and are measured. At a minimum, the program will continue to have a do-no-harm policy with regards to all these issues, and where possible will aim to do more.

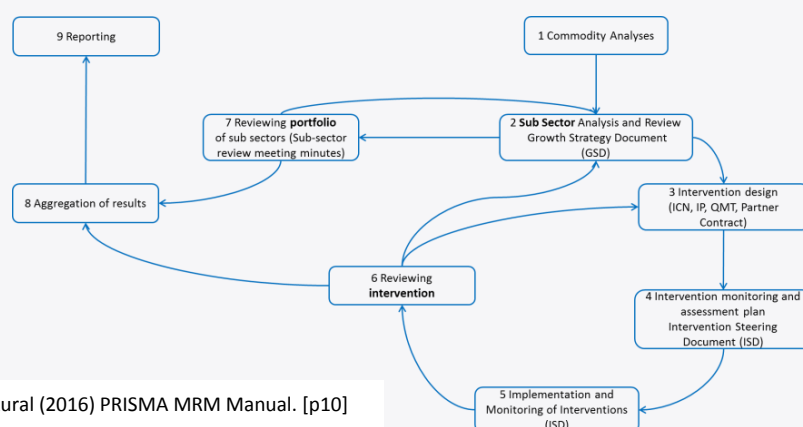
Evaluative studies will be used by PRISMA-2 to explore why change is happening, and if change is not happening as expected, to explore why not. Each study will be designed to learn lessons to support specific management decisions or understand why particular results are emerging. This will be especially important for new elements included in PRISMA-2 (e.g. policy dialogue and influencing influencers). Key evaluation questions to guide annual performance analysis and reporting will include, but need not be limited to:

⁸⁰ http://aip-rural.or.id/uploads/publication_files/150810_Outreach_Cal_Module_NJF_ML1.pdf

- To what extent do the political and policy contexts in Australia and Indonesia support the strategic intent and approach of PRISMA 2?
- Is adequate progress being made towards end-of-program targets? If so, why? If not, why not?
- What is the trend in value for money indicators across the population of interventions making up the PRISMA 2 portfolio?
- What is the trend in key performance indicators across the population of interventions making up the PRISMA 2 portfolio?
- To what extent are human and financial resources efficiently allocated across the population of interventions making up the PRISMA 2 portfolio?
- What key drivers in the evolving context of eastern Indonesian agribusiness enable the program's approach to work, or constrain its effectiveness?
- To what extent has PRISMA-2 impacted women, people living on less than USD2.50PPP/day and other marginalised groups?

The PRISMA-2 MRM system will continue to be driven by those who implement interventions. Their roles and responsibilities are described in the AIP-Rural MRM Manual. A significant part of the responsibility for carrying out results measurement will fall on the sub-sector team, while a significant part of the responsibility for carrying out results measurement robustly and accurately will fall on the MRM team. Good and useful results measurement for the program will only be possible with both teams working together while carrying out the roles set out for them in the MRM Manual.

Chart 5: PRISMA-2 performance assessment and management cycle



Source: AIP-Rural (2016) PRISMA MRM Manual. [p10]

In summary (see schematic to the right), the logic is that PRISMA-2 facilitates changes on the supply side, demand side and business enabling environment through:

- **Market interventions** – private sector partners and the intermediate service providers (ISP) they supply are engaged to design and deliver a market intervention offering new services, inputs and/or technologies relevant to targeted women and men smallholder farmers. This is what the program does, manages and pays for.
- **Supply-side partner co-investment** – as early implementation of an intervention yields results, the private sector is catalysed to innovate and invest to better serve smallholder farmers on a commercially viable basis. Interventions are designed to deliver changes in knowledge, skills and motivation of partners, who change their behaviour to engage with different intermediate service providers supplying



the demand of farmers targeted by PRISMA-2. Over time, the share of investment from partners increases and the contribution from PRISMA-2 declines.

- **Supply-side intermediate service provider business changes** – PRISMA-2 facilitation enables ISPs to engage with smallholder farmers and gain organisational knowledge, skills and motivation that enables systemic change within the organisation, which if successful starts to change the market. Changed behaviour by the partner leads to changed knowledge, skills and motivation in ISPs who will then provide better access to new inputs, services or technologies, which in turn leads to changes in practices and productivity of the partner as well as targeted farmers.
- **Demand-side changes in farmer practices** – With access to new services, inputs and/or technologies from ISP and communication of the opportunities they offer, farmers gain new knowledge, skills and motivation to use these innovations. If early use is effective, more farmers adopt the change with new practices that lead to higher productivity, sales and profits, which generates net additional income. As a result, more businesses recognise the commercial opportunities of serving smallholder farmers.
- **Changes to the business enabling environment** – As market constraints are identified and the results of early interventions are measured, private sector businesses and their professional bodies, such as chambers of commerce; and analytical resources, such as think tanks, will prepare information to communicate with policy makers and others who control or influence the business environment. PRISMA-2 will not do this directly, rather the program will influence influencers to drive change when policy windows emerge.

Each PRISMA-2 intervention has its own results chain modelled along the principles of the program logic. These are used to monitor adequacy of progress and assess the impact of each intervention. A MRM plan is developed for each intervention, which aligns with DFAT M&E Standard 2 and defines when and how impact will be assessed. PRISMA-2 will report results that are measured and attributed to the program. Measurement and reporting of results will be fixed within a specific time frame. The starting point for monitoring will be when intervention activities start. The impact will be assessed for up to two years after that intervention ends.

The results chain reflects how women and men farmers will benefit, the total number of farming households benefiting, and the total net additional attributable income over a two year period that will be 'claimed' as a result. Changes in income and outreach beyond two years after the intervention ends will not be claimed even though the benefits continue to happen after that period. This is because at the end of two years the change is likely to be part of the regular workings of the sub-sector and be influenced by other factors. There may be exceptions to this rule; for example, some interventions may take more than two years after activities end to show any benefits.

As in AIP-Rural, PRISMA-2 will use statistically-designed, periodic intervention baseline studies and impact assessments to determine the number of households with net attributable additional income. This will give robust and verifiable outreach data. Agricultural seasons will mean measured outreach and income change is higher in the second semester of the year. In addition, longitudinal income studies will be used to track income allocation by smallholder households in selected sub-sectors.

PRISMA-2 will report measured and attributable progress every six months (January and July), consistent with AIP-Rural practice and DFAT M&E Standard 3.⁸¹ These semester reports to DFAT will use agreed KPIs to report progress and projections including projected change, cumulative change to date, and changes achieved over the six-month reporting period. Qualitative information will be used to explain the reasons behind changes in the KPIs and what these changes mean for adequacy of progress. As in AIP-Rural, the learning and review cycle of the program will be timed to fit in with the reporting cycle.

⁸¹ See: <https://dfat.gov.au/about-us/publications/Documents/monitoring-evaluation-standards.pdf> [Accessed February 17, 2017].

Annex 6: Geographic and Sector Focus

The geographic focus for AIP-Rural (2013-18) was determined during its early design stages. Altogether five provinces were selected: NTT, NTB, East Java, Papua and West Papua. The criteria used for this selection included: the higher incidence of poverty in these provinces, the plausibility of achieving the program's outreach targets, the continuation of past DFAT engagement in rural development in these provinces and lastly the proximity of these provinces to Australia.

Within these five provinces several commodity sub-sectors were selected to enable the first generation of interventions to be commissioned to NGO facilitators at the start of AIP-Rural. The criteria used to aid in the selection of these sub-sectors included: the incidence of poverty among the farmers in that sub-sector; the growth potential of the sub-sector; the presence of willing and capable partners and; a mixture of other priorities (gender, social inclusion, environment and GoI policy alignment). Commodity briefs were then prepared and used as inputs for what later become known as Growth Strategy Documents. The sectors included, at that time were: maize, beef, mangos, legumes (peanuts, soya beans and mung beans), and vegetables (shallots, chilies, tomatoes and potatoes).

Sector selection and screening during the implementation of AIP-Rural

In AIP-Rural the process of screening sectors is a continuous one; a sub-sector can initially appear to be of high potential but after some time of implementation it may fall short of the needed performance standards. This process of selecting and de-selecting subsectors described below has worked well so far and it is suggested to retain its core elements for PRISMA 2.

1. Sub-Sector Identification:

The starting point for identifying and screening sub-sectors is secondary data (the agricultural census). This reveals the number of households that are cultivating a crop or rearing livestock in any specific geographic location. An approximation is made of the percentage of the target group that are living on less than USD2.50 per day, to maintain a clear poverty orientation. Since the outreach targets of the program are large, smaller sectors drop out at this stage unless they represent a potential for high impact on a marginal or socially desirable target group (like seaweed in Papua). Following this, a sub-sector's growth potential is estimated by benchmarking yields and prices with national norms; the lower they are, the greater their potential but at the same time the greater the challenge. A third criterion assesses the scope for intervention. This involves conceptualizing what types of interventions might be feasible and whether there are potential partners that might be interested in working in these areas with the program. Finally, crosscutting themes, like women's empowerment, animal welfare, the environment, and public priorities are considered to determine the sectors' value beyond outreach and net income increases. A scoring matrix, with these criteria and their respective weighing is used to assist in final selection. These criteria are similar to those used in the initial sub-sector selection but with greater emphasis placed on partner engagement.

2. Sub-sector Growth Strategy Document:

Once a sub-sector is selected for potential inclusion in the portfolio, a Growth Strategy Document (GSD) is internally commissioned. This document is geographically specific, for example, "maize in NTT", or "coffee in Flores". The GSD defines the boundaries of the sub-sector, estimates the outreach potential, validates growth opportunities and assesses the constraints to income growth for farmers in that sub-sector. The outcome of the GSD is a list of **intervention areas** that match the outreach and impact targets of AIP-Rural. The GSD is updated annually as part of a detailed portfolio review process that internally evaluates 50% of the portfolio on a 6-monthly basis. In May 2017 AIP-Rural had 28 GSD in 23 sub-sectors.

3. The Intervention Concept Note:

To move from an intervention area, as identified in the GSD, to an operational intervention, further investigations are carried out through what is called the Intervention Concept Note (ICN). The ICN is prepared by a small team of Business Consultants and has a prescribed PowerPoint format. While identifying *core problems* for the target groups is the aim of the GSD, suggesting *sustainable solutions* is the aim of the ICN. The ICN is reviewed by at least two senior mentors from other subsectors. It is assessed against several criteria including: the likely outreach; the expected net attributable income change on the farmers; its estimated value for money; the quality of its constraints analysis; the relevance of the actors included and the complementarity of their roles to overcome the constraint; the accuracy of the calculations to ensure that all actors are gaining from the intervention; the high potential for sustainability and systemic change; opportunities for women's empowerment; and its examination of the positive or negative impacts on the environment. The ICN will often go through at least two iterations before it is approved. In the second semester of 2016 AIP-Rural generated approximately 20 approved ICNs. Approximately 80% of these ICNs proceed to the next stage of approval.

4. The Intervention Steering Document:

Following the approval of the ICN and the feedback of the two external mentors, the intervention team then begins, in earnest, to prepare an Intervention Steering Document (ISD). This includes: several meetings with potential partners to assess their interest and capability, the Deal Making Guidelines being the basis for shaping this partnership; the preparation of a more detailed causal model with specific indicators; a measurement plan to identify what and when to measure; an opening budget with the specific contributions of the different parties; and a timeline with milestone activities or outcomes. This document is sufficiently quantitative to enable its entry into the Management Information System so that the program's Key Performance Indicators (quantitative monitoring indicators such as outreach, impact, partner contributions, number of partners and service providers, partner leverage etc.) can be measured and a comparison made between planned and actual performance. Any changes to the intervention (projections or impact assessments) are recorded in the ISD which is the basis for reporting on value for money and semester achievements/key performance indicators for all progress reports.

