

Australian-Indonesian Partnership: Promoting Rural Income through Support for Markets in Agriculture

Summary Design Document

November 2013

Executive Summary

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

¹ This is defined as a 30% increase in the farmer income derived from the selected agricultural commodity.

² For a definition of smallholder or poor farmers see Annex 1.

³ For details of the M4P approach refer to DFID/SDC (2008) M4P Approach Synthesis, <http://www.m4phub.org/news/Evaluating-the-impact-of-M4P-programmes-synthesis-paper.aspx>

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List of Abbreviations

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

1. Background

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

Agriculture remains critical to the livelihoods of Indonesia's rural poor and is crucial to significant poverty reduction. Numerous factors contribute to low incomes for poor farmers. While they vary between locations and commodities, they generally include: poor cultivation techniques; lack of good seeds, planting material, pesticides, herbicides, fungicides or fertiliser; productivity far lower than the national average; poor infrastructure; expensive and irregular transport; long supply chains from the farmer to the end user; lack of quality incentives in pricing reaching farmers; lack of numeracy, literacy or financial literacy skills among farmers; lack of access to funds for both investment and daily expenses; ignorance about appropriate innovations that will impact on productivity; and a complex regulatory environment which imposes additional local taxes and fees, and adds to the difficulties of operating a business.

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

The Australian aid program has supported rural development in Indonesia for decades, particularly in eastern Indonesia. Most recently, for example, Australia funded the Smallholder Agribusiness Development Initiative (SADI) which commenced in September 2006 and ended in June 2010. The Governments of Australia (GoA) and Indonesia (GoI) decided to replace the SADI program with a new program to address the most significant constraints to rural income growth. Australia's new Rural Economic Development Program, aimed at boosting farmer incomes and agricultural productivity in eastern Indonesia, is known as the Australia-Indonesia Partnership for Decentralisation–Rural Economic Development Program (AIP-Rural), and will be delivered by DFAT in conjunction with relevant Government of Indonesia agencies, including the Ministry of National Planning, the Ministry of Agriculture and the Ministry of Public Works.

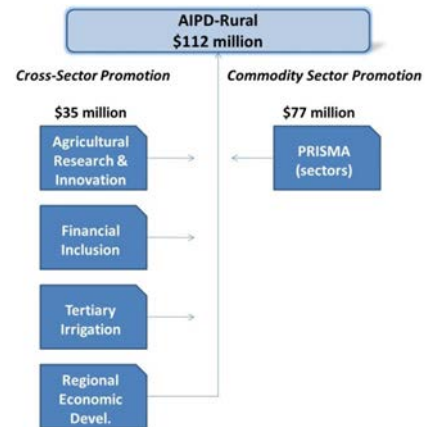
2. AIP-Rural Program Description

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

The Program is broadly aligned to a "Making Markets work for the Poor" approach, which in this case involves working with the private sector to identify opportunities for smallholder farmers to increase productivity and access markets in commodities which offer sustainable prospects for income growth.

The AIP-Rural Program takes a comprehensive approach and consists of a number of complementary funding streams:

- increasing farmer productivity and access to markets in selected commodities through the Promoting Rural Income through Support for Markets in Agriculture (AIP-PRISMA) activity;
- Tertiary irrigation support to boost agricultural productivity through improved access to water;
- Increased rural financial inclusion through farmer access to credit and the development of products such as agricultural micro-insurance;
- Promotion of agricultural research and innovation to improve farmer access to new practices and technologies.
- Strategic partnerships with other GOI programs and donors to support regional economic development and food security.



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

For example, DFAT is supporting LRED (Local and Regional Economic Development) Program conducted by the German Agency for International Cooperation (GIZ) in cooperation with BAPPENAS to support local government’s efforts to increase economic growth through better sectoral market development analysis and local economic development planning. This activity supports AIP-Rural’s objective to improve the local business enabling environment by piloting analysis and planning processes for selected agriculture commodities in program focus areas, and addressing identified constraints in the value chain. DFAT is also supporting the World Food Program to strengthen Indonesia’s capacity for assessing food and nutrition security, with a focus on more vulnerable eastern Indonesian provinces.

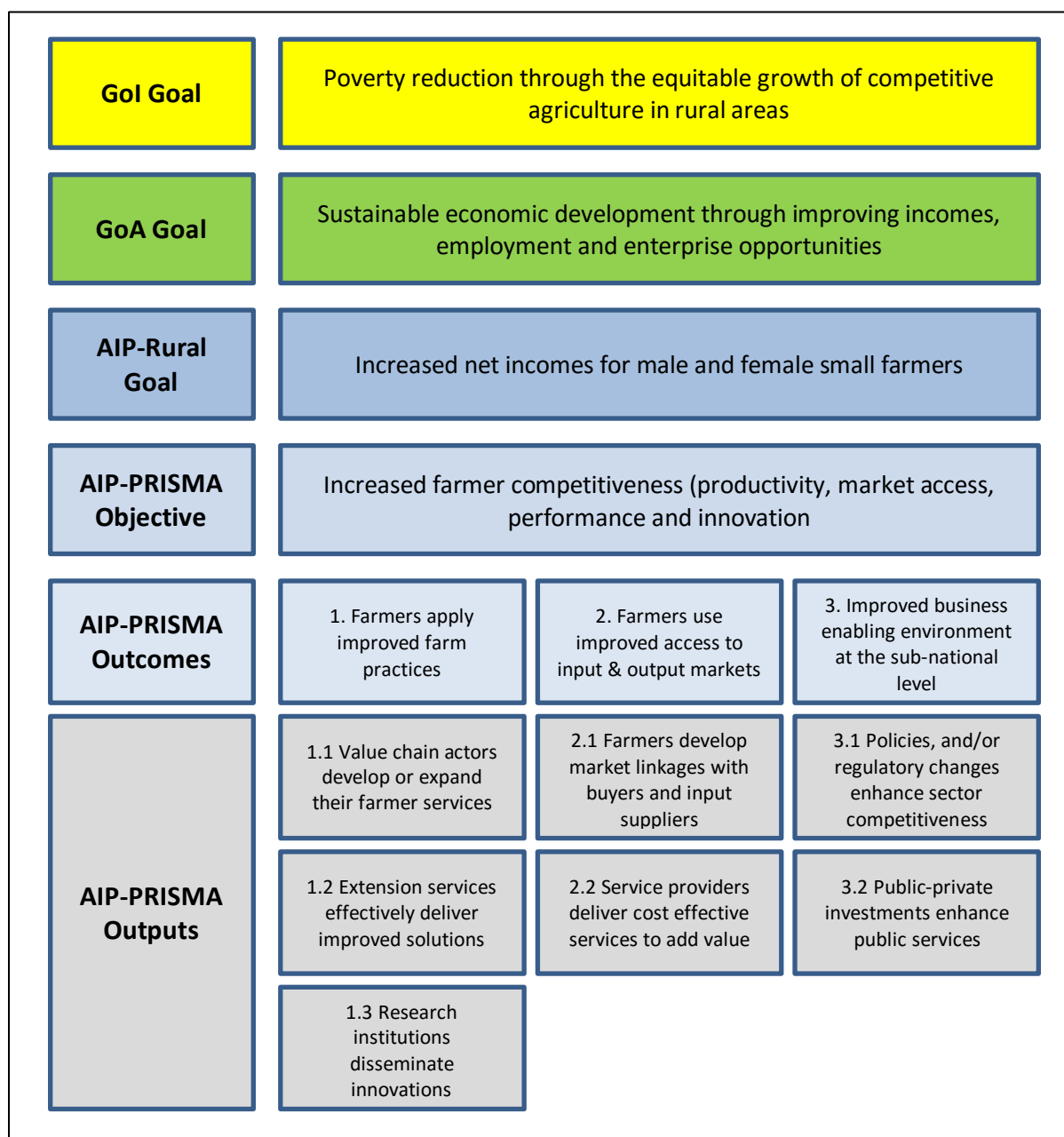
These activities implemented under the umbrella of AIP-Rural will have the same objective hierarchy, strategy and approach and be co-located in the AIP-Rural Program Office in Surabaya.