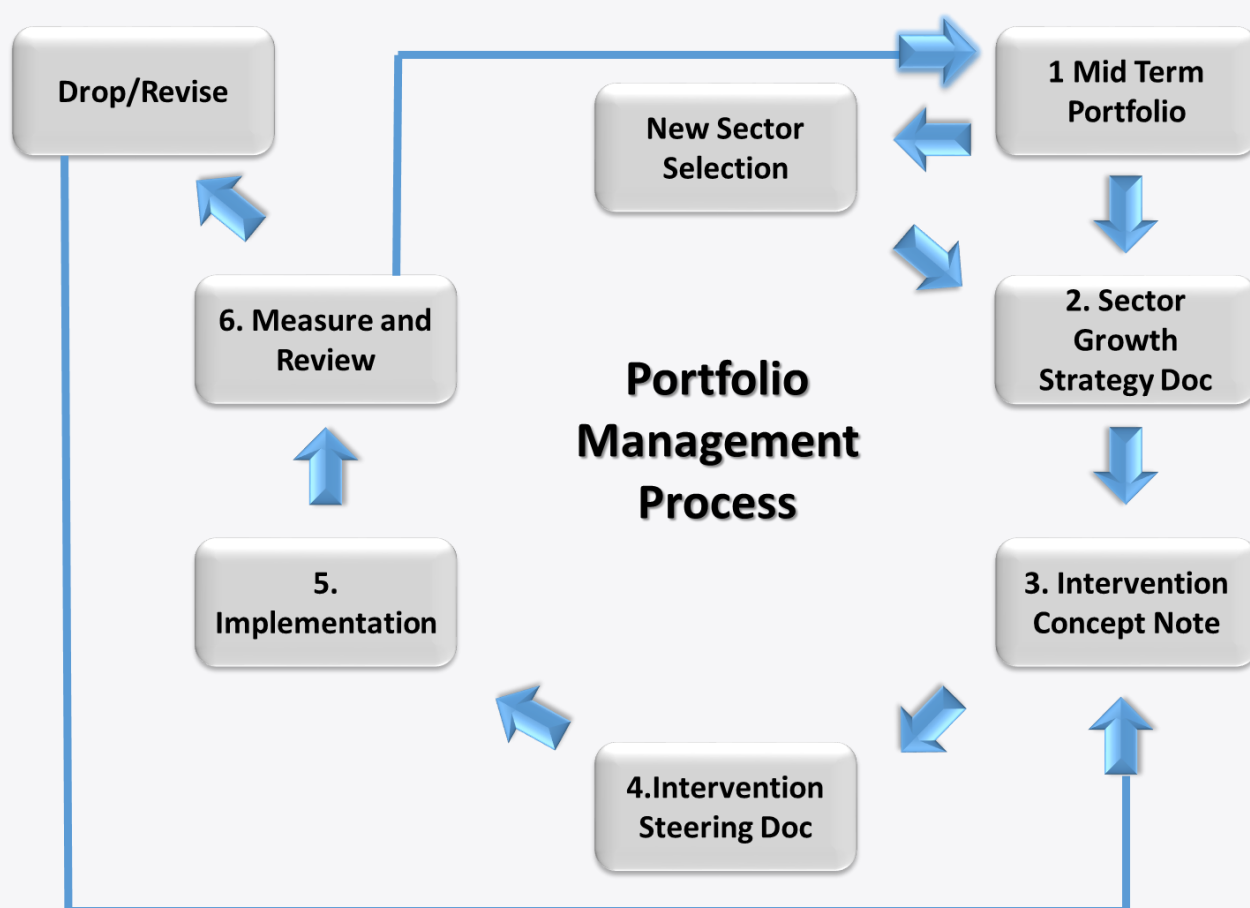
5. Intervention Implementation:

When the partner agreements have been signed (typically an MoU with the expenditure and expected inputs and outputs from each side clearly identified) and implementation starts, attention is directed to testing the intervention's impact hypothesis; for example, if better seeds are used by farmers in this area, in combination with information on how to use them effectively, then the productivity gain should be XX% resulting in an XX% increase in net incomes. At this stage of the intervention the number of farmers may be as small as a few hundred because the initial focus is to test the assumptions supporting the causal model (results chain) through a modest impact assessment; for example, what proportion of farmers who attended a demonstration plot used the innovation and then benefitted from an increase in their agricultural incomes. The timing of these activities is critical to success because most crops have seasonal cycles. Once the impact assessment has provided its feedback on the viability of the intervention's development hypothesis, implementation then moves into a scaling mode; at this point the emphasis is on commercializing the sale of the innovation with one or more partners, together with the provision of any information or services that are associated with the innovation's optimization.

6. Portfolio Review:

With approximately 90 interventions (as of December 2016) in 23 commodity and livestock sub-sectors, with around 70 different partners, keeping track of the portfolio is an essential and an on-going process. This is the main task of the Heads of Portfolio (HoPs) each of whom may have upwards of 15 on-going

interventions with another 5 or more in the pipeline. Internal reviews are held monthly by the HoPs, but every 6 months a more formal portfolio review is conducted over a 3 to 4-day period with all the HoPs and other members of the Senior Management Team, from all thematic areas, to review at least 50% of the total portfolio. In preparation for this review mentors from senior management are assigned to sub-sectors and interventions that are outside of their own portfolios. These mentors lead the reviews of these sub-sectors or interventions. The outcome of these reviews is to categorize all interventions into the following groupings: improve, let flow, push, observe/innovate or drop. For more details on this matrix see Annex 5 on Monitoring and Results Measurement. During these reviews as many as 25% of interventions or sub-sectors may be considered for dropping. The reasons for dropping a sub-sector/intervention can be many, but the most frequent ones are: the innovations failed to deliver results; the partners lost interest, the outreach was too low, etc. The key instrument that is used to objectively assess each sub-sector or intervention is the Quality Management Tool or QMT. This is the same tool that is used in the intervention screening process, but when used during the review the actual rather than the projected figures are inserted to measure, for example, the intervention's value for money. It is also during this review that new sub-sectors are considered for inclusion. If they conform to the initial criteria mentioned in step 1 then GSDs are commissioned and staff are then asked to proceed to steps 2 and 3. This process is summarized in the diagram below.



This process has resulted, for example, in the dropping of specific interventions targeting chillies, tomatoes and potatoes in some areas and the addition of cassava, cashews, coffee, cocoa and coconuts. Across the portfolio, PRISMA-2 will have an anticipated failure rate of 30% of its interventions.

Area selection for PRISMA-2

The original design of AIP-Rural called for a target outreach to 1 million smallholder households over a 10-year period, 300,000 of which should be reached at the end of the first phase (December 2018). On the assumption that AIP-Rural is successful in reaching its target, this leaves 700,000 households for the period between January 2019 and December 2023. Conscious that AIP-Rural is already managing around 90 interventions through 70 partners with 120 staff, DFAT is aware that there are limits to its expansion. For this reason, it was decided that additional provinces would be limited. To assist in the screening of new potential areas, the following process was used:

Identifying five potential new provinces: This stage of the process canvassed staff within AIP-Rural, DFAT's Rural Unit, BAPPENAS, and existing partners, on provinces that may be suitable for expansion. Broad criteria included: poverty orientation, outreach potential and partner interest. This resulted in the identification of: West Java, Central Java, North Sumatera, South Sulawesi and Lampung.

Scoring the five provinces: The process of narrowing down the five to one province started with the identification of the top 4 commodity sub-sectors in each province. Commodities identified from the Agricultural Census that required long gestation periods like teak or palm oil were excluded from this list and replaced with the next most important crop or livestock species. Added to these top 4 were between 2-4 sub-sectors that the interviews with existing private sector partners had identified as being of high priority to them, in these provinces. This resulted in a scoring matrix that combined locational issues, like governance and infrastructure, with 7 commodities in West Java, Central Java, North Sumatera, South Sulawesi and 6 commodities in Lampung. The locational scoring used existing provincial ranking indices and for the sub-sectors the criteria listed below applied. Each criterion was scored between 1 and 5 and the score was based on a chosen set of numeric data.

1. Poverty Orientation (30% of the score)

- The estimated % of farming households in the province (and any spill over areas) engaged in the primary or secondary production of the commodity.
- The estimated % of the target group in the commodity sector considered to be low income.
- The potential outreach numbers of that commodity in that province.

2. Growth Potential (20% of the score)

- How has the sector grown over the past 3 years?

3. Partnership Potential (30% of the score)

- Are there potential private sector actors within the selected commodity/province that the program can engage with for interventions?

4. Gender and Social Inclusion (10% of the score)

- Does the sector/province have positive impacts on furthering social objectives related to gender and social inclusion?

5. Infrastructure:

- Are there major infrastructure investments required to support the expansion of the sector?
- Are there any significant positive or negative provincial/district governance issues to consider in working in the province?

Reducing the 5 provinces to 1 (plus 1 back up): In the final scoring, Central Java came out as the clear preferred province, due primarily to the high numbers of poor famers combined with the most potential for our private sector partners (BAPPENAS also supported the selection of Central Java). The selection of a second ranked potential province (which can potentially be held in reserve if outreach in PRISMA-2 is insufficient at midpoint) was then reduced to West Java, North Sumatera and South Sulawesi, with Lampung coming last. BAPPENAS voiced a preference for the second ranked province to be off-Java (ruling out West Java). Since South Sulawesi is logistically easier to include than North Sumatera (located in western Indonesia), South Sulawesi was identified as the second ranked potential province.

The tables below are examples of the application of the above-mentioned scoring matrix:

Combined, Companies x Top Commodity x Province		West Java							Central Java						
Criteria	% weight	Sheep (Wj)	Banana (Wj)	Peanuts (Wj)	Mango (Wj)	Rice (Wj)	Veges all (Wj)	Potato (Wj)	Goats (Cj)	Beef (Cj)	Banana (Cj)	Peanut (Cj)	Rice (Cj)	Veges all (Cj)	Maize (Cj)
1. Poverty Orientation	30%														
1.1 The estimated % of farmers in the district (and any spill over area) engaged with the primary or secondary production of the commodity	16%	4	4	3	3	5	4	1	5	5	5	4	5	4	3
1.2 The estimated % of the target group in the commodity sector and in the district/province considered low income	12%	3	2	2	2	5	1	2	5	5	4	4	5	3	2
1.3 The potential outreach numbers.	12%	4	4	3	3	5	3	3	5	5	5	4	5	4	3
2. Growth Potential	20%														
2.1 How well the sector has been growing in the province over the past 3 years	100%	5	5	2	3	3	5	5	5	3	4	3	5	5	5
3. Partnership Potential	30%														
3.1 Are there potential private sector actors within the selected commodity/provinces that AIP-Rural could engage with for interventions?	100%	2	3	3	4	5	5	5	2	4	3	4	5	5	5
4. Gender & Social Inclusion	10%														
4.1 Does the sector /province have positive impacts on furthering social objects related to gender and social inclusion?	100%	4	4	4	4	4	4	4	5	5	5	5	5	5	5
5. Infrastructure & Governance	10%														
5.1 Are there major infrastructure investments required to support expansion of the sector?	50%	5	5	5	5	5	5	5	1	1	1	1	1	1	1
5.2 Are there Governance issues to consider in the commodity/province?	50%	3	3	3	3	3	3	3	4	4	4	4	4	4	4
Provincial Average Score		3.41	3.61	3.01	3.31	4.41	4.11	3.90	3.76	4.06	3.76	3.76	4.76	4.36	4.06
Outreach numbers		West Java							Central Java						
Province Potential Outreach Total HH		533,922							904,626						
Potential HH/commodity outreach		57,074	54,788	32,592	30,937	322,856	33,005	1,670	105,440	122,643	91,916	73,236	402,699	65,074	49,617
Total households		456,593	438,303	268,733	247,499	2,152,374	220,035	13,362	843,313	817,633	735,328	585,891	2,694,662	433,828	290,777
Potential % households reached		12.5%	12.5%	12.5%	12.5%	15.0%	15.0%	12.5%	12.5%	15.0%	12.5%	12.5%	15.0%	15.0%	15.0%

Combined, Companies x Top Commodity x Province		North Sumatra							South Sulawesi							Lampung					
Criteria	% weight	Rubber (NS)	Pigs (NS)	Coffee (NS)	Cocoa (NS)	Rice (NS)	Veges all (NS)	Maize (NS)	Cocoa (SS)	Beef (SS)	Coconut (SS)	Coffee (SS)	Rice (SS)	Pig (SS)	Veges all (SS)	Rubber (LG)	Peanuts (LG)	Cocoa (LG)	beef (LG)	Rice (LG)	Maize (LG)
1. Poverty Orientation	30%																				
1.1 The estimated % of farmers in the district (and any spill over area) engaged with the primary or secondary production of the commodity	16%	3	2	2	2	5	2	1	3	3	2	1	4	1	1	3	3	3	2	4	1
1.2 The estimated % of the target group in the commodity sector and in the district/province considered low income	16%	2	1	1	1	3	1	1	2	2	1	1	3	1	1	2	2	2	2	3	1
1.3 The potential outreach numbers.	16%	3	2	2	2	4	2	1	3	3	1	1	4	1	1	3	2	3	2	4	1
2. Growth Potential	20%																				
2.1 How well the sector has been growing in the province over the past 3 years	100%	3	5	5	2	4	4	4	3	4	2	2	4	4	4	4	1	3	1	4	2
3. Partnership Potential	30%																				
3.1 Are there potential private sector actors within the selected commodity/provinces that AIP-Rural could engage with for interventions?	100%	4	4	4	4	4	5	4	5	5	1	4	4	5	5	4	2	4	4	4	4
4. Gender & Social Inclusion	10%																				
4.1 Does the sector /province have positive impacts on furthering social objects related to gender and social inclusion?	100%	2	2	2	2	2	2	2	3	3	3	3	3	3	3	1	1	1	1	1	1
5. Infrastructure & Governance	10%																				
5.1 Are there major infrastructure investments required to support expansion of the sector?	50%	3	3	3	3	3	3	3	2	2	2	2	2	2	2	3	3	3	3	3	3
5.2 Are there Governance issues to consider in the commodity/province?	50%	3	3	3	3	3	3	3	4	4	4	4	4	4	4	4	2	2	2	2	2
Provincial Average Score		3.11	3.30	3.30	2.70	3.71	3.30	2.80	3.41	3.71	1.80	2.60	3.71	3.20	3.20	3.06	1.96	3.06	2.35	3.46	2.25
Outreach numbers		3.18 196,446							3.09 170,975							2.69 180,657					
Province Potential Outreach Total HH		North Sumatra							South Sulawesi							Lampung					
Potential HH/commodity outreach		42,514	24,929	23,036	16,032	71,212	16,450	2,273	35,029	31,215	8,338	8,829	74,546	7,157	5,863	35,134	21,023	34,389	21,428	67,872	1,032
Total households		340,110	199,430	184,290	160,321	569,698	131,602	22,730	280,218	249,722	111,175	88,294	596,370	57,253	46,888	281,068	280,300	273,355	214,277	542,978	10,316
Potential % households reached		12.5%	12.5%	12.5%	10.0%	12.5%	12.5%	10.0%	12.5%	12.5%	7.5%	10.0%	12.5%	12.5%	12.5%	12.5%	7.5%	12.5%	10.0%	12.5%	10.0%

Estimating potential outreach with this selection of additional provinces:

With this secondary data and a sample of confirmed interest from partners, it was then possible to make a 'notional' estimate of what the possible outreach might be within these 5+ 1 (or 2) provinces.

Estimating the potential outreach for PRISMA-2 is based on the Agricultural Census of 2013 which records figures for farming household numbers in the different crops or livestock sub-sectors in each province. To calculate a notional outreach for the 7 provinces, four scenarios were constructed based on census data. These scenarios were:

- The potential outreach to households in the current sub-sectors and in the current 5 provinces;
- The potential outreach to households in the current 5 provinces in new sub-sectors;
- The potential outreach to households in the current subsectors in the 2 potential new provinces and;
- The potential outreach to households in new sub-sectors in the 2 potential new provinces.

This estimation is not a selection of sub-sectors for PRISMA-2 but rather used to determine if the outreach target of 700,000 smallholder farming households (60% of which consist of people living below USD2.50 per day) is plausible. Total farming household figures in those sub-sectors were then reduced to 10% to represent realistic targets based on lessons from AIP-Rural. At the same time estimates were made of the percentage of these households with farmers living on less than USD2.50 per day. The resulting figures for total farming households was 25,772,000, 10% of this was 2,577,200 and of this figure (depending on the individual poverty estimates of the provinces) 1,577,000 were estimated to be living on incomes below USD2.50 per day. On the assumption that some of these numbers may be over-reported in the Agricultural Census, the total potential outreach for all households could be reduced by a further 25% to 1,932,900, and those below USD 2.50 per day to 1,182,000⁸². If the target of PRISMA-2 is to reach an additional 700,000 smallholder farming households, 60% of which consist of people living below USD2.50 per day, then the outreach potential offered in 6 provinces suggests the proposed target is plausible and sufficient.

The table below shows the figures on which this estimation is based.

⁸² The basis for outreach calculations was the Government's Agricultural Census of 2013. However, it became clear, during fieldwork connected with this design document, that some of the numbers of farming households are overstated in the census. This is especially the case in maize and cocoa

Outreach Scenarios for Phase 2							
Province	# of Farm HHs	10%	below 2.50 PPP ¹	Province	# of Farm HHs	10%	below 2.50 PPP ¹
Scenario 1: Current Provinces, Current Sectors				Scenario 2: Current Provinces, New Sectors			
East Java			72.0%	East Java			72.0%
Maize	1,922,318	192,232	138,407	Sugarcane	182,767	18,277	13,159
Cassava	473,300	47,330	34,078	Rice	2,898,256	289,826	208,675
Peanut	424,330	42,433	30,552	Seaweed	3,061	306	220
Soybean	296,154	29,615	21,323	Sheep	844,450	84,445	60,800
Shallot	47,360	4,736	3,410				
Mango	701,309	70,131	50,494				
Coconut	631,246	63,125	45,450				
Beef	1,908,037	190,804	137,379				
Mungbean	205,845	20,585	14,821				
Sub-total	6,609,899	660,991	475,914	Sub-total	3,928,534	392,854	282,855
NTB			65.0%	NTB			65.0%
Beef	192,304	19,230	12,500	Sugarcane	462	46	30
Coconut	81,558	8,156	5,301	Rice	439,024	43,902	28,536
Cashew	27,778	2,778	1,806				
Cassava	7,793	779	506				
Maize	73,816	7,382	4,798				
Mango	40,919	4,092	2,660				
Soybean	70,909	7,091	4,609				
Shallots	17,711	1,771	1,151				
Mungbean	18,414	1,841	1,197				
Sub-total	531,202	53,120	34,529	Sub-total	439,486	43,948	28,566
NTT			67.0%	NTT			67.0%
Pig	734,819	73,482	49,233	Sugarcane	5,161	516	346
Beef	207,539	20,754	13,905	Rice	351,351	35,135	23,540
Cassava	306,282	30,628	20,521	Candlenut	134,346	13,435	9,001
Coffee	166,059	16,606	11,126				
Coconut	333,544	33,354	22,347				
Cashew	155,000	15,500	10,385				
Maize	522,612	52,261	35,015				
Peanut	48,793	4,879	3,269				
Seaweed	8,982	898	602				
Mungbean	54,644	5,464	3,661				
Mango	149,147	14,915	9,993				
Sub-total	2,687,421	268,741	180,056	Sub-total	490,858	49,086	32,888
Papua			77.0%	Papua			77.0%
Cocoa	19,255	1,926	1,483	Sugarcane	26,183	2,618	2,016
				Pig	192,455	19,246	14,819
Sub-total	19,255	1,926	1,483	Sub-total	218,638	21,864	16,835
West Papua			60.0%	West Papua			60.0%
Vegetables ⁶	25,461	2,546	1,528	Sugarcane	859	86	52
				Rice	4,204	420	252
				Peanut	26,636	2,664	1,598
				Mungbean	23,691	2,369	1,421
Sub-total	25,461	2,546	13,005	Sub-total	55,390	5,539	3,323
Total	9,873,238	987,324	728,040	Total	5,132,906	513,291	364,470
Scenario 3: New Provinces, Current Sectors				Scenario 4: New Provinces, New Sectors			
Central Java			70.0%	Central Java			70.0%
Beef	817,623	81,762	57,233	Goat	843,837	84,384	59,069
Maize (CJ)	1,108,300	110,830	77,581	Banana	735,329	73,533	51,473
Mango	532,913	53,291	37,304	Peanuts	585,891	58,589	41,012
Coconut	248,434	24,843	17,390	Rice (CJ)	2,684,662	268,466	187,926
Soybean	158,571	15,857	11,100	Vegetes all (CJ)	433,828	43,383	30,368
maize	280,739	28,074	19,652	Freshwater fisheries	187,591	18,759	13,131
Coffee	181,860	18,186	12,730				
Shallot	78,702	7,870	5,509				
Sub-total	3,407,142	340,713	238,499	Sub-total	5,471,138	547,114	382,980
South Sulawesi			65.0%	South Sulawesi			65.0%
Beef	249,722	24,972	16,232	Cocoa	297,808	29,781	19,358
Maize	214,344	21,434	13,932	Rice (SS)	596,370	59,637	38,764
Coconut	128,957	12,896	8,382	Vegetes all (SS)	46,886	4,689	3,048
Coffee	99,717	9,972	6,482	Goat	56,629	5,663	3,681
Pig (SS)	57,280	5,728	3,723	Brakishwater fish	31,695	3,170	2,061
Seaweed	22,293	2,229	1,449	Cashew	32,843	3,284	2,135
Mango	36,381	3,638	2,365				
Soybean	11,304	1,130	735				
Shallot	5,646	565	367				
Sub-total	825,644	82,564	53,667	Sub-total	1,062,231	106,224	69,046
Total	4,232,786	423,279	190,475	Total	6,533,369	653,337	294,002
Notes:							
¹ Poverty Headcount Ratio \$2.50 a day PPP (% Population) 2010 for Indonesia (Source: World Development Report 2014: Risk and Opportunity, World Bank)							
Total Farm Households			25,772,299				
Outreach Potential all HHs			2,577,231	Outreach Potential below \$2.50			1,576,987



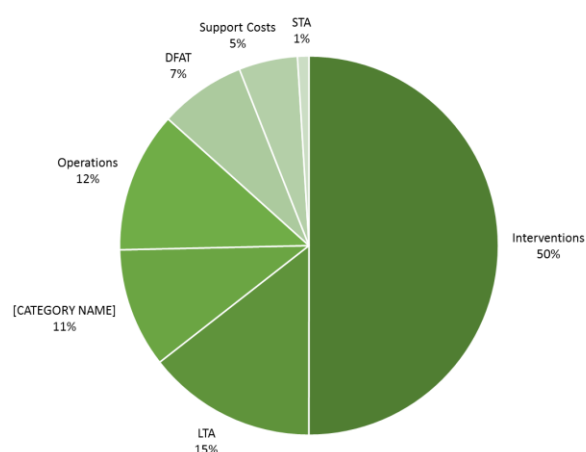
Annex 7: Budget

No	Items	Y1	Y2	Y3	Y4	Y5	Y6	Total
1	Management Fee & Performance Payments	964,904	1,833,662	1,940,512	1,963,924	1,960,415	1,016,584	9,680,000
2	Long Term Personnel (ARF)	1,122,756	2,370,222	2,744,352	2,993,772	2,993,772	1,496,886	13,721,760
3	Short Term Personnel (ARF)	130,620	158,610	186,600	186,600	158,610	102,630	923,670
4	Advisor Support Costs	662,382	524,779	987,176	927,176	926,775	734,382	4,762,670
5	Operational Costs (operations personnel, office and vehicle costs, event and communication costs)	1,140,000	2,280,000	2,280,000	2,280,000	2,280,000	1,140,000	11,400,000
6	Implementation Costs (implementation personnel, MRM costs, capacity development costs, intervention costs, domestic travel, TA Secretariat)	4,751,190	9,502,380	9,502,380	9,502,380	9,502,380	4,751,190	47,511,900
7	DFAT resources for performance management and contract administration	840,000	1,330,000	1,330,000	1,330,000	1,330,000	840,000	7,000,000
	Total	9,611,852	17,999,653	18,971,020	19,183,852	19,151,952	10,081,672	95,000,000

Notes:

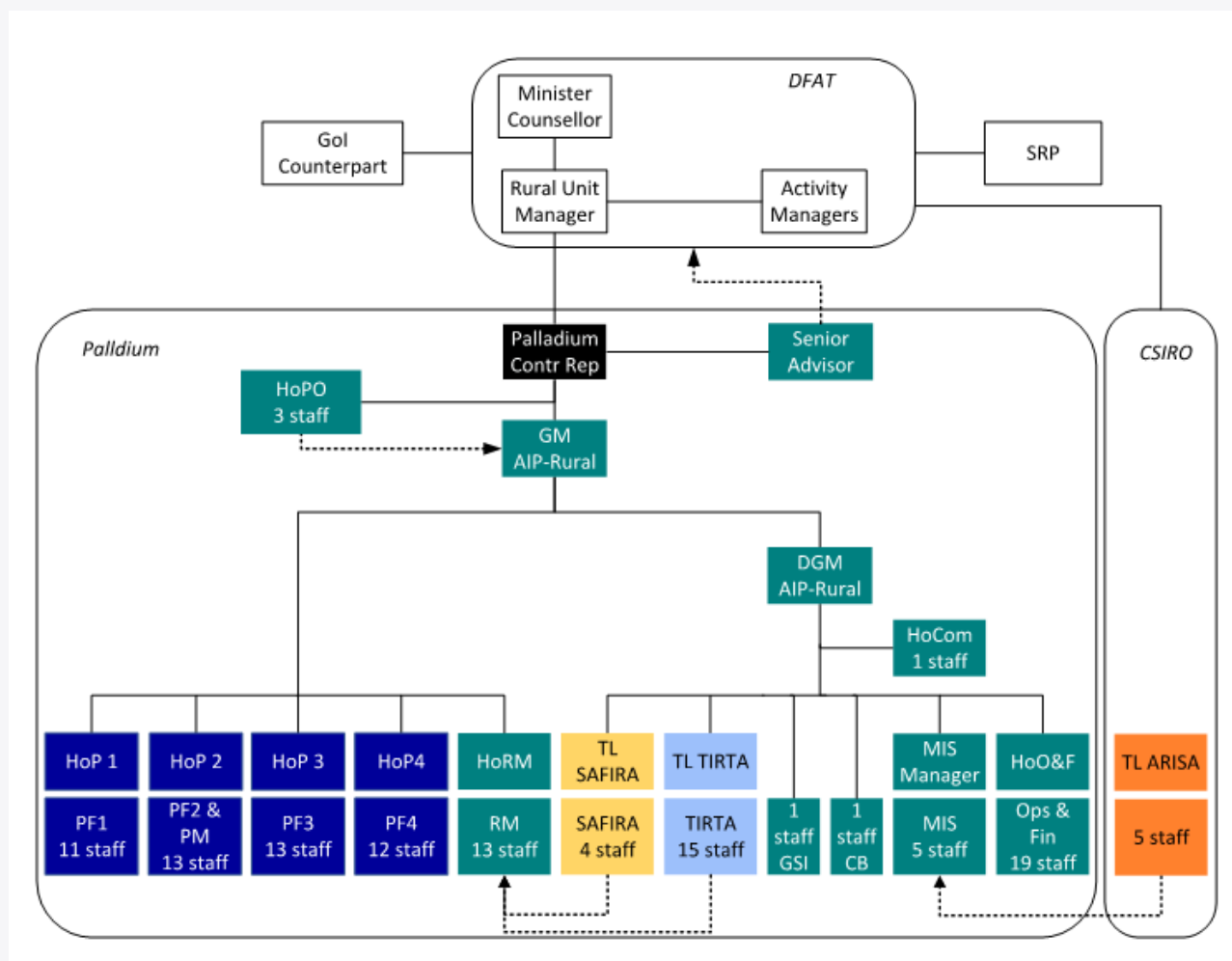
1. Total contract value will be approximately AUD88,000,000 (tendered) with AUD7,000,000 retained by DFAT for SRP, monitoring, evaluations, research etc
2. Budget breakdown for AIP-PRISMA is based on AIP-Rural program budget breakdown and spend curves over the life of the program
3. Based on AIP-Rural spending, 59% of Long-Term Personnel Costs are currently spent on interventions. Under AIP-PRISMA it is expected that up to 75% of LTA costs will be spent on interventions. This means this amount could be reported as implementation costs.
4. Based on information from AIP-Rural Managing Contractor, the majority of Short-Term Personnel Costs should be for Unspecified Personnel to allow for flexibility during implementation
5. Based on AIP-Rural spending, approximately 70% of Adviser Support Costs are spent on travel and the remaining 30% is spent on other support costs for all long and short term personnel under the ARF. For AIP PRISMA-2 travel costs have been included as a budget line under implementation costs.
6. Y1 is composed of Jan – Jun 2019. Y6 is composed of Jul – Dec 2023.

AIP-PRISMA Budget Allocation (A\$95 million)



Annex 8: AIP-RURAL Governance & Implementation Structure

* For bidding information only; Contractor to propose a PRISMA-2 organisational structure.



Annex 9: Terms of Reference for Specified Personnel

CONTRACTOR REPRESENTATIVE

ARF Professional Discipline Category and Job Level: N/A

Duty Station: TBC

Background: PRISMA-2 is a five-year program funded by the Australian Government through the Department of Foreign Affairs and Trade (DFAT). The program represents the second phase of Australian Government investment in market systems development in the agricultural sector in Indonesia. PRISMA-2's goal is to contribute to a 30%, or more, increase in net incomes for 700,000 smallholder farming households. Changes in income of poor farming households are measured by changes in net income as a result of changed production practices. The Program will operate in 6 provinces, East Java, NTT, NTB, Papua, West Papua and Central Java.

Duties: The responsibilities of the Contractor Representative will include, but not be limited to:

- Leading on all aspects of contract management including contract negotiations, contract amendments, and delivery of contractual requirements;
- Ensuring compliance with Commonwealth Procurement Rules (CPRs); DFAT policies; relevant Australian and Indonesian laws; and corporate quality management systems and processes;
- Managing the program transition and mobilisation phases to support a well-executed and smooth transition from the current AIP-Rural program to PRISMA-2;
- Leading recruitment and 'novation' of personnel and providing strategic HRM support throughout implementation to ensure the program is adequately resourced and maintains value for money;
- Leading contracting of partner agreements for on-going interventions at transition and facilitating efficient development of new partner agreements through corporate legal processes;
- Providing strategic oversight and management support for all aspects of implementation including technical program approaches, operational and financial systems, financial approvals, budgeting and fiduciary controls;
- Conducting quality assurance of all program reporting requirements;
- As the primary contact point for DFAT, maintaining an effective and collaborative working relationship with DFAT and ensuring the program remains responsive to emerging opportunities and changing priorities during implementation;
- Maintaining strategic oversight of all aspects of program delivery and providing strategic direction and advice to address implementation issues;
- Overseeing implementation of all key program strategies and providing regular updates to DFAT on their implementation;
- Overseeing risk management strategy and providing DFAT with regular verbal and written updates on existing and new risks.

Key Relationships:

- Work closely with DFAT Jakarta Post and the Team Leader.
- Reports to, works with and receives strategic guidance from Officers of the selected Contractor.
- Coordinates regularly with DFAT (Jakarta Post and Canberra) on PRISMA-2.

Qualifications and Experience:



- 15+ years professional experience or equivalent combination of education and experience in international development;
- Demonstrated skills and experience in contract and project management including budgeting and financial reporting;
- Recent experience in the novation of personnel contracts and activity agreements during a transition to a new phase of an on-going development cooperation investment;
- Current understanding of relevant Australian and Indonesian laws and regulations and the practical approach to compliance required in Indonesia;
- Strong understanding of DFAT policies, systems and requirements, including on gender, environmental protection, private sector engagement, and M&E;
- Proven experience providing strategic direction and management support to multi-disciplinary teams;
- Excellent verbal and written communication skills in English;
- Speaking, reading and writing skills in Indonesian a distinct advantage; and
- Experience implementing or managing market systems development programs and/or complex donor programs.

TEAM LEADER (To Be Recruited Jointly With DFAT)

ARF Professional Discipline Category and Job Level: Discipline D, Job Level 4

Duty Station: Surabaya, Indonesia with travel to program locations as required

Background: PRISMA-2 is a five-year program funded by the Australian Government through the Department of Foreign Affairs and Trade (DFAT). The program represents the second phase of Australian Government investment in market systems development in the agricultural sector in Indonesia. PRISMA-2's goal is to contribute to a 30% or more increase in net incomes for 700,000 smallholder farming households. Changes in income of poor farmer households are measured by changes in net income as a result of changed production practices. The Program will operate in 6 provinces, East Java, NTT, NTB, Papua, West Papua and Central Java.

Duties: The responsibilities of the Team Leader will include, but not be limited to:

- Leading and managing the delivery of all services and activities under PRISMA-2 to maximise value for money and effectiveness, in coordination and collaboration with DFAT and its Indonesian partners;
- Building and maintaining an effective organisation that delivers the expected results and achieves program outcomes and targets;
- Building and maintaining excellent relations with all relevant external stakeholders, especially DFAT, the Indonesian Government at national and provincial levels, and public and private direct stakeholders;
- Managing approval of all program activities and oversight all aspects of program delivery;
- Leading the development of all key strategies needed for effective delivery of PRISMA-2;
- Managing the tactical delivery of key strategies using tools and approaches that efficiently deliver expected outcomes and targets;
- Ensuring the program maintains a clear and consistent direction and support transparent and consistent communication to external stakeholders;

- Directly managing the Core Management Team, Heads of Portfolio and Head of Results Measurement and Learning;
- Leading the PRISMA-2 team, maintaining an appropriate businesslike, entrepreneurial, dynamic and lesson-learning culture across the whole team and be responsible for ensuring overall team cohesion and effectiveness;
- Supervising, coaching and mentoring the PRISMA-2 Core Management Team, especially on strategic and critical aspects of implementation;
- Identifying strategic opportunities and challenges at all levels, and working with the Contractor and DFAT to adjust PRISMA-2's strategy, staffing and resourcing accordingly;
- Providing quality assurance of all reporting, strategies, interventions, and results measurement documents;
- Oversighting PRISMA-2 financial and operational systems and ensuring they are used effectively and in accordance with DFAT requirements and program procedures;
- Being the central point of day-to-day communication with DFAT;
- Managing the identification of all major program risks and leading team development, updating and implementation of an effective risk management strategy;
- Oversighting effective, low-risk financial systems and quality reporting and forecasting;
- Leading periodic portfolio review functions using the Quality Management Tool;
- Systematically using information from the Monitoring and Results Measurement system;
- Leading program reporting requirements including the delivery of timely, accurate and high-quality reports.
- Managing and leading response to cross-cutting issues relevant to the program including gender and women's empowerment, the environment, and animal welfare;
- Overseeing Results Measurement in line with DCED standards during implementation; and
- Driving innovation and learning throughout implementation and contributing to DFAT's broader learning agenda for market systems development and private sector engagement.

Key Relationships:

- Reports to, works with and receives strategic direction from the Contractor Representative.
- Works closely with the Core Management Team
- Coordinates regularly, under delegated authority from the Contractor Representative, with DFAT on PRISMA-2.
- Manages the Heads of Portfolio teams and the Head of Monitoring and Results Measurement.

Qualifications and Experience:

Essential:

- 15+ years professional experience or equivalent combination of education and experience in category D of the ARF;
- Outstanding theoretical base in market systems development, with ability to conceptualise, design and implement major projects and to produce major/complex reports or studies;
- Demonstrated professional leadership and ability to lead a team of professionals and ability to coach and mentor more junior staff;

- Proven experience in management of large, complex, decentralised programs;
- At least 5 years of experience in a management position in a larger market systems development project;
- Proven experience in contributing to strategic direction and providing management to multi-disciplinary teams in a in cross-cultural context;
- Proven team leadership and coaching competence; and
- Excellent verbal and written communication skills in English.

Desirable:

- Familiarity with international donor systems and requirements;
- Fluency in speaking and reading in Indonesian and experience working in Indonesia;
- Knowledge of key cross-cutting issues and their application in market systems development program eg. women's economic empowerment.

HEAD OF OPERATIONS AND FINANCE

ARF Professional Discipline Category and Job Level: Discipline C, Job Level 3

Duty Station: Surabaya, Indonesia

Background: PRISMA-2 is a five-year program funded by the Australian Government through the Department of Foreign Affairs and Trade (DFAT). The program represents the second phase of Australian Government investment in market systems development in the agricultural sector in Indonesia. PRISMA-2's goal is to contribute to a 30%, or more, increase in net incomes for 700,000 smallholder farming households. Changes in income of poor farmer households are measured by changes in net income as a result of changed production practices. The Program will operate in 6 provinces, East Java, NTT, NTB, Papua, West Papua and Central Java.