3. The Objective Hierarchy of AIP-PRISMA

PRISMA is the principal activity under AIP-Rural. While AIP-PRISMA shares the same **“Goal”** as AIP-Rural (an increase in farmer incomes), the **“Objective” of AIP-PRISMA** is, more specifically, to increase competitiveness of poor female and male farmers. The competitiveness of farmers is influenced by access to effective public and private services, as well as the wider policy, infrastructure and regulatory environment.

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

Figure 1: AIP-Rural Program and PRISMA Hierarchy



AIP-PRISMA’s Outcomes: to achieve improved competitiveness of poor farmers, the program focuses on three key outcome areas:

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

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

- *Outcome 1: Farmers apply improved farm practice* Improved farm practice, including the use of adapted technologies, is essential to increased productivity. The Project will work, in partnership with relevant stakeholders such as, farmers, supply chain actors, public and private extension and research institutions, to promote systemic change for more efficient service delivery to poor farmers.
- *Outcome 2: Farmers utilise improved access to inputs and output markets* Supporting the development of more efficient supply chains will improve market access for the poor. This can be achieved through: market stakeholders' investment in these supply chain to ensure availability and quality of products; facilitating greater interaction between market actors; better market transparency through improved information channels; stronger engagement by farmers in joint marketing activities; and improved access to finance.
- *Outcome 3: Improved business enabling environment at sub-national level* AIP-PRISMA will focus primarily on business enabling environment issues constraining farmer competitiveness that emerge from the analysis conducted through Outcomes 1 and 2 above. It will focus on improving local economic governance and regulatory capacity specifically related to the agricultural sectors in which the Project is working. For example, by focusing on specific local business enabling environments, constraints identified through the analysis of value chains and through practical work with farmers, the Project can assist local government by assessing the economic value of removing or mitigating these constraints and then supporting the implementation of the desired changes. In addition to this, AIP-PRISMA will work on improving the participation of the private sector in the planning and implementation of public expenditure and investment. By providing technical assistance to local government, which may include discretionary grants, the Project aims to encourage the blending of public and private funds to address agricultural growth constraints at the district or provincial levels. Such interventions may, for example, include new investments in vegetable markets, cattle holding grounds, exhibitions aimed at promoting technology and innovation, or the provision of extension advice to farmers.

4. AIP-PRISMA Duration and Location

The AIP-Rural Program is designed to be implemented in two phases (four and five years respectively) over a period of nine years, to enable the program to achieve sustainable results at scale. The Program's funding stream formally commenced in 2010 with design and planning for start up activities, with AIP-Prisma start-up commencing November 2013. AIP-PRISMA is envisaged to have the same duration. The headquarters of the Project is in Surabaya.

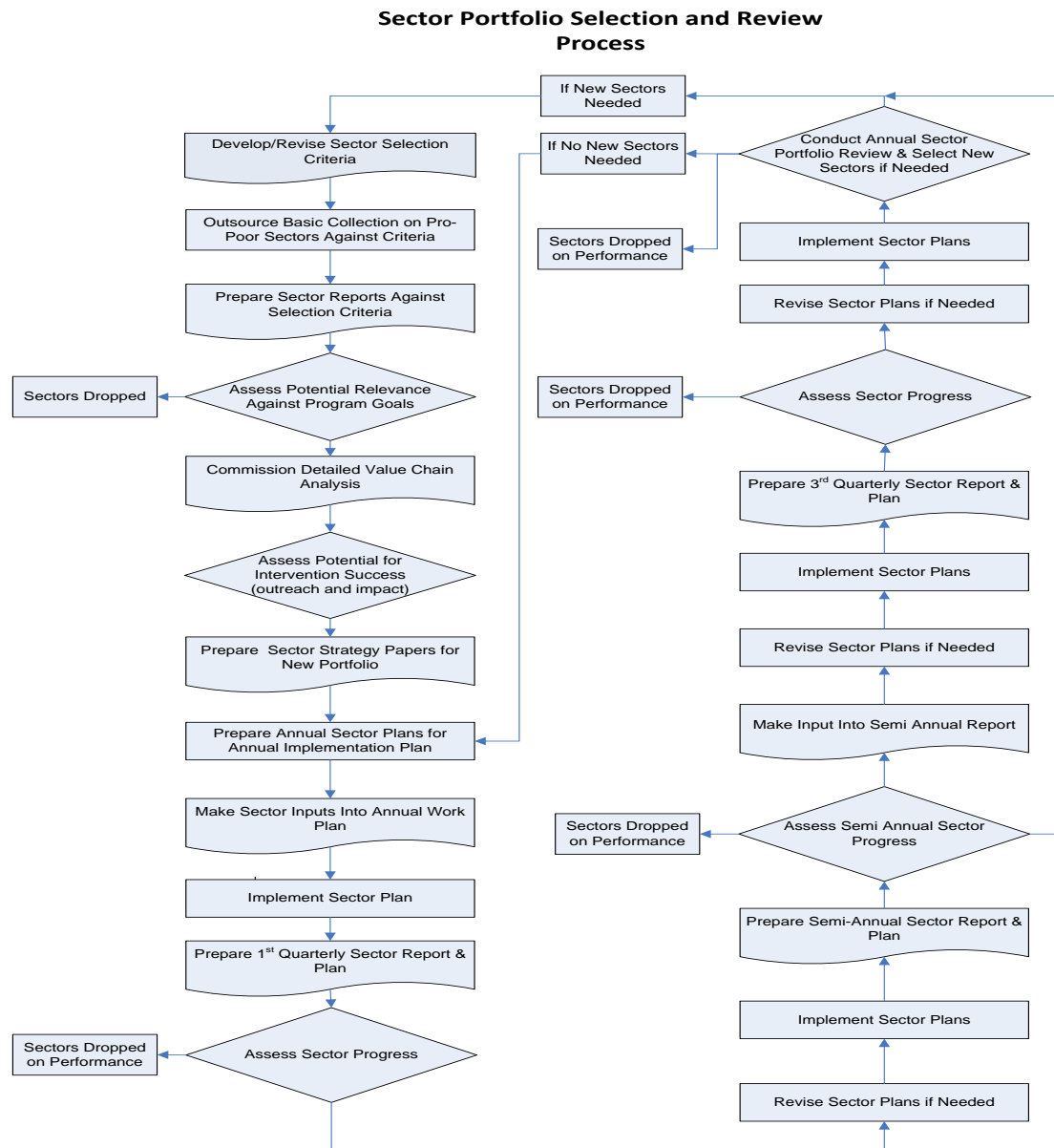
Geographic Areas: AIP-Rural, and by extension, AIP-PRISMA will work in 20 districts of 5 provinces in Eastern Indonesia: East Java, NTB, NTT, West Papua and Papua. Additional districts will be identified and added in by the end of the first year of operations. There will be three stages to rolling out intervention into these areas:

- Stage 1 (the first 12 months): focusing on commissioning prepared interventions for NTT, NTB and East Java; selecting sectors and conducting value chain studies and designing interventions for Papua and West Papua.
- Stage 2 (month 13 to 18): initiating prepared interventions for Papua and West Papua; conducting value chain studies and designing interventions for new districts
- Stage 3 (month 18 onwards): commissioning interventions in newly identified districts.

5. AIP-PRISMA Strategy

The starting point for the Project’s strategy is its geographic focus. This focus is primarily eastern Indonesia and based on this geographic orientation, the Project will identify agricultural sectors that are important to large numbers of low income farmer, have growth potential, and show clear signs that this growth potential will lead to farmer income growth. Figure 2 summarises the project’s strategy in regard to the sector selection and review process.

Figure 2: Sector Portfolio Selection and Review Process



The diagram above illustrates that sectors will be under constant review and that some sectors may drop out because of underperformance, while others will need to be added to replace them. After a sector has passed AIP-PRISMA’s selection criteria, value chain studies will be commissioned to analyse systemic constraints to both sector and farmer income growth for that particular area, district or region so that specific interventions can then be designed to address these constraints. This process of identifying, assessing, retaining or rejecting sectors will be continuous throughout the Project. The retention or rejection of a sector will depend on a sector’s medium term

contributions to AIP-Rural's goal of incomes changes for a significant number of low income farmers. It is expected that the Program will start with about 10 sectors, although during Program implementation this number may increase or decrease based on the existing and potential impact of these sectors to AIP-Rural's Goal and AIP-PRISMA's objective.

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

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

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

6. AIP-PRISMA's Approach: Market Development

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

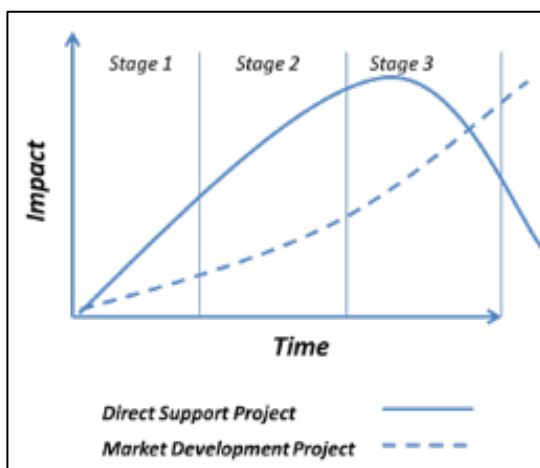
The theory of change underpinning AIP-Rural and, by extension AIP-PRISMA, is based on market-led agricultural systems development. At the core of this approach is the theory that all people living in communities trade goods and services with one another to meet their needs – so they are already engaging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

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

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

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

Figure 3: Project Impact over Time



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

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

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

- AIP-Rural emphasizes "systemic" change, meaning new lasting relations between system actors (e.g., between input retailers and farmers, or between local collectors with farmers), with the ability to evolve over time, and with the ability to be replicated (e.g., local collectors expanding to a different area and applying the same model there, or another local collector also getting interested in farmers and developing a similar model). This is the base for sustainable and efficient impact at scale.

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

6.1. Business Enabling Environment

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

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

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

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

- mobilise and allocate public resources and investments⁶.

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

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

AIP-PRISMA will have two sets of interventions for its BEE Outcome. The first will be related to: potential changes to a local policy or regulation impinging on farmer competitiveness; removing a counterproductive subsidy; modifying the implementation of a local tax code, etc. No intervention in these areas would be contemplated unless some attributable impact could be foreseen for the target groups of AIP-PRISMA within the time frame of Phase 1.

The second set of interventions for the BEE Outcome would address business enabling environment issues that pertain to the effective blending of public and private expenditure or investments that are relevant to the competitiveness of the sector in which AIP-PRISMA is engaged. The initial design of AIP-Rural envisaged a separate grant funding instrument for this purpose; however recent reviews of international best practices for public-private grant schemes make a strong case that, it would be more cost effective to integrate the funding of these interventions into the existing BEE structure of AIP-PRISMA. Opportunities to work with local government will emerge from AIP-PRISMA's sector district competitiveness analyses as well as from AIP-Rural's co-funding, with GIZ, of a Local Economic Development project implemented through Bappenas. Nevertheless to ensure that the aspiration to promote public-private collaboration is not diminished, AIP-PRISMA will have substantial human and financial resources committed to this end. (See the AIP-PRISMA organisational diagram on page 19).

Initial criteria for the selection of this second set of interventions will include:

- That the intervention addresses a systemic constraint of at least one of the AIP-PRISMA target groups.

⁶ Brinkerhoff (2004)

- That there should be a clear and have measurable impact of these interventions on AIP-PRISMA target groups within the project's 1st Phase.
- That the intervention involves the blending of local government and private sector resources to address this constraint.
- That there is at least a preliminary indication from the local government and private sector partners that they are willing to make resource commitments to the intervention.

More specific criteria and the procedures for the identification and implementation of these interventions will be developed in the first few months of project implementation.

6.2. Gender and Social Inclusion

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

Both the Indonesian and Australian Governments recognise that past and current discriminatory practices have led to widespread gender inequality. Both Governments are signatories to the Convention of Elimination of All Forms of Discrimination against Women (CEDAW), and have made policy commitments and developed programs aimed at promoting gender equality.⁷ The Australian Government's gender and development policy aims to promote equal opportunities for women and men as participants and beneficiaries of development. Key objectives include improving women's access to economic resources and promoting women's participation and leadership in decision making at all levels, recognising that providing equal rights and access to resources and opportunities to women is crucial to the goal of reducing poverty. This is reflected also in the Australia Indonesia Partnership Country Strategy (2008-13), where commitment to promoting gender equality is identified as one of four priority areas in the partnership.

Inefficiencies in relation to off-farm activities are often linked to weak understanding and communication amongst different market actors, low levels of trust and the appreciation of different positions and reasons for action/behaviour, which ultimately result in inappropriate and ineffective linkages. Given women's key role in many value chains, there is a clear need to improve both men and women's access to information, especially on issues such as technologies, quality standards and pricing, for all players in the supply chain – based on the differing needs and opportunities available to men and women.⁸ It will therefore be critical for each intervention to be based on an understanding of the specific factors that affect women and the role they play in the production of different commodities, value chains and practices. Personnel to ensure that these principles are

⁷ Indonesia's Presidential Instruction 9/2000 identifies a commitment to mainstreaming gender into all development initiatives and states that donors must also mainstream gender into all support programs. It includes also the establishment of gender focal points and gender working groups within GOI Ministries. The Ministry of Women's Empowerment is responsible for supporting and monitoring the system.

⁸ In some cases the gender division of labour may appear to proceed harmoniously and result in a good product. In other cases, if men or women have little understanding of the requirements of the next stage in the chain, gradual losses in product quality and quantity along the chain will yield a relatively poor product. Interventions aimed at adding value through processing and marketing need to consider how to increase understanding between chain actors, identify which gender may benefit at which stage, and determine whether women can be drawn into those activities that add the most value.

integrated into the design, implementation and evaluation of interventions will be located in the Results Measurement part of the Project's organisational structure.

7. Delivery Modalities

AIP-PRISMA will be delivered through a number of partnerships including NGOs, the private sector, other donors, and Indonesian Government systems. The different delivery modalities take into account the multiple entry points to agricultural markets and systems in eastern Indonesia, the diverse causes of low farmer incomes, and the need to work with a range of stakeholders at different levels (district, provincial and national) in order to influence sustainable change at a local level.

The AIP-PRISMA Managing Contractor will work directly with private and public sector stakeholders to facilitate the provision of services to address competitive constraints affecting poor farmers. In some cases, service providers might be lead firms in a specific sector.

The Managing Contractor will assist in responding to situations where there is both a market and/or government failure to deliver services. The Managing Contractor may provide technical assistance or grants to government to facilitate public service delivery, or may procure services and in some cases possibly goods directly from NGOs, research institutions or other 3rd parties for specific activities aimed at stimulating market development.

Examples of this delivery mechanism could include: a cocoa buyer, who is interested in improved quality of supply, and who might not only buy cocoa beans from farmers, but might also provide extension services to farmers on quality improvement. Such extension services will satisfy the farmer incentive of increased income due to improved productivity and quality of production while at the same time satisfying the incentive of the buyer for improved supply.

Similarly a seed company might provide not only seeds, but also information services on best farm practice through their distributor network or through local media. The farmers who benefit from this additional service are likely to increase productivity and the additional service is likely to result in increased sales for the seed company.