Duties: The Head of Operations and Finance will lead the finance, HR, operations, contracts, grants and IT teams on PRISMA-2 to ensure that the program effectively and efficiently uses the resources (operational staff and facilities), systems and procedures required to deliver results and achieve the program outcomes. The Head of Operations and Finance will be responsible for all day-to-day HR, financial and administrative management for PRISMA-2, working with the Contractor and senior management team to ensure effective planning, coordination, fiduciary control and overall program delivery.

The Head of Operations and Finance will report directly to the Team Leader. The Head of Operations and Finance will consult the Contractor Representative and Contractor head office staff on compliance with systems and procedures and provide support for overall compliance of program operations and finance with contractual requirements and the Commonwealth Procurement Rules (CPRs).

In order to manage program operations and support functions to maximise program impact and responsiveness, the responsibilities of the role of the Head of Operations and Finance will include, but not be limited to:

General Management and Oversight

- Establishing and operationalising financial and program management systems and processes across all operational areas, building on lessons learned from the previous program AIP-Rural;

- Deploying appropriate procedures, tools and templates from the Contractor's systems for: (i) business partners, (ii) grantees, (iii) technical service providers, (iv) services providers, and (iv) short-term technical advisors, in line with DFAT and corporate requirements;
- Producing regular management monitoring information including variance from plan for disbursement, activity and output delivery as well as reporting on any fraud, health and safety, or other HR incidents;
- Providing sound and considered advice to the Team Leader on financial, HR and contract compliance issues;
- Managing the efficient novation of personnel contracts and activity agreements during a transition to a new phase of an on-going development cooperation investment;
- Maintaining a current understanding of relevant Australian (e.g. ECBP Act) and Indonesian (e.g. Labour Law) laws and regulations and how to practically comply with these in Indonesia;
- Ensuring all procurement/finance/grants administration is performed in a professional, transparent, and ethical manner in line with procurement regulations and conditions of the grant and implementation agreements;
- Managing safeguards to protect procurement/grants/finance activities from fraud, waste and abuse;
- Ensuring TORs for operations staff are appropriate for providing effective support to the program;
- Assisting the Team Leader with the preparation of contractual milestone documents along with other reports and deliverables related to operations; and
- Coaching and mentoring the operations team to build existing capacity.

Administration and Operations

- Overseeing the establishment of office facilities and infrastructure in Surabaya and sub-offices in agreed provinces;
- Lead the financial management of all program operations, with a focus on financial controls and compliance with Contractor accounting and anti-fraud standards;
- Enabling the delivery of effective administrative support to all aspects of PRISMA-2 operations including logistics, administrative support and procurement of goods and services;
- Leading the production, dissemination, implementation and review of systems, policies and procedures, related to logistics, financial controls, HR management, and administration;
- Reviewing and updating the Operations Management Manual and proposing changes that ensure its effectiveness and appropriateness and oversee distribution and training for all staff in its application;
- Overseeing administration and office staff including performance management processes and ensuring appropriate processes are followed and approvals obtained and documented;
- Supervising the preparation, maintenance and storage of program documentation and digital information, in line with corporate and DFAT record retention requirements and filing protocols; and
- Participating in strategic planning processes, activity planning, scheduling and budgeting as a member of the Senior Management Team.

Grants, Partner Agreements and Procurement Teams

- Leading the production, dissemination, implementation and review of systems, policies and procedures, related to grants, partner agreements, and procurement;
- Overseeing the staff responsible for administration of grants, partner agreements and procurement to ensure appropriate processes are followed and approvals are obtained and documented;

- Managing the efficient novation of Partner agreements during transition to the new phase; and
- Periodically reviewing and adapting grants, partner agreements and procurement documentation to ensure that it is fit for purpose and compliant with relevant Australian and Indonesian regulations.

IT

- Leading the IT team to ensure the program has appropriate ICT infrastructure to support operations and implementation activities;
- Protecting program information systems in all locations from virus, malware and other digital attacks and ensuring all staff and their information technology complies with Contractor standards for data protection and system integrity; and
- Overseeing use and maintenance of the Management Information System (MIS) by the MRM Team.

Human Resources

- Overseeing the recruitment, contracting and mobilisation of local program staff in accordance with appropriate timeframes and HR processes;
- Managing the efficient novation of personnel contracts during transition to the new phase;
- Developing, adapting and using key HR systems and processes from the Contractor, including those for staff budgeting and severance pay calculations, leave tracking, recruitment, payroll, performance evaluation, capacity development; and workplace health and safety;
- Liaising with HR staff in the Contractor's Head Office to ensure all program staff are paid and accounted for in accordance with relevant labour and income tax laws and related regulations;
- Overseeing the effective HR management of program staff;
- Overseeing adaptation and use of the Contractor's performance management system for all program personnel;
- Ensuring program staff are appropriately trained and working in compliance with new and established operational procedures and policies; and
- Providing considered advice to other members of the Core Management Team and Contractor Representative on management of staff and manpower laws in Indonesia.

Financial Management

- Supporting and overseeing the Finance Manager to ensure that program financial operations comply with DFAT processes and procedures, including the maintenance of accurate financial records for all program activities, as well as Indonesian regulations for accounting, goods and services and sales tax, stamp duty and income tax;
- Using and adapting the Contractor's financial management and reporting systems to effectively manage financial transactions throughout the program
- Providing the Contractor and other members of the Senior Management Team with regular information to enable effective monitoring and management of all contract budget lines, intervention activities and the program budget;
- Overseeing program finances to track expenditure, forecast accurately and ensure the availability of funds to support project operations as well as responding to DFAT requests for financial information;
- Supervising and ensuring value for money and compliance with Commonwealth Procurement Rules in contracting, procurement and management of Partners, sub-contractors and service providers; and

- Contributing to financial reporting for DFAT.

Essential Qualifications and Experience:

- At least 10 years' experience in a senior operational management position, preferably in international development. Experience in operational management of complex development programs essential.
- Relevant qualifications in accounting (e.g. CPA), program management (e.g. Certified to PMI 6 or above) or management (e.g. MBA).
- Outstanding practical experience in project management and operations with theoretical foundation a definite benefit.
- Demonstrated ability to use and adapt existing corporate systems, tools and processes for the effective and efficient management of program operations and activities.
- Successful track-record in delivery of complex programs/projects through a Contractor and development of institutional capacity.
- Demonstrated ability to lead a team of professionals and to coach and mentor staff.
- At least 10 years' experience working with AusAID/DFAT (or equivalent) at a senior level across program operations and contracts with DFAT Contractors.
- Good understanding of Indonesian Manpower and Tax legislation.
- Proven experience in contributing to strategic direction and managing multi-disciplinary teams in a cross-cultural context.
- Proven high level leadership, management and organisational skills for operations management.
- Excellent written and verbal communication skills in English.
- Strong representation, communication and interpersonal skills.

Desirable Qualifications and Experience:

- Fluency in speaking and reading in Indonesian and experience working in Indonesia.
- Knowledge of Indonesian public sector and experience working with government agencies.
- Experience working on Rural Development or Agricultural projects or initiatives.

Annex 10: Gender Equality and Women's Economic Empowerment

This annex summarises current DFAT policies in this area, examines international trends, assesses the current state of practices in AIP-Rural, and finally, suggests measures to be considered as priorities for the next phase of investment through PRISMA-2.

1. Relevant DFAT Policies:

In February 2016, the Australian government published a new gender equality and women's empowerment strategy that identifies women's economic empowerment as one of its three top priorities. The strategy states that Australian aid programs will "integrate gender equality in our aid for trade, economic diplomacy and trade efforts, recognizing that women's economic empowerment is a driver of economic growth and prosperity."⁸³

One year prior to its new strategy, DFAT had published operational guidance on women's economic empowerment in agriculture.⁸⁴ The guidance seeks to provide DFAT project managers with an understanding of gender equality and women's empowerment issues that are specific to challenges and opportunities in the agriculture sector. Four commonly-used frameworks that informed the paper are from the M4P Hub/Springfield Centre,⁸⁵ the Donor Committee for Enterprise Development,⁸⁶ the International Food Policy Research Institute,⁸⁷ and publications by Rao and Kelleher.⁸⁸

DFAT adopted the five dimensions of women's economic empowerment as applied to market development⁸⁹. These WEE dimensions have been applied and advanced globally by many private sector development projects including: the Market Development Facility in Fiji, Timor-Leste, Pakistan, Sri Lanka and Papua New Guinea (DFAT), AIP-Rural in Indonesia (DFAT), Katalyst and M4C in Bangladesh (DFID and SDC), ALCP in Georgia (SDC), Arab Women's Enterprise Fund in Egypt, Jordan and Palestine (DFID), Kenya Market Trust and Financial Sector Deepening Zambia (DFID/Gatsby Trust). Of note for DFAT, are its implementation and documentation of the five dimensions in the Market Development Facility gender

⁸³ Department of Foreign Affairs and Trade (2016) *Gender Equality and Women's Empowerment Strategy*. Government of Australia <http://dfat.gov.au/about-us/publications/Pages/gender-equality-and-womens-empowerment-strategy.aspx>

⁸⁴ DFAT (2015) Gender equality and women's economic empowerment in agriculture Operational Guidance Note <https://dfat.gov.au/about-us/publications/Documents/operational-guidance-note-gender-equality-and-womens-economic-empowerment-in-agriculture.pdf>

⁸⁵ Jones, L. (2012) Jones, L. (2012) *Conceptual Framework for Women's Economic Empowerment* M4P Hub paper for DFID, Sida and SDC. http://www.springfieldcentre.com/wp-content/uploads/2012/11/M4P_WEE_Framework_Final.pdf

⁸⁶ Markel, E. (2014) *Measuring Women's Economic Empowerment in Private Sector Development*. The Donor Committee for Enterprise Development (DCED)

⁸⁷ IFPRI / USAID (2012) *Women's Empowerment in Agriculture Index* <http://feedthefuture.gov/lp/womens-empowerment-agriculture-index>

⁸⁸ Rao, A. and Kelleher, D. (2005) *Is there life after gender mainstreaming?*, Gender & Development, 13:2, 57-69 http://yfa.awid.org/wp-content/uploads/2010/03/life_after_mainstreaming.pdf

⁸⁹ For the seminal M4P WEE Framework see Jones, L. (2012) Jones, L. (2012) *Conceptual Framework for Women's Economic Empowerment* M4P Hub paper for DFID, Sida and SDC. http://www.springfieldcentre.com/wp-content/uploads/2012/11/M4P_WEE_Framework_Final.pdf



framework⁹⁰ and the Aus4Equality Vietnam (GREAT) tender.⁹¹ So, in conclusion, the adoption by market development projects of WEE, as described in the next section, is common.

2. Key International Trends in Good Gender Practice

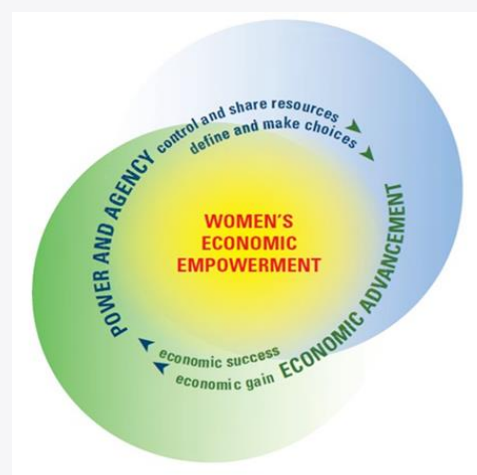
For the past decade, the main framework dominating the agenda for gender equality and promotion, in private sector programming builds on the M4P WEE Framework noted above – referred to here as the WEE Framework. There are 5 dimensions that make up this framework, and these are highlighted in the box below. How these are adapted to market development is addressed in subsequent parts of this annex.