8. Preparatory Activities for AIP-PRISMA

In anticipation of the time and resources needed to identify sectors, understand their growth constraints in the targeted areas and design high impact interventions, DFAT began screening for the opening portfolio of sectors in the first half of 2012. As of October 2012, ACIAR and DFAT have identified five sectors for further analysis. These sectors are maize, beef, mangoes, vegetables and pulses (peanuts, soya beans and mung beans). The detailed value chain study for mangoes and beef are currently reaching their final stages, while the other three studies are still engaged in their field work. These studies will be completed by May 2013 and each one will identify 3-4 potential intervention areas⁹ for their respective sectors.

Given the diversity of AIP-PRISMA's districts, a separate and additional study was commissioned in August 2012 to select a further six to eight sectors. This selection process was completed by the end of November 2012, and will be followed by a further six to eight more detailed value chain studies. These will be conducted by locally based national and international NGOs with a competence in value chain work and with the potential capacity to implement interventions once AIP-PRISMA is

⁹ An "intervention area" identifies a systemic constraint in a value chain, the addressing of which should lead to some form of value addition for the target groups involved. A well designed intervention takes an "intervention area" one step further and builds a plausible causal model that shows how change will be introduced and target group incomes improved.

mobilised¹⁰. This means that by the time the Project is commissioned it may start with 12-15 well defined interventions¹¹ in six to eight sectors, plus another 10-15 identified intervention areas in another five sectors. A decision on the final selection of sectors and the identification of interventions arising from these studies will be taken as early as possible following the engagement of the Managing Contractor.

In addition to this the Asia Foundation has been commissioned to conduct a study of the political economies of 12 districts in 3 provinces (East Java, NTT and NTB) with specific reference to agriculture, and the identification of business enabling environment issues that are most relevant to the commodities selected through the above-mentioned sector selection and analysis process. A second phase of this study will be conducted in Papua and West Papua. Both parts of this engagement are planned to be completed by June 2013.

9. AIP PRISMA Governance Arrangements

9.1. Links to other DFAT aid programs

AIP-Rural was originally designed to be delivered as a component of the AIPD-Governance, a program set up to support the Government of Indonesia's decentralisation policies and implementation strategies, and promote harmonisation of DFAT's programs supporting the decentralisation agenda in Indonesia. However as the governance arrangements for both AIPD and AIP-Rural and their Government of Indonesia executing agencies have changed, the formal links originally envisaged between the two programs have been revised. The Australian aid program is now promoting the strategic integration of its activities in eastern Indonesia around key development challenges such as frontline service delivery, nutrition and food security. These efforts recognise that the causes of under-development are often multiple, and that making an impact on poverty requires a coordinated, geographically targeted and multi-sector approach. AIP-Rural program will identify opportunities to collaborate with other development programs to optimise its contribution to these development challenges.

9.2. Coordination with the Government of Indonesia

AIP-PRISMA has finalised a Subsidiary Arrangement with the Government of Indonesia represented by, BAPPENAS, in particular the Directorate of Poverty Reduction and the Directorate of Financial Services and State-Owned Enterprises as the Executing Agency. AIP-PRISMA will provide support to and create synergy with relevant Government of Indonesia programs¹². which may include the development of rural areas through technology, infrastructure and market access; the promotion of micro, small, and medium enterprises particularly in the agriculture sector; and improved access to finance for smallholder farmers.

¹⁰ The capacity of these NGOs is being developed through a small grant called "Introducing Market Development in Indonesia. Under this project the concept of market development has also been presented to selected public officials.

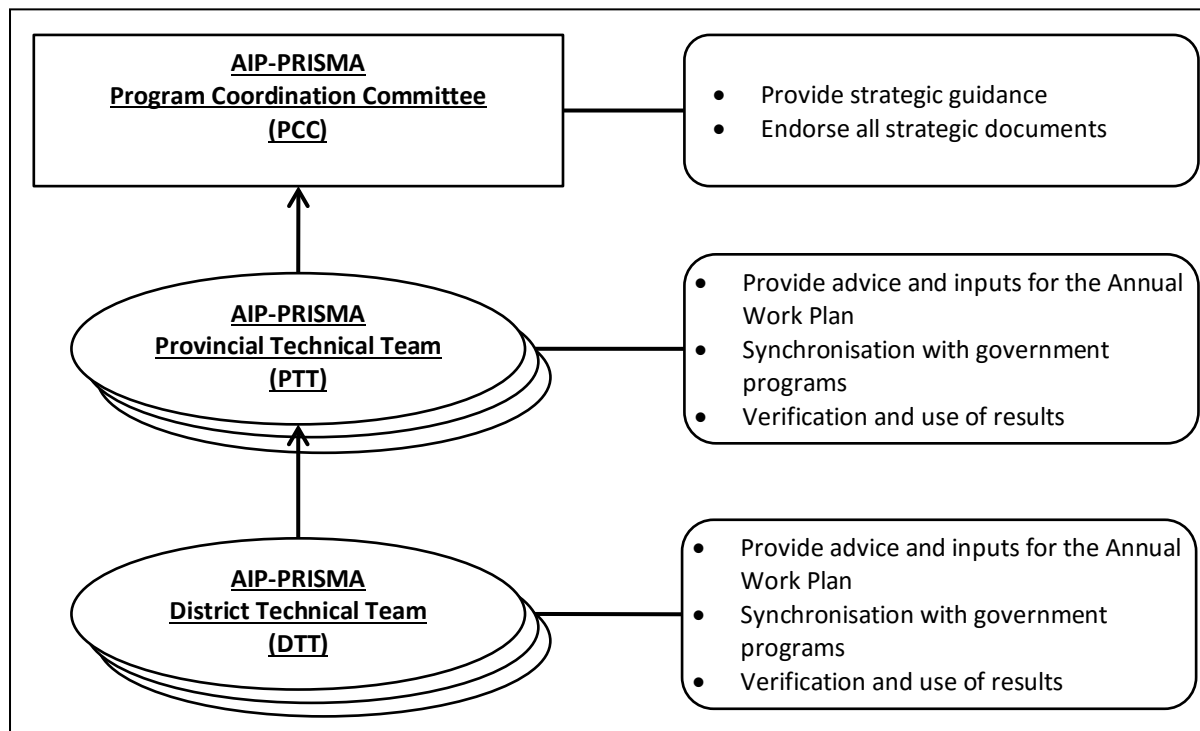
¹¹ The stages in the identification and selection of an intervention as follows: identification of systemic constraints to target group growth in a particular value chain, how to address these constraints is then formulated as intervention areas, intervention concepts are then developed within these intervention areas, these intervention concepts are then validated with partner commitments, and only after these commitments are made is an intervention cleared for implementation.

¹² Further details on the synergy between AIP-PRISMA and the programs of the technical counterparts will be defined in the Subsidiary Arrangement and Annual Work Plan.

9.3. Project Governance Structure

The final project governance structure will be defined in the Subsidiary Arrangement. The project governance structure presented below is proposed by DFAT as of March 2013.

Figure 4: Program Coordination Structure



The AIP-PRISMA Program Coordination Committee (PCC) will be the highest program coordination authority at the national level (see Figure 4). The PCC will meet annually to provide strategic guidance and endorse all associated documents such as the Annual Work Plan and Progress Report. The PCC will comprise representatives from AIP-PRISMA and GOI agencies. The PCC can enlist advice and comments from the Strategic Review Panel that may include people from other ministries or public institutions, research institutions, private sector associations, or civil society organisations, depending on the subject of discussion. Additional technical expertise may be engaged as required.

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

10. Program Management Arrangements

The Senior Management Team for AIP-PRISMA will manage the program on behalf of DFAT and will include the AIP-Rural Program Director (PD) and a Senior Adviser (market development specialist). The AIP-Rural Program Director is responsible for maintaining overall strategic direction, and for ensuring that program synergies with other DFAT programs and alignment with DFAT are optimized. The Senior Adviser will advise on portfolio development and its quality while the PD Rural will be responsible for the day to day leadership for AIP-Rural and AIP-PRISMA, and managing the interface between the Program/Project and the Government of Indonesia.

AIP-PRISMA's Managing Contractor will be engaged to recruit Project professionals, support staff, and provide administration and logistics support. Key positions for the Managing Contractor will be the Portfolio Manager, Assistant Portfolio Manager, the Results Measurement Manager, the Sector Team Leader, the BEE Team Leader, the Communications Manager, and the Provincial Manager (Surabaya).

AIP-PRISMA will be directed by personnel under direct contract with DFAT. These people will help the Project to tap into the networks of the DFAT's development community, recycle lessons, ensure consistency in policy delivery and oversee the relevance of the Project to GoI goals; they will provide strategic guidance and leadership for the Project. The key task of operationalizing the Project or translating the Project Design into an effective delivery mechanism falls to a Managing Contractor. This Managing Contractor will be engaged by DFAT through a competitive bidding process.

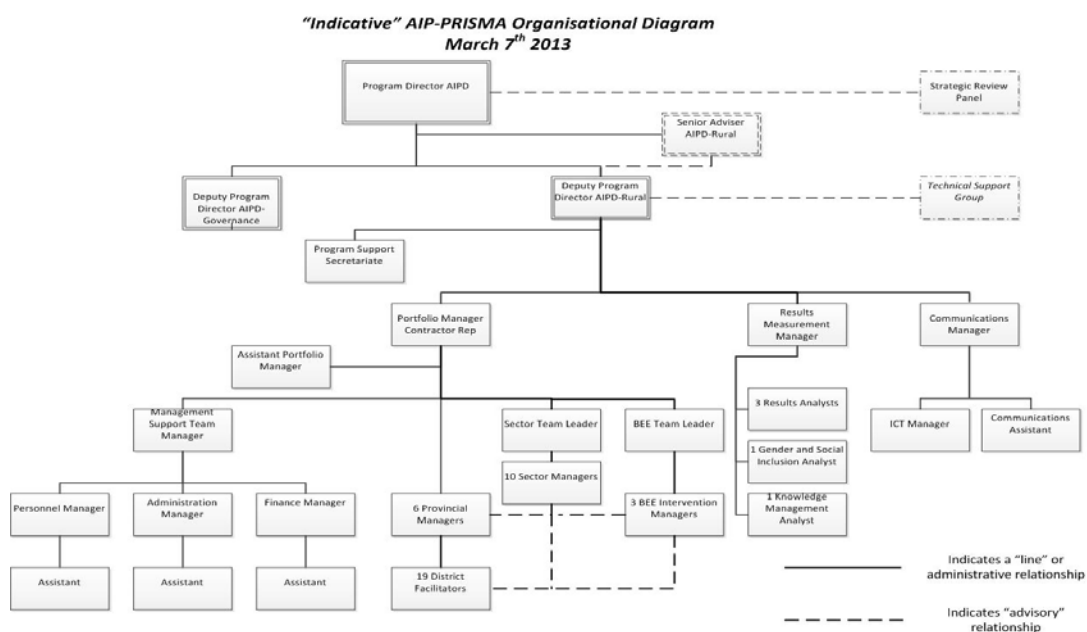
The Managing Contractor will:

- Provide resources to design and implement AIP-PRISMA activities, as well as oversee the quality of activity implementation, based on strategies and plans approved by the DPD and/or the PCC, and in line with the AIP-PRISMA's agreed approach and principles;
- Establish and maintain all required financial management, procurement, logistics and other administrative support systems to ensure resources are effectively mobilised and managed, and accountability requirements are met;
- Establish results measurement systems and monitor and evaluate program outputs, achievements, and progress toward achieving outcomes, with advice from the Technical Support Group and in collaboration with other stakeholders;
- Assist DFAT in the collection of information required to meet performance and quality reporting requirements (Quality at Implementation, Sector Performance Report, Annual Program Performance Report, Independent Progress Report, and Independent Completion Report).

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

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

Figure 5: Indicative Organisational Diagram



10.1. Responsibilities of Key Management Bodies or Positions

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

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

Senior Adviser AIP-Rural: The SA provides guidance on the strategic design and implementation of operational systems for the Program and AIP-PRISMA Project: including portfolio development (sector choice, BEE Outcomes, intervention quality), results measurement (operationalizing the DCED Results Measurement Standard), human resource development (staff and partner capacity building), and knowledge management (recycling learning to improve Program performance). This person reports to the DFAT Counsellor, Rural Development, Jakarta.

Program Director: Is responsible for the day-to-day leadership, management and representation of the Program and Project including: the convening of AIP-PRISMA’s PCC Sub-Committee, Provincial and District Technical Teams, the preparation and monitoring of annual plans and budgets; the compilation of progress reports; the performance assessment of senior management personnel and the Managing Contractor; and leading the interface between the Program/Project and the Gol. The Program Director reports to the DFAT Counsellor, Rural Development, Jakarta.

Technical Support Group: This is a pool of high-level short-term experts that can be used to perform a number of ad-hoc tasks including: capacity building of staff and external stakeholders, the design

of results measurement systems, the auditing of these systems, technical support for a wide range of interventions, and management support as and when required.

The Portfolio Manager (Managing Contactor Representative): The PM is responsible to the generation of high quality interventions that are in line with Project objectives, this includes: the selection and regular assessment of agricultural sectors, the preparation and revision of sector strategies, complete with their analysis of systemic constraints, intervention areas and intervention concepts, the identification, delegation and commissioning of interventions related to outcomes 1, 2 and 3. This person will work closely with the Results Measurement Manager to ensure portfolio quality. The Portfolio Manager reports to the PD.

Assistant Portfolio Manager: The APM is responsible for the day-to-day management of the portfolio including developing the portfolio pipeline, managing portfolio meetings, assessing the relative work load of portfolio personnel, ensuring that operational targets are being met, ensuring that sectors are reviewed on time and adjustments made, etc. The Assistant Portfolio Manager will report to the Portfolio Manager.

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

Sector Team Leader: This person is responsible for leading a team of sector or value chain managers. The Project may have up to 10 of these managers. Each of them may handle up to 3 sectors depending on volume of work in each sector. The Team Leader is responsible for coordinating the work of the Sector Managers each of whom is responsible for: the commissioning of value chain studies, ensuring the quality of sector analysis, the identification of intervention concepts, overseeing the delegation of these interventions for implementation and regularly assessing their relative importance and relevance to the Project's portfolio. The Sector Team Leader will assist the Portfolio Manager in the development of systems and procedures for all sector work. The Sector Team Leader reports to the Portfolio Manager.

BEE Team Leader: This person is responsible for the design and implementation oversight of business enabling environment interventions that arise from Outcomes 1 and 2 (Program Hierarchy), and for the generation and design of interventions related to the blending of local government expenditures and investments with the private sector. The BEE team leader will oversee up to 3 persons to design and oversee all interventions under Outcome 3. The BEE Team Leader will assist the Portfolio Manager in the development of systems and procedures for BEE work. The BEE Team Leader reports to the Portfolio Manager.

Communications Manager: The CM has two main responsibilities, communicating the Project's core message to all stakeholders and secondly providing technical assistance to intervention staff in the design of terms of reference and supervision media companies that will be hired in the execution of individual interventions. For the first responsibility the Communications Manager will: handle public relations and associated events; the design, editing and publication of the Project's printed materials; the presentation and content of a website and newsletter; and, prepare guidelines on the branding of the PRISMA Project. The second part of this person's job will be to assist implementation personnel with the identification of firms that can undertake social marketing (communicating the

desired behaviour change to the target group) and assist in their oversight and the evaluation of their respective results. The Communications Manager will report to the DPD.

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

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

Core Management Team: The CMT is composed of the DPD-Rural, Senior Adviser, Portfolio Manager, Assistant Portfolio Manager, then Results Measurement Manager, The Sector Team Leader, the BEE Team Leader and the Communications Manager. It will be chaired by the DPD and the secretariat function is performed by the Portfolio Manager. It will meet regularly and its functions are to: establish Project priorities, annual targets and budgets, report on progress, and set up or streamline management procedures or processes (human resource performance standards, financial regulations, staff development and transfers, etc.)