The 5 Dimensions of Women's Economic Empowerment	
OVERALL OBJECTIVE:	
1	Economic Advancement (often measured as net income)
IMPROVED ACCESS OUTCOMES:	
2.	Access to opportunities and life chances such as skills development or job openings
3.	Access to assets, services and needed supports to advance economically
STRONGER AGENCY OUTCOMES:	
4.	Decision-making authority in different spheres including household finances
5.	Manageable workloads for women

In 2011, the International Centre for Research on Women (ICRW) published a further important work on women's empowerment: *Understanding and Measuring Women's Economic Empowerment: Definition, Framework and Indicators*. With the goal of improving design, implementation and results measurement. This document built on earlier empowerment literature to:

- Streamline the definition of WEE into two distinct areas – *agency* and *access*;
- Briefly discuss the activities around WEE integration; and
- Put forward a comprehensive indicator bank to influence best practice today.⁹²

The ICRW definition of WEE suggests an agency⁹³/access interdependence, namely: “a woman is economically empowered when she has both, the ability to succeed and advance economically (WEE dimensions 1-3 or access) and the power to make and act on economic decisions (WEE dimensions 4-5 or agency).”⁹⁴ The figure above shows the iterative nature of power and agency as well as economic



⁹⁰ Bekkers, H., Carter, V. and Jones, L. (2015) *Women's Economic Empowerment How Women Contribute to and Benefit from Growth*. Market Development Facility. <http://marketdevelopmentfacility.org/wp-content/uploads/2015/09/Womens-Economic-Empowerment.pdf>

⁹¹ DFAT (2016) *Gender-Responsive Equitable Agriculture and Tourism(GREAT) Investment Design Document* <http://dfat.gov.au/about-us/business-opportunities/tenders/Documents/gender-responsive-equitable-agriculture-and-tourism-program-vietnam-design.pdf>

⁹² Golla, A. et al (2011) *Measuring Women's Economic Empowerment: Definition, Framework and Indicators*. Washington, DC: International Centre for Research on Women. <http://www.icrw.org/files/publications/Understanding-measuring-womens-economic-empowerment.pdf>

⁹³ The term “agency” is used here to describe the ability or power that a woman possesses to influence her environment, an example of this in PRISMA would be women service providers having the capacity and confidence to take on the role of selling agricultural inputs to other farmers.

⁹⁴ Golla, A. et al (2011) *Ibid*

advancement:⁹⁵ when interventions focus on greater access, for example, this leads to not only the overall goal of economic advancement, but also to enhanced agency (influence). For example, in Bangladesh, Katalyst enabled women's access to mini-packs of seed for the commercial development of kitchen gardens. When women began to earn more money from their gardens, they realised greater status in the household along with opportunities to make decisions around other economic activities such as small livestock rearing. Similarly, when agency is targeted, women also experience improved access and overall advancement. In Pakistan, the Aga Khan Foundation has found that when men in conservative areas of Gilgit-Baltistan were sensitised to women's socio-cultural issues by male staff, women often realised greater freedoms and had more opportunity to advance economically (e.g. by participating in women's markets). This virtuous circle was captured in this seminal ICRW paper and further elaborated in documents on the M4C program in Bangladesh.⁹⁶ The ICRW publication also elaborated the opportunities and challenges that women face in their specific contexts, the resources needed to meet project empowerment goals, issues of intervention design, and the need to understand areas outside of a project's focus that may help or hinder its success. Even with the practical addition of the WEE Framework, challenges still exist to mainstreaming WEE in those market systems projects (such as AIP-Rural) in which women are not exclusively targeted as beneficiaries. However, because women represent 45% of AIP-Rural's target group, they warrant due attention if interventions are to succeed and have impact at any scale. These challenges are summarised as:

- Program staff do not have sufficient awareness or skills to integrate women into programming, particularly where women's roles may be less visible as in agricultural sectors in Indonesia. Despite training and exposure, the shift takes time and requires constant reinforcement.
- Even when program staff are aware, they can be resistant to pushing women's inclusion with private sector partners. And yet, when women are viewed as contributors to market systems as customers, producers or as employees, the case can be made in business terms.
- Private sector partners share the same lack of awareness and capacity, and therefore need support to see the opportunities and to take advantage of program incentives. This can be accomplished through piloting, case study examples, peer exchanges and other concrete evidence of success that will appeal to business operators.
- Making important modifications to the implementation of interventions. Where women are integrated into interventions, consideration needs to be given to their circumstances, which are frequently different from their male counterparts. Since men are viewed as the predominant actors in the sector, the default is to assess their needs only, whereas both needs must be understood for the intervention to create greater access. This may result in simple but pragmatic modifications like the time of day for a training or changes may be more nuanced in terms of socio-cultural issues arising from mobility restrictions, caused by the prevalence of gender-based violence.

For market systems projects, this means that awareness of the different circumstances and worldviews are essential to the design of successful market driven interventions.

In 2014, the Donor Committee on Enterprise Development (DCED), drawing extensively on the conceptual work outlined above, – and zeroing in on two market development projects (M4C in Bangladesh and ALCP in Georgia) that had implemented the M4P WEE conceptual framework prepared a set of practitioner guidelines for WEE.⁹⁷ The guideline compiles a selection of indicators that reflect agency and access, and

⁹⁵ Source: Golla, A. et al (2011) *Ibid*

⁹⁶ See for example See: M4C (2014) *Women's Economic Empowerment Assessment Report*. M4C May 2014.;

⁹⁷ Markel, E. (2014) *Measuring the Results of Women's Economic Empowerment in Private Sector Development: a guideline for practitioners*. The Donor Committee on Enterprise Development.

also provides recommendations around articulating WEE in results chains, attribution, systemic change and related programmatic issues to better guide practitioners in their design and implementation of WEE programs throughout the project life cycle.

In recent years, as economic development programs have started to place greater emphasis on the implementation of interventions targeting women's economic empowerment, they have expanded the identification of objectives and measurement of results. This has stimulated the kind of new experience that enables programs such as AIP-Rural to effectively and practically integrate women into agricultural sectors both as farmers and as leaders in business and civil society. The new Women's Empowerment and Market Systems (WEAMS framework⁹⁸) that builds on the earlier WEE Framework, for example, emphasises the original five dimensions of WEE outlined above as 'non-negotiables' but encourages a flexible application of the framework to incorporate other dimensions that might be relevant to women's empowerment in each program or context. For example, the dimension of women's leadership as market actors or service providers or their enhanced role as active committee members in water user groups could be further developed.

Both the WEE and WEAMS frameworks apply a project life cycle approach to support programs in integrating women – from research and analysis through design and implementation to results measurement. The frameworks illustrate how needs, analysis and activities shift as a program moves through its different stages, including the types of questions to be asked, the issues to be aware of, and the opportunities for inclusion of women in market systems programs.⁹⁹

3. AIP-Rural – Evolution on Gender

Recognising that at least 45% of its target group is female, AIP-Rural has been making steady advances on women's economic empowerment. Since December 2014, nine strategy papers, consultancy missions, guidelines, and many more staff workshops have been completed aimed at improving the quality of PRISMA's gender focus. PRISMA has provided the launching pad for the dissemination of these capacities to the other 3 thematic areas of irrigation, applied research and value chain finance.

Some of the major steps that have been taken are:

- The positive selection of sectors like pigs, soya beans and seaweed, in which women have a prominent role;
- A special analysis within Sector Growth Strategy Documents, and supported by Focus Group Discussions, of the constraints faced by female members of the target group;
- The development of sector specific and gender-based task analyses to identify how women and men may be involved in different aspects of the interventions;
- The inclusion of a significant and assessable criterion, on how these above-mentioned analyses will be explicitly translated into future intervention activities (to improve access and agency outcomes), employed during the intervention screening process (QMT);
- Four pilot gender impact assessments, in maize East Java, coffee and pigs in Flores, and irrigation in Bojonegoro (EJ) were conducted in the second half of 2016 to evaluate Women's Economic Empowerment (WEE) dimensions on income advancement, opportunities for access to products

⁹⁸ Jones, L. (2016) *Women's Empowerment and Market Systems* BEAM Exchange https://beamexchange.org/uploads/filer_public/0d/50/0d5009be-faea-4b8c-b191-c40c6bde5394/weams_framework.pdf

⁹⁹ See: M4C (2014) *Women's Economic Empowerment Assessment Report*. M4C May 2014.; Markel, E. (2014) *Ibid*.

and services and female agency, focusing on leadership roles, decision making authority, and manageable workloads. The analyses included the quantitative data from MRM impact assessments.

From their inception both PRISMA and TIRTA¹⁰⁰ have been supported with regular international expertise to improve awareness and performance in this critical area. In her latest report from a mission in April 2017, the gender consultant reported that “the sector teams are moving forward with gender inclusion and women’s economic empowerment on several fronts” including:

- Greater inclusion of gender in almost all sectors shows that the Heads of Portfolio and sector staff are beginning to mainstream gender across the board.
- Women farmers’ access to services is increasing and up to December 2016, in PRISMA alone, it is estimated that 204,000 female farmers have increased their access to new products or services that can lead to increased incomes.
- This mainstreaming is not confined to just women as farmers - there are increasing numbers of women within the 849 intervention service providers (ISPs) who sell these products and services to farmers. This is especially significant since women ISPs represent enhanced leadership positions for women in economic sectors leading to positive role models for other women not only in the sector but also in communities and families.
- Since December 2014, 39 Focus Group Discussions have been held specifically to understand the constraints that women face in sectors, and in their specific locations so that female access issues can be mitigated.
- This information is used in intervention design where a gender work task or role allocation (purchasing of inputs, planting, weeding, inputs applications, harvesting and marketing) is made to identify who to target at different stages of intervention implementation.
- A “WEE: Intervention Concept Note (ICN) Competition” in early 2017 was held with an excellent response. The top six ICNs were recognised as winners, while a total of nine ICNs were approved for interventions. These concepts involved women both as farmers and ISPs, and have significant potential outreach. The top six concept notes cut across sectors: mung bean, soybean, coffee, vegetable, maize and coconut sugar. The Sector Teams can now rapidly advance on gender inclusion in the final 18 months of AIP-Rural and take their work to the next level with proper support and guidance as described in the next sub-sections.” (Linda Jones, WEE Consultant)

The table below summarizes the measurable achievements of PRISMA, against the WEE dimensions, since its inception.

The 5 Dimensions of Women’s Economic Empowerment		How these are Measured in AIP-Rural (as of December 2016)
OVERALL OBJECTIVE:		
1	Economic Advancement (often measured as net income)	An average increase of >135% of net attributable income changes from agriculture to 44,000 households or 109,000 farmers
IMPROVED ACCESS OUTCOMES:		
2.	Access to opportunities and life chances such as skills development or job openings	204,000 female farmers with increased access to new markets or inputs
3.	Access to assets, services and needed supports to advance economically	55,500 female farmers that have benefitted from the use of new assets or services and increased their incomes

¹⁰⁰ A sister programme of PRISMA under AIP-Rural – Tertiary Irrigation Technical Assistance.

STRONGER AGENCY OUTCOMES:		
4.	Decision-making authority in different spheres including household finances	The % of the 849 service providers which are female (to be measured in Semester 1, 2017)
5.	Manageable workloads for women	39 Focus Group Discussion and workload analysis leading to tailor made actions plans for each intervention

4. Key Lessons Learned and Recommendations

At present, the gender support within AIP-Rural is constrained because it is resourced by only one full-time Gender and Social Inclusion Specialist and an international consultant with limited time on the ground (2 times a year for a total of 4 weeks). The following recommendations have been made to strengthen the orientation of AIP-Rural and PRISMA-2 and enable PRISMA-2 to move to the next level of gender mainstreaming:

- Staffing: continue staffing the core management team with a staff member who has broader experience in gender and social inclusion, as well as adding gender specialists to the results measurement team and to provide sector technical backstopping.
- One or more international consultants with extensive experience in gender and knowledge of Indonesia should be available to support the sector team through regular backstopping on intervention design and implementation activities, challenges and solutions. Ideally, this consultant would have regular inputs of, for example, at least 1 month per quarter or 2 weeks every second month.
- The upgrading of documentation and toolkits is now underway to ensure the more effective mainstreaming of gender across all areas of programming – and this needs to be taken forward with regular upgrading of materials and tools. For now, this includes the updating of the Gender Inclusion Strategy, Deal Making Guidelines, RM Manual and the Gender Mainstreaming Guideline document.
- Shifting from ‘gender’ language to ‘women’s economic empowerment’ which is more aligned with current market systems approaches, and speaks to the practical design, implementation and measurement of programs.
- Impact Measurement (IM) Surveys – WEE indicators are already examined in qualitative FGDs at the end of interventions. Further, some sector teams have begun to include women’s empowerment dimensions in their IM surveys. A basic set of standard WEE indicators and questions (based on the WEE dimensions) should be developed and included in all IM surveys.