10.2. Human Resource Strategy

The nature of the AIP-PRISMA project calls for particular attention to be placed on the quality of people recruited and the monitoring of their performance standards. Especially for the operational positions much of the work requires the need for an analytical understanding of: markets and how they work; the current and potential incentives of key market actors; the logical construction and presentation of how interventions will lead to measurable results; the calculation of attributable target group impact; and, how to impart and effectively communicate new ideas of change to conservative audiences.

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

Capacity Building: It is anticipated that the majority of recruited personnel will have had limited exposure to value chain analysis (with a focus on systemic change) and little exposure to market development or Making Markets Work for the Poor. An essential part of the first months of implementation will be placed on building the theoretical and practical capacity of these personnel. This should happen through a combination of class room instruction (M4P, Value Chain and Results

Measurement) delivered by high calibre internationally experienced experts in market development, and applied on-the-job lectures, discussions and exercises in areas such as: constraint analysis, causal model construction, intervention design, environmental impact, gender and social inclusion, survey planning and data collection, statistical significance, and smallholder agricultural profitability calculations.

Performance Assessment: All staff will be assessed annually. In addition to this they will have at least one other mid-year review against delivery targets that are consistent with their job and overall targets of the Project. The bulk of implementation staff (District Facilitators, Provincial Managers, Sector Managers, BEE Managers and the Portfolio Manager) will be assessed, in the early stages of project execution, against “predicted” impact and outreach of the whole portfolio. As the portfolio matures they will be assessed against “measured” impact and outreach and the value of this contribution to Project targets and goals. To assist in this assessment the Project will use the process standard for predicting and measuring impact as developed by the Donor Committee for Enterprise Development¹³. In addition to the use of these performance standards on output delivery incentives will be provided to those who make significant contributions to the learning agenda of the Project through the preparation of case studies, components for training courses, the preparation of manuals or new procedures. These individuals and their contributions will be assessed on their merit.

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

- Stage 1: NTT, NTB and East Java;
- Stage 2: Papua and West Papua; and
- Stage 3: Other districts to be identified.

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

11. Project Reporting and Results Measurement

AIP-PRISMA will develop a Results Measurement System during its inception phase (the first 6 months of operations). The project’s sector and intervention selection should not be assumed to be static, but critically re-examined on the basis of lessons learnt and changing environments.

This Results Measurement System will focus on accountability and improvement, and will monitor: Project quality; implementation of Project principles; integration of cross-cutting issues; progress in establishing effective relationships with stakeholders (both public and private sector); progress against timelines and budget for each intervention; capacity development of individuals and of organizations; and unexpected outcomes and risks. This part of the framework must clearly identify

¹³ The DCED Results Measurement Standard provides clear guidance on the minimum requirements for intervention design and data collection. This guidance will form the basis for plausible impact and outreach projections as well as for measured results.

how lessons learnt will be fed back into Project planning and to relevant Government of Indonesia agencies.

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

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

12. Risks

A number of risks that may impinge on the success of the AIP-Rural Program were identified in the original design document, particularly with regard to management, coordination and geographic targeting issues. These risks will be updated once Project implementation commences. Two particular risks bear mentioning in this Summary Design Document. The first concerns the fact that AIP-Rural's market development approach is a relatively new way of delivering aid for both DFAT and the Government of Indonesia: namely, its market-based approach entails a primary focus on private rather than public partnerships, and an entrepreneurial and opportunistic approach to implementation and partnership building. This risk will be addressed by a) piloting a large number of interventions, many of which may not succeed or be scaled up and b) developing a capacity building program to raise the awareness and increase the understanding of our counterparts in regard to the program's rationale and strategic approaches.

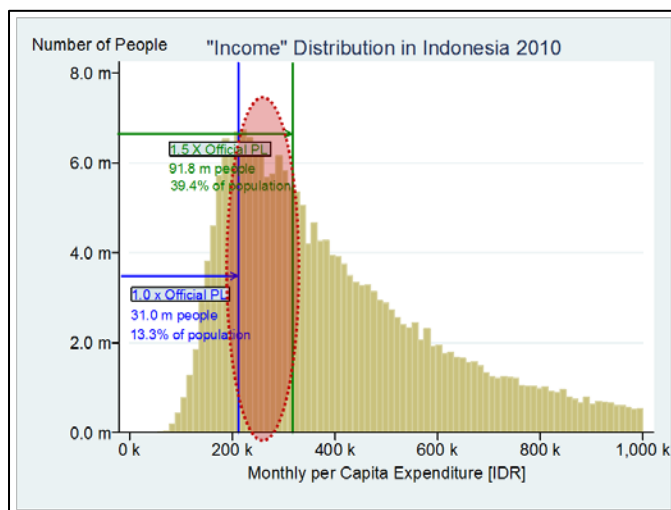
The second set of risks is also related to the Project's focus on the private sector, and concerns the broader regulatory and policy environment within which commodity markets operate. There is a risk that the Project's efforts to promote inclusive markets for selected commodities may be hampered by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

Annexes

- Poverty and Agriculture in Indonesia
- Results Measurement in AIP-Rural

Appendix A: Poverty and Agriculture

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



The figure¹⁴ to the left shows that the official poverty rate in 2010 was 13.3% (31.0m poor people out of 233m total population). However, the distribution of "income"¹⁵ reflects the reality that a considerable number of people live just above the poverty line. These so-called "near-poor" people are not much better-off than the poor. They are extremely vulnerable to shocks, like illness, death of family members or natural disaster that can easily draw them back below the poverty line. Increasing the poverty line by just 50% triples the number of poor and near-poor people (91.8m people). The

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

PRISMA's intervention strategy to reach large numbers of its target group entails a "planned market penetration" approach that targets innovators amongst the poor and near-poor farmers (pre-commercial and semi-commercial) instead of concentrating exclusively on the poorest of the poor. Studies¹⁶ have shown that, in general, only around 10-20% of farmers are likely to adopt new practices¹⁷ in their first wave of introduction. These "early adopters" are often, but not exclusively, farmers with some assets (near-poor farmers) that have a stronger orientation to producing a surplus for a market, are less risk averse, and ready to make small investments. After successful adoption by early adopters, when the benefits of new practices are concretely proven, copy-cat behaviour by more risk adverse farmers can be encouraged. By actively tracking the innovation adoption and dissemination process and by working with market actors that have a stake in the innovation's propagation, intervention modifications can then be made to optimize more widespread take up.

¹⁴ Source: SUSENAS (July 2010)

¹⁵ Although poverty is commonly associated with household income, its measurement is based on household consumption or expenditures rather than household incomes.

¹⁶ E.g. Rogers (1962) Diffusion of Innovations

¹⁷ A new practice may involve planting a new crop, marketing existing crops in a new way, adding value in pre or post-harvest processing, using a new input etc.

In reality there is no clear distinguishing line between poor or near-poor farmers or for that matter subsistence or commercial farmers. In general, however, the majority of the target group can be characterized as farmers with a cultivation area¹⁸ of 1 ha or less or landless farmers (agriculture labourers). Those who are landless may raise a cow, feeding it from public land and/or work as day labourers. Those with land cultivate a variety of crops depending on the soil conditions and apply various risk mitigation strategies. In coastal areas, their main income may be from fishing with seaweed possibly having been added over time. In NTT, for example, they may farm dry lands and grow maize or peanuts. In Flores on the other hand, they may have a small number of cocoa trees and also produce limited amounts of cloves and sometimes rice. They generally apply traditional methods in farming practices, use very limited external inputs and have low productivity.

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

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

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

¹⁸ The size of land owned by a farmer (less than 1 ha) is widely used as a criterion for determining whether a farmer is poor or not. However, while this may be true for farmers in Java and Lombok islands, it may not be applicable to farmers in NTB, NTT, Papua, and West Papua where poor farmers may own 2ha of land or even more.

Appendix B: Measuring Results in AIP-Rural/AIP-PRISMA

Particularly since the Paris Declaration on Aid effectiveness in 2005, the development assistance community has been called upon to be more accountable for measuring the results of its development projects. The major funding agencies are asking for **attributable impact** rather than just an assessment of what happened and a few success stories. Agencies such as DFAT, DFID, SDC, CIDA and others are placing a strong emphasis on knowing “*what works and doesn’t work, and why?*”

Increasingly, impact assessment is being seen as an internal management process rather than an external event conducted periodically by consultants. For this reason it is essential that project management becomes more familiar with: a) how impact assessment can be incorporated into a project’s design architecture and, b) how verification of impact can be used as a means for identifying the most important drivers of impact during a project’s life cycle. By doing this, resources can be allocated and reallocated to those development interventions that are yielding the best results. *All of this reinforces the need for a systemic approach to designing, delivering and measuring interventions.*

The results measurement system outlined below does not replace other aspects of prudential project/programme management related to governance, cooperation and personnel but it does address strategy, operational processes as well as learning and innovation. It will therefore form a large part of what management does on a day to day basis. The system will also lend itself to working with local governments because it will clearly and regularly report on: what the AIP-Rural is doing to enhance local level competitiveness; as well as, the impact it is having on farmer incomes and on the extent of the programme’s outreach.

We are suggesting that the key principles of AIP-Rural’s results measurement system be:

- That results measurement is integrated into design, implementation monitoring and scaling up of all interventions¹⁹
- That the essential changes to be measured will be:
 - Contributions that interventions make to target group poverty
 - Net income changes for the target groups that are attributable to interventions
 - Changes to target group competitiveness as a result of interventions
 - Changes in the sustained access of target groups to growth opportunities
 - Changes in target group behaviour stimulated by interventions
- That monitoring these changes will be the basis and core for the project’s internal and external knowledge management strategies, and
- That this system will inform management to make regular and *continuous decisions* on the overall value for money of the project’s portfolio.

What are the Components of the System?

- **The Contractor’s Scope of Services and the Objectives Hierarchy** (logframe) that together establish overall programme deliverables, in terms of impact, outreach²⁰ and sustainability,

¹⁹ An intervention is defined as: “A set of activities with one or more market actors aimed at systemically removing a constraint or taking advantage of an opportunity that should result in a measurable net increase in target group incomes”.

²⁰ Outreach numbers are 1 million low income people in the 20+ selected districts with a sustained increase income increase of approximately 30%.

and which also elaborates the core methodology used by AIP-Rural in its delivery of these results²¹.

- **Key processes** and results measurement methods that are used: in selecting, monitoring or dropping sectors/value chains; in intervention design, implementation, adaptation and scaling up; and, a set of feedback loops that inform decision-making at critical programme stages.
- **Documents** (questionnaires, reports, surveys, assessments) that are used to feed reliable and timely information into critical management decision-making points in the life cycles of sectors or interventions. These documents will conform to DFAT reporting standards and will complement rather than duplicate whatever is required already.
- **People** that are well trained in: the applications of the processes and methods used; in the collection of the right information needed for documenting project results; and in assessment methods for making critical decisions.
- **Guidelines** and standards for the people to use in the implementation and management of the processes, documentation and decision-making.

The Aims of the System:

The system will be aimed at generating information used in the achievement of three objectives:

- **To help AIPD managers, staff, and contractors improve project implementation** in order to maximize pro-poor growth and poverty reduction. The system will be designed to encourage managers and staff to “think through” sector strategies and intervention designs with a pro-poor lens, choosing those strategies and interventions with the greatest potential for sustainable poverty reduction²². The system also aims to provide regular information on programme outputs and outcomes and higher level results to help managers and staff adjust implementation to better achieve intervention goals. The system will help managers and staff to determine if the number and type of interventions have been effective in addressing specific constraints or if more are required. Lastly, the system will help managers and staff to glean lessons from past implementation in order to improve future activities
- **To help AIP-Rural report project performance and results to DFAT and the GoI.** DFAT requires that AIPD reports on the results of the programme at various levels including target group outreach, changes in business service markets, farm/enterprise performance, changes in sectors, poverty reduction and impact on any special focus issues. The system will be designed to regularly deliver information on each of these levels so that it can be easily consolidated and put into reports for DFAT and for presentation at the steering committee meetings at the national provincial and district levels.
- **To help AIPD inform others in the wider community** about AIPD’s results, successes and lessons learned. It is essential that projects share such information in order to improve the state of practice in pro-poor private sector development in Indonesia. Hence AIPD will periodically share information on results, successes and lessons with the wider community. The system will be designed to regularly deliver information on AIPD’s results, successes and

²¹ The core methodology for achieving these targets is “Making Markets Work for the Poor” or M4P.

²² The reference point for poverty will be taken from the GoI’s definition. See Poverty and Agriculture in Indonesia for more details on this issue.

lessons that can be easily incorporated into publications, presentations and other information sharing media. Sharing information also helps AIPD to build a good reputation that is important in attracting reputable intervention partners and high calibre national staff.

While the system will be developed to serve the aims above, attention will be paid to complying with the control points and compliance criteria in the DCED Standard on Measuring and Reporting Results. (Details of this Standard are available at <http://www.enterprise-development.org/page/measuring-and-reporting-results.>)

The DCED Standard for Results Measurement:

This Standard has emerged over the past 5 years in response to the increasing need for private sector/market oriented projects to improve their performance and report credible impact numbers that can be used to make resource allocation decisions. The Standard was tested with several projects in 2008-9 and has gone through several iterations to ensure that it is robust and at the same time practicable for most projects. The most comparable projects to AIP-Rural which are using the Standard are: CAVAC in Cambodia, the MDF in Fiji and the Katalyst project in Bangladesh (Audited in December 2011).

The DCED Standard is a “*process management*” standard and is designed much the same way as other standards like ISO are. It’s sections include: articulating results chains; defining indicators of change; measuring changes in indicators; estimating attributable changes; capturing wider changes in the system or market; tracking program costs; reporting results and managing the system of results measurement. Then within each of these sections there are control points and compliance criteria. The example given below is taken directly out of the Standard (Version 5) and is from Section 1. It elaborates the control points and compliance criteria that are then checked by an external DCED accredited auditor. When an external audit is conducted an audit report is then prepared which identifies areas that are compliant and areas where further work is considered necessary for more robust reporting of measured results.

1. Articulating the Results Chain²³

No.	Control Point	Compliance Criteria	Level
1.1	A results chain(s) is articulated explicitly for each of the selected interventions.	<p>A documented results chain is developed for each intervention selected. The results chain(s) is thorough, logical and realistic, showing as far as possible how the selected intervention(s) lead to achievement of development goals. The contributions of other key programmes are also articulated.</p> <p>The results chain(s) are sufficiently detailed that changes at all key levels can be assessed quantitatively and/or qualitatively.</p> <p>The programme has clear documentary evidence of research and analysis that underlies the logic of the steps in the results</p>	Must

²³ Results Chains can also be known by a variety of other names, including impact model, impact logic, causal chain or causal model. The term ‘Results Chain’ will be used throughout this methodology, in accordance with the definitions agreed by the DAC Network on Development Evaluation.