Table: Inclusion of Women in Sector Interventions

No	Intrv Code	Sub-sector	Name of Intervention	# Farm HH	Ratio Farm HH vs Individual Farmer	% Female Farmer	# Farmer	# Female Farmer	# Male Farmer
PRISMA									
		Beef-EJ		717	2.00	39.48%	1,434	565	869
		Cassava-EJ		643	4.00	48.15%	2,572	1,238	1,334
		Coconut-EJ		431	3.00	53.00%	1,293	685	608
		Maize-EJ		3,550	2.52	50.00%	8,946	4,473	4,473
		Mango-EJ		2,820	2.00	13.00%	5,640	733	4,907
		Peanut-EJ		101	6.00	73.00%	606	442	164
		Soybean-EJ		4,913	3.50	40.85%	16,763	6,870	9,893
		Cashew-NTB		1,387	3.00	48.00%	4,161	1,997	2,164
		Mango-NTB		661	2.00	13.00%	1,322	172	1,150
		Shallots-NTB		248	1.80	41.00%	446	183	263
		Coffee-NTT		4,561	3.00	51.20%	13,683	7,042	6,641
		Maize-NTT		3,869	2.68	51.50%	10,151	5,263	4,888
		Pigs-NTT		6,472	3.04	52.83%	19,467	10,309	9,158
		Peanut-NTT		101	2.40	51.00%	242	123	119
		Seaweed-NTT		630	2.00	46.00%	1,260	580	680
Sub-total PRISMA				31,110		44.80%	87,993	40,676	47,317
ARISA									
		Maize-NTB		274	3.30	52.70%	904	476	428
		Sheep		5	1.60	29.00%	8	2	6
		Cassava		305	1.54	37.20%	470	175	295
		IPM		589	2.22	72.07%	1,308	943	365
Sub-total ARISA				1,173		47.74%	2,690	1,596	1,094
TIRTA									
			Pilanggede	304	2.10	46%	638	293	345
			Leran 2	50	2.10	46%	105	48	57
Sub-total TIRTA				354		46%	743	341	402
SAFIRA									
There is no number from SAFIRA to be reported for this indicator for 2016 ADR									
Sub-total SAFIRA				0			0	0	0
TOTAL									
TOTAL				65,268			182,845	85,225	97,620

Annex 11: Risk Matrix

	Event/Impact	Mitigation/Treatment	Responsibility	Rating after Mitigation		
				Likelihood	Consequence	Rating
Operating Environment	Non-conductive government policies and other agribusiness enabling factors, including vested interests and subsidies, distort market systems and prevent a competitive private sector impacting the achievement of more systemic change to market systems.	<ul style="list-style-type: none"> ➤ DFAT will work closely with BAPPENAS to facilitate communication between Gol and private sector companies/businesses. ➤ MRM information and lessons learned will be prepared for different communication channels to influence influencers ➤ Ongoing engagement with Program Coordination Committee and Technical Working Group to maintain high level coordination, relevance and alignment with policy priorities. ➤ Program will work with other DFAT programs including AIPEG/AI-ECO and MAHKOTA to support research and development of relevant policy papers. ➤ Collaboration with local government to identify local solutions and promote impacts and results of PRISMA-2 interventions. ➤ Engagement and collaboration with influential private sector partners, research institutions and other organisations to support more conducive policy environment at national and sub-national levels. 	DFAT/ Contractor	Almost Certain	Moderate	High
	Crop failure due to weather patterns/climate change/natural disasters negatively impacts the achievement of results in certain commodities and hinders production in agri-sectors.	<ul style="list-style-type: none"> ➤ Regular monitoring of medium-term forecasts for regional weather and river basin hydrology as well as natural phenomena and climatic/ weather patterns (e.g. SOI and IOD). ➤ Active monitoring of potential (forecast) and actual weather impacts on productivity. ➤ Multiple interventions across multiple sectors and commodities in a wide geography to spread risk. ➤ Ongoing risk control and management discussions with partners. ➤ Identify opportunities to support crop diversification through program interventions. ➤ Actively seeking private sector partners with technologies to mitigate these risks. 	Contractor	Likely	Major	High
	PRISMA-2 supports success for businesses and households but does not capture the interest of policy-makers or influential businesses.	<ul style="list-style-type: none"> ➤ Conduct regular political economy analysis to identify and support emerging policy and business opportunities. ➤ Pro-active engagement with influential market players to leverage influence. ➤ Develop relevant research and policy papers and case studies for government and businesses to support engagement and interest in results and approaches in the program. ➤ Support linkages between Gol and private sector. 	DFAT/ Contractor	Possible	Moderate	High
	Changes in DFAT capacity to support effective delivery of a market systems development program or use its results effectively.	<ul style="list-style-type: none"> ➤ Ongoing engagement between DFAT Post in Indonesia and the DFAT Agricultural Productivity and Food Security Branch to maintain continuity and support program linkages/learning. ➤ Proactive engagement of DFAT national staff in transition process 	DFAT/ Contractor	Possible	High	Moderate

		<ul style="list-style-type: none"> ➤ between AIP-Rural and PRISMA-2 to ensure continuity. ➤ Use of Strategic Review Panel as a quality assurance and technical support resource ➤ Maintain regular open communication between DFAT and Contractor to ensure implementation challenges are openly discussed. ➤ Handover notes and comprehensive briefing of new DFAT Officers on program approach. 				
Management	The transition to a new program impacts personnel retention and momentum, slowing down the implementation of existing and new interventions.	<ul style="list-style-type: none"> ➤ Personnel retention fully considered and addressed through clear communications prior to the end of the AIP-Rural program and transition phase to ensure all staff aware of process and are well informed. ➤ All personnel other than Senior Management Team novated to new Contractor for PRISMA-2 to retain capacity, institutional knowledge and relationships with key partners. ➤ Use of Strategic Review Panel as a quality assurance and technical support resource ➤ Identification of clear transition approach and communication processes to ensure effective management, continuity and maintain momentum from AIP-Rural. 	DFAT/ Contractor	Likely	High	High
Results	Changes in market systems through program interventions do not aggregate into broader systemic and/or institutional change within private sector companies.	<ul style="list-style-type: none"> ➤ Stronger focus on influencing broader systemic change through PRISMA-2 (than AIP-Rural) through an emphasis on Level 2 and 3 sustainability and supporting positive policy change. ➤ MRM information and lessons learned will be prepared for different communication channels to influence influencers ➤ Implementation of Communications Plan to ensure program results from monitoring and results measurement are packaged and disseminated to key partners and support broader evidence base for new ways of working that strengthen market systems. 	DFAT/ Contractor	Likely	High	Moderate
Fraud/Fiduciary	Partners engaged in the program, or staff act fraudulently leading to the misuse of program funds.	<ul style="list-style-type: none"> ➤ Risk and fraud training for all program personnel including fraud awareness training at induction and regular refresher training for personnel throughout implementation. ➤ Regular financial audits of program expenditure conducted throughout implementation. ➤ Measurement of VfM measures across portfolio, regular benchmarking using comparative analysis and investigation of outliers. ➤ Adequate resourcing within operational team for conducting partner audits, spot-checks and training for program personnel and key partners in identifying and managing risk and fraud. ➤ Clear and robust fraud reporting systems and processes aligned with DFAT policies on financial management and fraud. 	DFAT/ Contractor	Possible	Moderate	Minor
Reputation	Interventions lead to environmental damage or have unintended negative impacts on human health and animal welfare, leading to reputational risks for the program and DFAT.	<ul style="list-style-type: none"> ➤ Environmental Impact Assessments conducted for all interventions that have the potential to lead to environmental damage, with results used to determine viability of a potential intervention and/or develop additional risk mitigation strategies required for an intervention. ➤ Use of Good Agricultural Practices and DFAT safeguard manuals to guide interventions and reduce risk of detrimental impacts on 	Contractor	Possible	Moderate	High



		<div>human health and animal welfare.</div> <div>➤ Maintain effective MRM and portfolio review systems, linked to MIS accessed by DFAT and BAPPENAS.</div> <div>➤ Maintain and monitor the Environmental Management System (EMS).</div> <div>➤ Promote program and results through ongoing publications related to program achievements including advancing animal welfare.</div>				
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Annex 12: NGO Co-Facilitation

Many market systems development programs involve NGOs (sometimes called Co-Facilitators) in the implementation of their interventions. In May 2017, as part of the preparation for PRISMA-2, a 'stock take' was undertaken of PRISMA's experience in its use of NGOs over a three-year period (December 2013 to December 2016). This Annex is a summary of this stock take with suggestions on the utility of NGOs in the implementation of PRISMA-2. PRISMA-2 will seek to work with NGOs that bring specific strengths within a sector or geographic location, and where there is a clear benefit from doing so. Working with NGOs will require close program supervision and support to ensure successful partnerships and outcomes.

Rationale for use of NGOs as Co-Facilitators¹⁰¹ in PRISMA

The design for PRISMA incorporated the use of NGOs as co-facilitators because they offered an entry point to agricultural markets and systems in eastern Indonesia.¹⁰² The rationale for their use in early 2013, well before the start of PRISMA, was that:

- It would build local capacity in the market development approach not previously implemented at any scale in Indonesia;
- It would provide short-term additional capacity for delivery while PRISMA staff were being inducted and trained;
- The program would be able to utilise the technical competence of the NGOs in the identified sub-sectors in which some of the NGOs had already been working;
- It would enable the program to gain an immediate regional presence where NGOs had established networks with both the private and public sector actors;
- It would provide the opportunity to pilot and test implementation systems such as: sector strategy documentation, intervention design, results measurement and to build the necessary in-house capacity to support these systems.

The underlying motivation was that the use of NGOs in the initial phase of PRISMA would enable the program to hit the ground running and get some early runs on the board.

Background to the use of co-facilitators in PRISMA

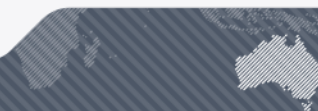
NGOs were brought into PRISMA in two Batches. The first batch consisted of 5 international NGOs while the second was made up of 6 national and 1 international NGO. The timeline on the next page summarizes the key milestones in their engagement. In preparation for the commencement of PRISMA, the 1st Batch of NGOs was identified and their capacity building initiated through a smaller AIP-Rural project called Introducing Market Development in Indonesia (IMDI). In effect, they were ready to start implementing interventions in August 2013 but because of unexpected delays in PRISMA's start up, followed by inadequate knowledge, on the part of the contractor, of how to contract these organisations, there was 9-month gap in implementation. When implementation of these interventions did start PRISMA was still inadequately prepared to oversee these organizations' interventions. To further plug this gap, another contract was awarded in May 2014 for a project called PROMARK. Both IMDI and PROMARK were implemented by the same contractor, Swisscontact.

The costs of using NGOs as Co-Facilitators

While the NGOs had good local networks and some local knowledge of agriculture they had no experience in conceptualizing or implementing market development interventions. For this reason, they needed formal

¹⁰¹ The term "co-facilitator" is often used when describing what NGOs do for market development projects. Even though NGOs have a more "public good" or development facilitation mission when compared to a private company they are indeed closer to a sub-contractor when they receive grants from PRISMA.

¹⁰² AusAID, 2013, June. "Australian-Indonesia Partnership Promoting Rural Income through Support for Markets in Agriculture Summary Design Document" pp.14-15.



exposure to the theories of market development and subsequent hand-holding in the early stages of implementation. This was done through IMDI and then PROMARK.

The total cost of IMDI was \$1,491,994¹⁰³. PROMARK provided refresher training and implementation mentoring for Batch 1 NGOs and selected, trained, and mentored the Batch 2 NGOs. The total cost for the capacity building and mentoring of co-facilitators under PROMARK for the period from May 2014 to March 2016 was \$1,113,811¹⁰⁴. This equates to \$213,142 per NGO under IMDI and \$92,817 per NGO under PROMARK.¹⁰⁵

All NGOs that responded to a questionnaire and interviews, as part of this review overwhelmingly stated that the induction program increased their knowledge of M4P and improved their ability to implement the approach.¹⁰⁶ The induction program undertaken especially by PROMARK also resulted in development key training materials and instruction manuals that have already been used 4 times by PRISMA for the training of all its subsequent cohorts of staff.