No.	Control Point	Compliance Criteria	Level
		chain(s) and explains how changes are likely to lead to lasting impact. Significant assumptions are explicitly identified.	
1.2	Mid and senior level programme staff are familiar with the results chain(s) and use them to guide their activities.	Programme staff can describe the respective results chain(s) covering their work. Use: Programme staff can give examples of how they use the results chain(s) to guide their decisions.	Must
1.3	The results chain(s) are regularly reviewed to reflect changes in the programme strategy, external players and the programme circumstances.	The programme has a clear system for reviewing the results chain(s) at least once a year. Use: The programme has evidence to show that the results chain(s) have been reviewed at least once in the last year. Use: The programme has evidence to justify changes or lack of changes made to results chain(s).	Must
1.4	The review process includes adequate consultation with programme stakeholders.	A clear system is in place for consulting programme stakeholders during the review process. Use: The programme can cite or produce evidence of stakeholder engagement during previous reviews.	Rec
1.5	The results chain(s) include the results of broader systemic change at key levels.	The results of expected systemic or market-wide changes are included in each results chain in the early stages of activities, to achieve scale for that intervention.	Rec
1.6	The research and analysis underlying the results chain(s) take into account the risk of displacement.	The programme can cite or produce evidence that displacement has been taken into account in the development of the results chain(s).	Rec

Stages of Compliance with the Standard:

For a new program such as AIP-Rural there will be 5 stages of compliance with this standard and one further external evaluation in compliance with DFAT procedures:

- Agreement with DFAT on the inclusion or exclusion of certain parts of the standard. Some control points or compliance criteria are listed in the Standard as either a “must” or “recommended”. Programme management will discuss and agree with DFAT at the start of the project on which of the control points are “musts” for DFAT and which ones will just be “recommended”. In this way it will be clear to both parties exactly what results will be measured and reported.

- The second stage will involve the creation of the system. The key components of the system have been described above. It will take the project approximately 6 months after commissioning the contractor to establish the processes, formulate the appropriate documentation and train the staff to operate the system. This stage will be initiated immediately at the commissioning of the programme.
- In the third stage the management will have an external check of the system by bringing in a DCED certified auditor for 2 weeks to ensure that the initial system is in compliance with the Standard.
- At the fourth stage the system is operationalised for both any outsources interventions as well as any interventions implemented directly by AIPD staff. During this period revisions are made to processes and documentation, staff guidelines will be developed and further training will be conducted.
- At the fifth stage, and this would be by approximately the 18th month of the project, an external DCED accredited auditor (2 weeks) would be brought in to audit the operation of the system and certify that it is generating credible information and that this information is being used for the allocation of resources within the programme.
- This does not obviate the necessity for other external programme evaluations that: place the programme in the context of the overall DFAT Indonesia's portfolio; or, which are mandated by DFAT's internal procedures on project monitoring. The above mentioned system rather is confined to the elaboration and use of of credible processes that are used in the measurement of results at the output, outcome and goal levels.

Management of the System:

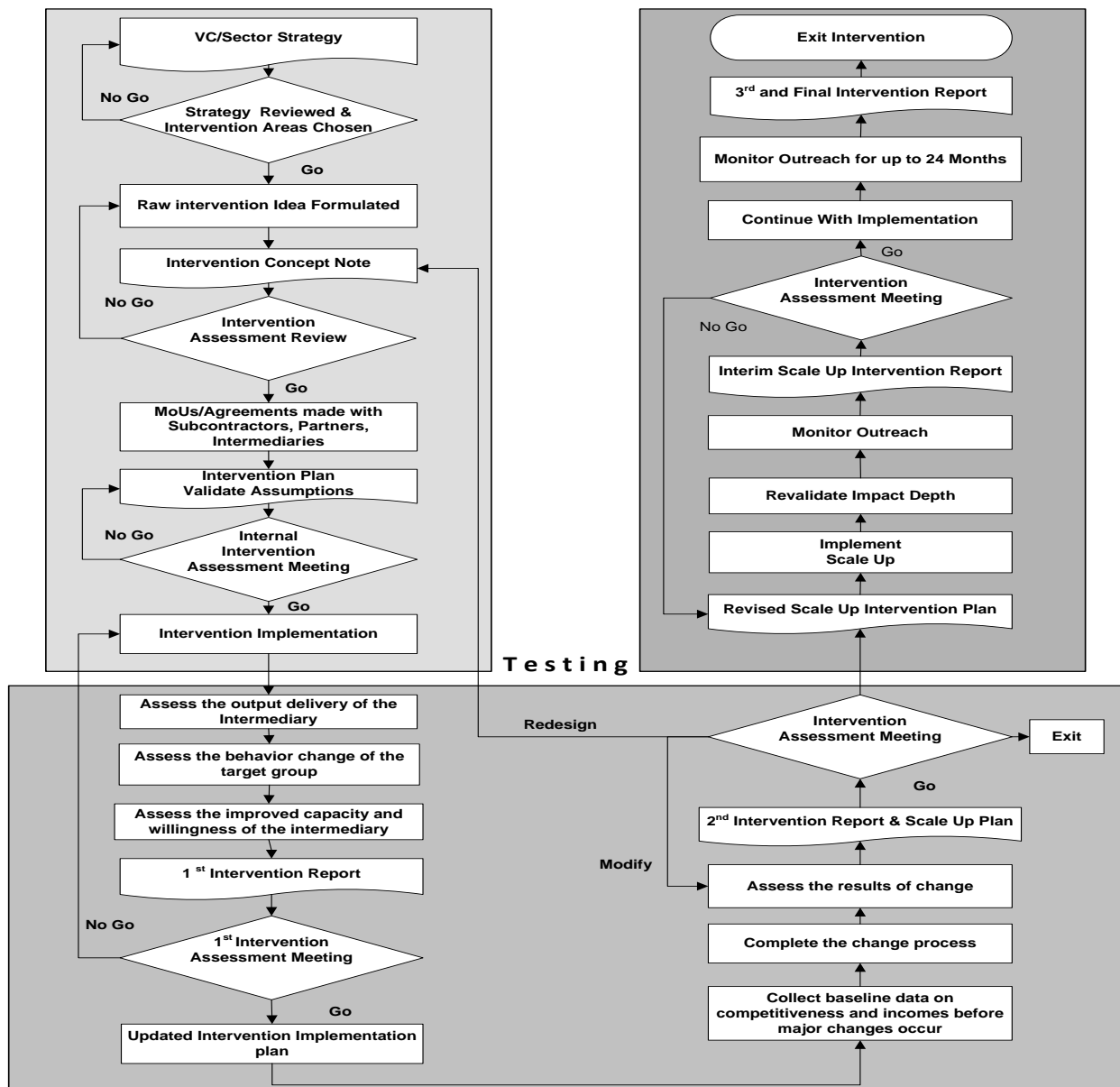
As suggested in the design document AIP-Rural will have one unit/division exclusively dedicated to results measurement. The key functions of this unit/division will be to:

- Work with all of the Value Chain/Intervention Managers that are implementing in-house interventions, to ensure that all interventions are designed in compliance with the DCED Standard. In practice this will mean approving all results chains before implementation and ensuring that a Results Measurement Plan is in place before interventions are commissioned.
- Check, during this phase of results chain preparation, that the opportunities for the inclusion of minorities and the constructive involvement of women have been optimised.
- Provide advice to the same set of implementers on attribution strategies, baselines, opinion survey designs, the data from which will be used for making decisions on closure, parking, continuation and scale up of interventions.
- Validate the data arising from the implementation of the Results Measurement Plans to verify that the results conform to "best practices".
- Aggregate the impact of all interventions into semi-annual reports for both management (Steering Committees at all levels) and DFAT with an additional internal assessment of the risk rating for each intervention.
- Prepare case studies on both successful and unsuccessful interventions that analyse what happened, what was achieved and what lessons can be drawn from this experience. These will be posted on the project website and available to the public. This repository of experience will form the backbone of the AIP-Rural's knowledge management capacity and

will be used as an important part of AIP-Rural’s contribution to the M4P Hub²⁴ and other national and international fora on enterprise development.

An example is presented below as to how the system will be integrated into programme management and decision making. This process will apply mainly to the decision making process at the district level, once initial portfolio of sectors/value chains have been selected.

AIP-PRISMA Intervention Process Flow



This division will be staffed with one contractor advisor with direct experience with results measurement and with several local analysts that will be recruited and trained in the application and management of the DCED Standard.

²⁴ The M4P Hub is an initiative of DFID, SDC and SIDA and it aimed documenting and sharing Global best practices in M4P.