Contribution of the NGOs to implementation

Contribution to total portfolio

As of December 2016, there were 21 interventions being implemented by 12 NGOs from a total of 58 PRISMA interventions. This accounts for 36% of the total number of interventions in the portfolio. How does this compare with other market development projects? Katalyst, for example, the longest running market development project, located in Bangladesh, currently outsources 70% of its portfolio to 9 NGOs. SAMARTH in Nepal, on the other hand, in the space of 3 years, went from 80% of its portfolio being implemented by 5 NGOs to just 20% with 2 NGOs¹⁰⁷. Most programs have eventually whittled away the dead wood and kept the NGOs that had proven their ability and commitment.

Contribution to outreach

In terms of outreach, interventions implemented by NGOs accounted for 38.25% of PRISMA's total outreach of 45,318 HHs achieved by December 2016. Batch 1 fared better than Batch 2 partly because the average grant size for Batch 1 was \$763,148 compared to a significantly smaller \$353,969 for Batch 2, moreover Batch 2 NGOs have been working in areas such as Papua, where pilots are smaller and the population less dense.¹⁰⁸

Contribution to Portfolio Performance

In terms of outreach and net attributable income, out of the 13 interventions assessed by the MTR as 'stars', 7 of them were being implemented by NGOs.¹⁰⁹ Based on an internal review of these star interventions, their success can almost always be attributed to the ability of the NGO to: leverage their contacts at the local level, find willing private sector partners, and to mobilize support from farmer groups. When this was coupled with timely and focused technical market-based intervention guidance from

¹⁰³ IMDI grant went from 1 January 2012 to 31 May 2014. This includes all capacity building and staff technical assistance costs, but excludes the management fee to Swisscontact.

¹⁰⁴ This included in-class training, mentoring and coaching throughout the full M4P cycle, as well as technical oversight during implementation.

¹⁰⁵ While it is not necessarily comparable, the induction capacity building of PRISMA's first two cohorts of its own personnel (Cohort 1 and Cohort 2 - also undertaken by PROMARK) cost \$215,926. If the on-going mentoring and coaching costs during implementation are included, this would be equivalent to \$930,926 for the same period. If we include international training, such as Springfield M4P training, study tours, and DCED training for local staff, the total cost of in-house capacity building was \$1,396,566

¹⁰⁶ Individual training assessment reports are available from PROMARK, which were reviewed as part of this report. In all cases participants felt that the training had met the learning objectives.

¹⁰⁷ Source: interview SAMARTH Program Director and implementation staff

¹⁰⁸ The reason for the smaller grant size was partly a risk management measure by the program as Batch 2 NGOs were primarily local NGOs with weaker financial management systems in place and less structured SOP

¹⁰⁹ John Fargher & Associates Pty Ltd, 2016. "Australia-Indonesia Partnership – Rural Economic Development Program – Mid-term Review", p.22-23

PRISMA, performance was enhanced. In all cases the star interventions were underpinned by a good working relationship between the NGO and the PRISMA Task Leader.

Value for money

AIP-Rural has 9 Value for Money (VfM) ratios; 3 are used for screening interventions before they start, 3 for monitoring interventions during implementation and 3 that pertain to the overall program. For this review, we will use the middle 3 ratios or those used during implementation.¹¹⁰ Because outreach numbers grow over time and costs tend to reduce as interventions mature these indicators change over time, so, one must therefore be careful in reading too much into them, nevertheless they do provide a starting point for analysis. The assessment below benchmarks NGO interventions with PRISMA's own portfolio and compares both ongoing with completed interventions. To make as far as possible a "like for like" comparison, existing data had to be repackaged. What costs and benefits are in and which ones are out of this calculation is described in the Glossary of Terms below.

The three ratios used in this section are:

VfM Indicator 1. Investment leverage, or the percentage of additional investment by the private sector partner compared to the direct intervention cost. This is calculated by dividing the value of investment costs of direct contributions by investment partners (private partners and intermediary service providers (ISPs)) by the actual direct intervention cost¹¹¹ This ratio is used to measure "buy in" from the partner (refer to the Glossary to see what costs are included and excluded in this calculation).

VfM Indicator 2. Social return on investment, or the actual amount of increased farmer income that is achieved for every dollar that PRISMA invests in that intervention. This is calculated by dividing the net attributable income increase of all farmer households benefitting from the intervention by the actual direct intervention cost (refer to the Glossary to see what costs are included and excluded).

VfM Indicator 3. Investment per farmer, or the average actual direct investment cost per farm household. This is calculated by dividing the actual direct intervention cost by actual outreach (refer to the Glossary to see what costs are included and excluded).

Glossary of terms used for making the VfM calculations

Direct contribution of investment partner - the additional resources spent by the partner towards achieving the goals of the partnership.
What is Included: <ul style="list-style-type: none"> • Fixed capital or assets purchased or rented for the intervention • Additional working capital as shown in the business calculations to run a business cycle (e.g. material costs for pre-financing for seeds, fertiliser, pesticides etc. provided to farmers), personnel and operating costs dedicated to the interventions (e.g. fees for marketing staff, agronomists, transport etc.) • Costs for one-off intervention activities, such as R&D, capacity building, promotional events etc.
What is Excluded: <ul style="list-style-type: none"> • Management fees • Staff and management commitments from existing personnel and operations
Direct intervention cost ¹¹² - PRISMA's contribution to the intervention
What is included:

¹¹⁰ AIP-Rural, 2016 June, "Protocol For Reporting on DFAT Indicators", v.3.4: p.18

¹¹¹ In the Protocol, the actual direct intervention cost is calculated based on PRISMA's contribution as outlined in the partnership arrangement for direct intervention costs. However, based on the latest SRP, a recommendation was made to include intervention-related staff costs and intervention related staff travel in this calculation. As the current cost code system does not code these costs down to the intervention level, (staff intervention related costs are only coded to the sub-sector level), the total sub-sector costs for intervention related staff and travel costs was calculated by dividing the total sub-sector staff costs evenly among the interventions. This includes the NGO led interventions, as PRISMA staff also provide oversight to these interventions. Intervention staff include the portfolio staff (HOP, Task leaders, Business Consultants) and RML staff. This enables the calculation of intervention level VfM at an aggregate level.

¹¹² The PRISMA Deal-making Guidelines outline what can be counted as a PRISMA contribution and a private sector partner contribution.

<p><u>For PRISMA's Interventions</u></p> <ul style="list-style-type: none"> • Activity costs as described in the partnership arrangement¹¹³ including costs associated with: farmer gatherings; promotional materials; specialized technical assistance; farmer logistics; inputs not manufactured by the partner etc. • PRISMA staff salary costs to oversee the intervention (including portfolio and RML staff) • PRISMA staff intervention related travel and accommodation costs (including hotel, airfares, land travel and per diems for portfolio and RML staff) <p><u>For the NGO's Interventions</u></p> <ul style="list-style-type: none"> • Activity costs as described in Cost Category 6 of the Grant Agreement "Intervention Activity Costs", including: farmer gathering costs, promotional materials, specialized technical assistance, farmer logistics, inputs not manufactured by the partner etc. • NGO intervention related staff costs including salary and travel (international staff - Cost Category 4 and local staff - Cost Category 5), which includes hotel, airfares, land travel and per diems • PRISMA staff salary costs to oversee the interventions (including portfolio staff and RML) • PRISMA staff intervention related travel and accommodation costs to oversee the intervention, including hotel, airfares, land travel and per diems for portfolio staff and RML <p>What is excluded:</p> <p><u>For PRISMA's Interventions</u></p> <ul style="list-style-type: none"> • Non-intervention related staff costs (such as admin, finance, MIS, management staff) • Other program management costs • Procurement (fixed asset) costs • Fixed Management Fee <p><u>For the NGO interventions</u></p> <ul style="list-style-type: none"> • Head office costs (staff and overheads – Cost Category 1) • Field office support costs, for example rent contribution and overheads (Cost Category 2) • Non-intervention related procurement costs (Cost Category 3) • Fixed Management Fee (Cost Category 7) <p>Net attributable income increase – the actual value of the total net income increase of farmer households benefiting from the intervention</p> <p>This is calculated by multiplying the actual outreach by the average net income increase per farm household</p>
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VfM Indicator 1: Investment leverage

Investment leveraged from partners is measured every semester and is based on actual estimates rather than commitments made at the beginning of the intervention.¹¹⁴ For this reason it is a lagging indicator. This explains the difference between completed and ongoing interventions as many of the NGO interventions are more mature than those of PRISMA. Nevertheless, as can be seen below the NGOs ability to leverage investment from their partners is comparable to what was achieved in interventions directly implemented by PRISMA.

¹¹³ This includes Partnership Agreements with private sector companies where PRISMA's contribution is paid to the company; Memorandum of Understanding (MoU), where PRISMA implement and pay for their contribution and the private sector partner implement and pay for their contribution; Grant Agreements, where a co-facilitator is paid to implement PRISMA's contribution on their behalf.

¹¹⁴ It should be noted that these VfM calculations are different to those reported in the December 2016 PRIP. The reason for this is that the calculations in this report include intervention related staff and travel, whereas these were not included in the PRIP calculations. Future PRIPs will use the revised calculation method recommended by the most recent SRP (refer also to footnote 18).

Investment Leverage %		
	NGOs	PRISMA
Completed Interventions	19.38	25.68
Ongoing Interventions	13.88	7.07

VfM Indicator 2: Social Return on Investment

The figures below that compare dollar-for-dollar intervention delivery costs to the net attributable incomes produced from the interventions also points to similar levels of returns. It would be expected that as experience in implementation improves this return should see an upward trend.

Social Return on Investment %		
	NGOs	PRISMA
Completed Interventions	0.77	0.96
Ongoing Interventions	0.99	0.83

VfM Indicator 3: Investment per Farmer

On this ratio, PRISMA's own portfolio of interventions do better than the NGOs but these figures also include 3 failed NGO interventions where the recorded outreach was assessed as "0".

Investment Per Farmer (AUD)		
	NGOs	PRISMA
Completed Interventions	439	264
Ongoing Interventions	459	353

From interviews with PRISMA staff, there is a perception that the NGOs are expensive and not effective. It seems this perception is borne, in part, from a frustration by the portfolio team over having to manage the NGOs. However, except for the cost per farmer, there is not a significant difference in costs or benefits between interventions managed by PRISMA and those managed by NGOs.

Summary Assessment

The key take away lessons, based on both PRISMA's experience and this analysis are:

- AIP-Rural did benefit significantly from the capacity building effort that went into preparing the NGOs for intervention implementation. The trainers and the training materials have been repeatedly used for PRISMA, TIRTA and SAFIRA staff as well as for the M4P training programs for

local government. This continues to be the case. This investment has yielded unexpected returns to in-house capacity.

- The NGOs did deliver sufficient 'quick wins' and star interventions. It should be noted that at the time of the MTR the NGO portfolio of interventions represented nearly 40% of PRISMA's outreach. If this outreach had been absent at the time of the MTR, the overall credibility of the program would have been reduced.
- There is not a very significant difference in the value for money calculations between PRISMA's own interventions and those of the NGOs. The NGOs do have higher overhead costs in implementation but their implementation personnel are considerably less expensive than those of PRISMA.

The key learning points, moving forward are:

- Not all NGOs have turned out to be effective. It makes sense to be selective in their use; those that are willing to leverage their contacts and networks for more market development interventions and those that are prepared to devote competent personnel to implementation will make excellent partners under specific conditions.
- In addition to networks and personnel the other key condition for the continued use of NGOs is that they should **not** be expected to conceptualize and implement M4P at 'arm's length'. Preparing good results chains, credible business models, negotiating with partners, and imagining systemic change and sustainability are rather the core competencies of PRISMA.
- Greater involvement is therefore needed from PRISMA's Task Leaders and the Heads of Portfolio to provide M4P skills as part of PRISMA's contributions to the intervention, when preparing the relevant grant agreements. PRISMA will also need to become more engaged in the field, at key milestones of intervention implementation to ensure that modifications to interventions are made at earlier stages of implementation.
- This approach which places more modest expectations on NGOs means that engaging them in the future will no longer need large, lengthy and tailor made capacity building programs, but rather will involve joint intervention concept workshops between the NGO and PRISMA to assess their value adding local networks and personnel.

At this point, there is not a high demand from other local or international NGOs to work together with PRISMA. The program is therefore able to focus on improving the working relationships with the current NGOs and consolidate efforts to scale-up successful interventions while exploring opportunities to work on new interventions.